The Politics of Privatisation in Western Europe

EDITED BY
JOHN VICKERS
AND
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PREFACE

West European Politics celebrated its tenth anniversary by holding a conference. The subject was privatisation in Western Europe—a topical and politically important area to investigate. For political theorists, the interest of privatisation lies in the fact that it is entangled in much wider issues: public choice theory; the role and nature of the State; negative and positive concepts of freedom; the capacity of the market to ensure social justice; the appropriate mechanisms ('community', 'market', state politics, bureaucratic mediation or 'association') for deciding collective social choice; and the definition of property rights. For students of political institutions and public policy, privatisation raises important questions about the impact of ideology in shaping policy, about agenda-setting, about 'policy fashion' and 'policy diffusion', about the role of constitutional and political institutional arrangements and conventions in moulding policy ambitions and outputs, about the possible rival 'rationalities' of public and private industrial production, about the relationship between State and industry, and about the nature of the interaction between public and private industrial actors. Privatisation also raises more complex questions about political interest and the political power ramifications of industrial policy-making.

Given the general profile of the journal it was decided to concentrate on the institutional and public policy aspects of privatisation, and this is evident in the studies which follow.

The success of the conference and, we hope, of the following collection, owes much to many: to Professor Monica Charlot, Directeur of the Maison Française who suggested the conference and then supported it; to Frank Cass who also gave his encouragement and financial assistance; to the Nuffield Foundation which provided part of the finance for the conference; to the Warden and Fellows of Nuffield College which hosted and also partly financed the conference; to Trude Hickey whose secretarial help was as generous as it was effective. Our greatest thanks must go, of course, to those who took part in the conference, and especially to those who produced the papers which appear in this volume.

JOHN VICKERS
VINCENT WRIGHT
Nuffield College, Oxford
March 1988

The Politics of Industrial Privatisation in Western Europe: An Overview

John Vickers and Vincent Wright

Privatisation may not exactly have 'swept the world'—the claim of a British Finance Minister[1]—but it is certainly true that throughout Western Europe governments are pursuing, with varying degrees of enthusiasm, policies under the banner of 'privatisation'. The most committed have been the governments of Margaret Thatcher in the United Kingdom and of Jacques Chirac in France. But coalition governments in Belgium, Italy, West Germany and the Netherlands, and even Socialist—led governments in Spain, Austria and Sweden have sold or intend to sell at least some State assets.

This volume seeks to describe and explain the origins, extent and nature of the privatisation programmes of several European countries : the United Kingdom, France, the Federal Republic of Germany, Italy, the Netherlands, Belgium, Austria and Sweden. It also attempts to assess the political and economic impacts of the various programmes, and to point to some of the problems that have characterised them.

This introductory essay is divided into six main sections. First, we attempt to disentangle the various types of privatisation, for it takes many forms. Indeed, 'privatisation' has been described as 'an umbrella term for many different policies loosely linked by the way in which they are taken to mean a strengthening of the market at the expense of the State'.[2] Then, in section 2, we discuss the different motives and ambitions of the privatisers, which are an important part of any explanation of why the vigour of privatisation policies has varied so much as between European countries. Section 3 is concerned with the 'starting points' from which privatisation proceeds—the disparate origins, size, scope and organisation of public sector enterprises in Western Europe. In section 4 we examine the political, legal and institutional factors that have hindered or facilitated privatisation, and in section 5 we consider how differing economic and financial structures have influenced the shape that privatisation has taken in European countries. Assessment of the economic and political impact of privatisation programmes is at this stage necessarily somewhat speculative, but in section 6 we hope at least to highlight a number of issues that they raise for the future.

Before proceeding further, however, some remarks on the general intellectual, economic, financial and technological background to privatisation in the 1980s are called for. Hirschman has argued that Western Europe oscillates between periods of preoccupation with expanding the public sector and those concerned with broadening the frontiers of the private sector and strengthening the market. Such a cycle is allegedly generated, in large measure, by disappointment with the side effects-unintended or underestimated—of the previous phase of the 'involvement cycle'.[3] While Hirschman's dichotomy raises more questions than it answers, it nevertheless points to the first factor in the general environment of the 1980s -what may be termed the intellectual disenchantment with *dirigisme* and Keynesianism in certain circles. Scepticism about the efficacy of State intervention became manifest in many countries, and notably in the United Kingdom. Yet even

Socialist France clearly expressed its doubts, as it discovered the constraints of the international economy, and 'rediscovered the firm'— the principal instrument of wealth creation.

Reactions against high taxation coupled with worrying levels of inflation, and high public indebtedness also forced several governments to question the bases of their economic policies, and to call into question the 'distributional coalitions' which sustained them. In that sense neo-liberalism may be seen in some European countries as a backlash against the prevailing neo-corporatism. More restrictive budgetary macro-economic policies, tighter control on public expenditure, attacks on regional policies, tax reforms, labour market policies designed to increase 'flexibility', reductions in the size of public administration, cuts in subsidies to lame-duck industries provide the economic backcloth to many of the European privatisation programmes.

The second element in the environment was the changing structural nature of some industries. Part of the argument for nationalisation had always resided in the need to control natural monopolies in strategic areas-telecommunications, railways, gas and electricity-or in high risk industries requiring heavy investments and promising low returns. Yet massive technological advances were weakening the extent of natural monopoly in several industries: notably in telecommunications. The 'commanding heights' argument which had been used to justify the nationalisation of industries such as rail transport, coal and steel, looked singularly unconvincing as these industries lurched into deeper crisis, becoming costly political embarrassments rather than engines of growth.

The third element was the increasing internationalisation of both product markets and financial markets. Many industries have become much more complex and necessitate international co-operation because of problems of compatibility. Economies of scale in some industries are now on a European or world level: industrial decisions rooted in national politico-bureaucratic compromises are perceived as hindrances in an environment demanding flexibility and speed in decision-making. The challenges of an increasingly integrated European market after 1992, which sees the removal-at least in principle-of all trade barriers within the European Community has been a frequently cited reason for changes in company law, in competition policy and in the general move towards liberalisation. Western Europe has seen movement towards the abolition of exchange controls together with the progressive deregulation of the financial markets (the London 'Big Bang' of October 1986 was followed by the 'Little Bang' in Paris in January 1988 and has been imitated in Socialist Sweden, Austria and Spain, as well as in Denmark, Portugal and Italy). Financial deregulation must be seen as an important complement of the broader deregulation policies being pursued in Western Europe and had an immediate impact on public sector credit institutions and banks. There is no logical connection between privatisation and competition (and experience in Britain and elsewhere demonstrates the possibility of having one without the other) but it is certainly true that some policies of deregulation (telecommunications and financial services) have been pursued at the same time as privatisation, and have been seen by some observers as intimately linked phenomena.

1.
FORMS OF PRIVATISATION

Interpreted broadly, privatisation is that wide range of policies designed to reduce the scope, limit the functions and generally weaken the influence of the public sector. There are many ways of

categorising the various dimensions of privatisation-by intent, by impact, by sector- and the following list is therefore but one of many possible:

- abolishing or severely curtailing public services on the assumption that private provision will fill the gap;
- squeezing the financial resources of publicly-funded bodies in the hope of inducing them to seek compensating private funding;
- increasing the financial contribution of consumers for public goods-a policy partly inspired by the desire of reduce the role of the State as purchaser;
- encouraging the private sector to share in public investment projects: a policy long practised in countries such as France and Belgium through the *sociétés d'économie mixte;*
- promoting joint public/private (often foreign) production ventures;
- transferring to the private sector public policy responsibilities;
- encouraging private finance to build and operate public works;
- introducing private sector personnel and notions of efficiency and of management techniques into the public sector in the hope of imparting a greater 'commercial orientation' into its ethos and functioning;
- facilitating private sector competition with the public sector by a policy of liberalisation and deregulation. There has been, in several European countries, some relaxation of statutory State monopolies or licensing systems.
- contracting out public services to private agents;
- selling land and publicly-owned housing stock.

Finally, there is *industrial privatisation*—the focus of this volume. It must not be confused with other forms of privatisation, since it raises different questions, involves different actors and policy communities, is motivated by different ambitions, and generates different constraints. Yet those other forms must not be forgotten, for they provide part of the general drive in certain countries to retrace the public-private boundary.

The sale of public industrial assets to private individuals or groups has been achieved by various means, ranging from private tenders and management buy-outs to public flotations organised with massive publicity. Industrial privatisation—perhaps the most dramatic and visible dimension of the European privatisation programme—has taken essentially four forms:

- *the sale of subsidiaries belonging to nationalised industries.* This hivingoff process, which has taken place in France since the early 1960s as nationalised companies rationalised their portfolios, has been much favoured by the heads of the major public holding groups in Italy and in Spain. It has generally involved peripheral and often loss-making activities. In the United Kingdom, the nationalised industries have been forced by the government to sell off profitable subsidiaries: British Rail had to dispose of Sealink (the cross-Channel service) and its hotel chain, while British Leyland was obliged to sell Jaguar cars in 1984.
- *the recapitalisation of public companies by allowing the participation of private investors,* thus reducing the quota held by the State. This occurred, for example, with the Régie des Transports Maritimes and Sabena and various credit organisations in Belgium, and with KLM in the Netherlands.

- *the sale of a proportion of the shares in firms which the State owned or in which it had a holding, not necessarily a majority.* Examples abound: the French government sold 11 per cent of its 66 per cent holding in ElfAquitaine in October 1986; INI, the Spanish State industrial holding placed 38 per cent of Gas y Eletricidad on the stock market in a move designed to reduce its stake from 94 to 56 per cent; IRI has sold minority stakes in Alitalia (26.2 per cent) and Banca Commerciale Italiana (38 per cent) and its majority shareholding in the influential merchant bank Mediobanco (reducing its stake from 56.4 to 20 per cent). The Austrian, Belgian, Dutch and West German Governments have all sold minority stakes in public firms.
- *the outright sale of public firms to private investors:* the form favoured solely by the French and British governments. The extent of their programmes is detailed later in the volume.

There is nothing new about the idea of privatisation. Inevitably, it goes back at least to Adam Smith. Nor does the practice of privatisation date from the That-cherite years of the 1980s. In the United Kingdom, the then Labour government began the progressive sale of British Petroleum as early as 1977, and private urban policy initiatives also began under the Callaghan administration and were merely accelerated under his Conservative successor. The Federal Government in West Germany completely privatised Preussag in 1959 and sold off parts of Volkswagen and VEBA in the early 1960s. IRI and ENI, the Italian State holdings, slowly expanded their empires after the war but both also disposed of unwanted subsidiaries: for instance, between 1971 and 1980 IRI took over 55 firms but also sold 18. The *nationalisations silencieuses* of the Pompidou and Giscard d'Etaing presidencies in France were followed by the *privatisations silencieuses* of François Mitterrand, their left-wing successor. These latter operations involved the (illegal) sale of more than 70 subsidiaries of French nationalised groups, often to foreign buyers. It was under the Socialists, too, that private capital was introduced into public sector industrial firms, through non-voting loan stock and non-voting preference shares: this was an illustration of what the critics called *privatisations cachées*. The Austrian government sold off 40 per cent of the shares of two big nationalised banks in the 1950s, transferred some former Soviet firms to the private sector, and in 1972 sold a majority of its share in Siemens-Austria to its German parent company.

Until the 1970s, however, privatisation was sporadic and limited, with no ideological roots, no political implications and belonging to no overall industrial strategy. It was not until the 1980s that privatisation was to assume its wide-ranging and politically significant form.

2. THE MOTIVES AND AMBITIONS OF THE PRIVATISERS

In searching for an explanation for the boldness or timidity of the various privatisation programmes it is clearly important to examine the motives of those pursuing them. This is no easy task for a number of reasons. First, there exists no systematic expose of the reasons for privatisation: they have to be culled in ministerial speeches, in laconic election manifestos, in parliamentary debates, in party documents, in the various Acts which have provided for the programmes, and discerned from government policy decisions. Secondly, motives vary widely across European countries-as will become clear in the following discussion-and this is scarcely surprising, since different constituencies defend privatisation for different, and often diametrically opposed, reasons. Thirdly, even within a single country, the emphasis given to different objectives changes over time. Thus, the nature of the privatisation ambitions of the Thatcher government in its second term in office (1983–87) could not

have been foreseen at the time of the Conservatives' 1979 election victory. Fourthly, it is clear that the reasons for privatisations have often followed rather than preceded the various privatisation measures: 'achievable objectives became reasons to justify the programmes'.[4] Finally, it is not always easy to distinguish unspoken motives from declared reasons, or the consequences from the wishes.

The first series of motives may be described as broadly *ideological.* For the right, especially in Britain and France, privatisation is part of the general strategy to shift the boundary between public and private in favour of the latter. It is nourished by deep-seated anti-State sentiment. In France, privatisation is clearly linked with the struggle against the long tradition of *dirigisme* or *Colbertisme.* The title of the Minister of Finance's (Edouard Balladur) defence of his programme is inelegant yet highly revealing: *Je crois en l'homme plus qu'en l'Etat.'* In the United Kingdom, privatisation has been seen as an integral part of the onslaught on Butskellism or MacWilsonism—the social-democratic, semi-collectivist consensus of the post-war era. In both countries, privatisation has been the focus of a campaign to push back the frontiers of the State—which for the right is the stultifying and inhibiting State that erodes personal responsibility and undermines individual initiative—by the creation of a proper environment for individual actors by tax incentives, the abolition of inhibitions (like exchange controls), the relaxation of planning regulations, and the weakening of market rigidities notably in the labour market. Self-help and self-reliance are the cardinal virtues, and they are seen as being undermined by collective provision. This anti-State philosophy has found some favour in right-wing circles in other European countries (notably in Greece and Portugal), but little echo in the debates in Christian Democratic circles in Italy, West Germany, Belgium and the Netherlands. It has also been singularly absent from right-wing thinking in Spain.[5] It is instructive, too, that parts of the French right and of the British Conservative Party do not share the anti-State enthusiasm of their leaders.

A second ideological underpinning of privatisation is the belief that public industries and services limit the choice of consumers because of their monopoly positions. As Sir Geoffrey Howe, British Chancellor of the Exchequer, put it in 1981, The consumer is sovereign in the private sector. In the public sector he is dethroned by subsidy and monopoly'.[6] It is further argued that public ownership deprives individuals of economic freedom by forcing them to hold 'implied shareholdings' in public sector enterprises which they might not wish to hold if given the choice. The third ideological strand in the privatisation argument is the desire to build a 'property-owning democracy': Nicholas Ridley, one of the Thatcher government's more vocal champions of privatisation, has claimed that it would lead to 'real public ownership—that is, ownership by the people'.[7] From this motivation stems the drive to sell shares in the denationalised industries to as wide a public as possible and especially to the employees of those industries, and in practice 'popular capitalism' has been nurtured by a battery of incentives to buy and to hold those shares.

The second general argument for privatisation may be described as *economic,* and again there are several interconnected strands within the argument. In Britain and France, the economic aims are ambitious: in the former country, claims have been made that privatisation has helped to produce 'a sweeping and irreversible shift in the structure of the economy' while in France it is part of the policy to 'change the rules of the game of our economy'.[8] The rules, it is argued, may be altered in several ways. In the first place, privatisation has been perceived as a means of furthering liberalisation. Many of the State monoplies are not natural monoplies (even in gas and electricity there may be a natural monopoly in transmission through the national grid, but not in production), and once broken up there would be greater scope for competition. It has been argued that for politically and socially-inspired loss-making services it is more efficient to provide specific subsidies

to needy consumers, or to private suppliers of those services. A second economic argument has been that public sector production and services are *intrinsically* less efficient than those in the private sector. They are allegedly less efficient because they are not vulnerable to the bracing winds of market forces, and are cushioned by the statutory obligation by the State to pick up the bill for any losses made. They face no threat of bankruptcy or take-over and they have no private shareholders to satisfy. Furthermore, deprived of the possibility of direct personal financial gain, managers will wastefully pursue their own non-pecuniary goals. Moreover, when they are motivated by the need for greater efficiency and profits they are frustrated by governments pursuing their own macro-economic and income redistribution objectives. At bottom, there is a deep-seated suspicion in neo-liberal circles of politico-bureaucratic compromises which usurp the role of the market as the mechanism for allocating resources. Uninhibited, market-oriented, profit-seeking entrepreneurs are preferred to budget-maximising bureaucrats and vote-maximising politicians. Yet, it should be emphasised that this is primarily a Franco-British motivation: the managers of the major State holdings in Spain and Italy who privatised parts of their empires entertained no great belief in the intrinsic merits of market mechanisms. Nor has there been any atavistic attachment to the market evident in European Christian Democratic circles.

A third economic reason for privatisation is that it facilitates the adoption of tough labour policies, by distancing governments from unpalatable political choices. Private management, it is alleged, is more likely to tackle the unions which protect inefficient work practices and employment levels. The evidence from the European steel and coal industries, some of which carried out massive slimming-down operations under public ownership, has not dented the enthusiasm for this argument.

The need to spread 'the enterprise culture' by familiarising the public, through ownership, with the mechanisms of the market provides the fourth economic argument of the privatisers who present it as a pedagogical exercise.

The final economic argument has been that employed by the pragmatists who head the vast and rambling State holding companies in Italy and Spain. For Romano Prodi of IRI (a 'gigantic group of dwarfs'), Franco Reviglio of ENI, and for Claudio Aranzadi of the Spanish INI, privatisation has been viewed as a means of rationalising asset portfolios and reorganising investment strategies. By hiving off loss-making or marginal operations they can improve their balance-sheets, induce greater sensitivity to product specialisation, and even facilitate the process of mergers thought necessary to gain the economies of scale required by international competition and an increasingly integrated European market. The sale of the Spanish State company SEAT to Volkswagen, and of the Italian State-owned Alfa Romeo to Fiat were justified in these terms. This argument about economies of scale was also heard in France when the privatised Compagnie Générale d'Electricité (CGE), the telecommunications and heavy engineering group, merged its telecommunications assets with those of ITT in a joint venture to create the second biggest telecommunications groups after AT and T. Yet this was but another example of a disconnected objective providing *an a priori* reason: rationale and rationalisation become inextricably related.

Linked to the economic motivation for privatisation has been the *managerial* one. Privatisation is seen as a means of breaking up the vast public sector empires-each characterised by internal feuds among warring barons—and held together by statute and public subsidy. Privatisation should facilitate the hiving off of 'incoherent' parts, and the rationalisation of managerial structures. Yet the recent experience of the nationalised industries in Spain, France and Italy demonstrate that such objectives can be attained within the public sector. However, more important for the privatisers is

the fact that it enables ministers to extricate themselves from time-consuming and debilitating relationships with the public sector. Ministers, it is contended, either 'go native' and espouse the cause of the industries they are supposed to control, or they interfere too much. Everywhere in Europe there have been constant confrontations between ministers and public sector managers over wage levels, investment plans, borrowing requirements, restructuring projects, and over the right to raise capital outside Ministry of Finance control. The relationship has become 'a muddle', full of 'ambivalence, indecision and vacillation'.[9] Privatisation might, therefore, ensure both autonomy and incentives.

The fourth set of seasons for privatisation have been *party political*. It has been argued that it is popular with the party faithful and is a method of soothing the right-wing radicals who are disgruntled with the timidity of policies in other areas. More significantly, it has been alleged that privatisation of the industrial public sector in some European countries is part of a strategy to create conservative voters and to undermine the unions and deprive the left of one of its traditional bastions of support. The sale of the publicly-owned housing stock at discount prices in Britain was viewed in a similar light.

Finally, a variety *of financial* reasons have been given to justify privatisation programmes. The first is specific to the United Kingdom and is linked with the so-called 'Public Sector Borrowing Requirement' (PSBR) which the government has been committed to reducing. The sales of public enterprises remove their capital investment programmes from the public sector accounts. Moreover, by a quirk of accounting convention, the proceeds from asset sales are counted as negative public expenditure (rather than the sale of a capital item). Sales of even profitable assets therefore serve to diminish the PSBR considerably, which is to say the least convenient for the government.

The second financial reason often cited is that denationalisation provides quicker and more direct access for the firms involved to international capital markets (although it is unclear why nationalised firms should be totally deprived of such a right). A third financial reason for privatisation, heard in Britain but more especially in France and Italy, is that it fosters the growth of the stock exchange: it can widen capital markets by bringing in many new investors and 'deepen' them by introducing mature companies with strong market positions. For example, the French Bourse is thought to be too small (see the Table on p.20), and successive French governments, mindful of the predatory potential of London, have since the 1950s tried to enhance its place in the world's capital markets.

A fourth financial reason sometimes invoked by proponents of privatisation is that the sale of public assets reduces commercial risk for a government by diminishing the State's exposure to the vagaries of recession and the volatile exchange and business climate. It would also put an end to the immensely costly rescue operations of public enterprises (such as British Steel and British Leyland, in Britain, Renault and Usinor and Sacilor in France, and Finsider in Italy). However, it should be pointed out that such rescue operations have not been restricted to the public sector, and nationalisations have often been precisely the result of bailing out private firms in dire financial difficulty.

Finally—and here perhaps we touch upon the most important single reason for privatisation-selling State assets raises money for public sector managers (Spain, Italy and Portugal in the future) and for hard-pressed governments (e.g. of Belgium) which are anxious to reduce large budget deficits, cut personal and corporate taxes and to finance public expenditure. It should be noted, however, that asset sales improve short-term cash flow in a once-and-for-all manner: in general they do not enhance a government's long-term net worth, and may even cause it to deteriorate if profitable assets are sold off too cheaply.

It follows from this brief exploration of the reasons and motives of the privatisers that, whereas in the United Kingdom (at least since 1983) and France from 1986 to 1988 the programmes have been ideologically inspired and rooted in a wider strategy, elsewhere they are responses to more pragmatic requirements. It follows, too, that privatisation was likely to be more ambitious in scope and in nature in the first two countries than in the rest of Europe.

The Thatcher government has proved to be the most radical, since *no* nationalised enterprise is, in principle, safe in the public sector. In practice, the only condition required for a State-owned firm to become a candidate for privatisation is saleability. The Conservative government has transferred to private owner-ship not only firms in the competitive sector but also monopolies or quasi-monopolies such as British Gas and British Telecom (with steel, electricity and water soon to follow). No industrial sector has remained untouched, and even major strategic industries such as British Aerospace, British Petroleum and Britoil, and British Airways, the national flag-carrier, have been completely denationalised.

The ambitions of the privatisers in France were indicated in the 1986 Act, which listed 65 companies for privatisation before 1991. These comprise, with subsidiaries, a total of 1,454 firms with some 755,000 employees. The programme concerned not only those firms which were nationalised by the Socialists in 1982 but also many which were brought under State control by the Gaullist government at the time of the Liberation. The overall value of the *privatisables* has been put as high as 300 billion francs. However, the French programme, although wide-ranging and ambitious, contained no provision for the transfer of a public monopoly to the private sector: gas, electricity, and telecommunications were to remain under State ownership, and there was no question of selling Air France. Moreover, the French State still holds a majority of Elf-Aquitaine despite selling a 14 per cent stake to the private sector. Aerospace industries were also excluded from the privatisation programme in France.

Elsewhere in Europe the ambitions of the privatisers have proved modest. The CDU-CSU government in West Germany, in office since Autumn 1982, has clearly disappointed its neo-liberal supporters by the timidity of its programme. Only very few major firms are on the agenda for privatisation and, unlike France, there has been no question of transferring the publicly-owned banks (whether federally-owned or controlled by the *Länder)* to the private sector. The programme also excludes the big telecommunications and railway monopolies. Ambitions are also limited in Austria, where the programme is confined to selling minority holdings in State enterprises. Similarly, the Belgian government in August 1987 announced its intention of selling off by the end of 1988 only parts of three State-owned companies, the most important being the gas utility Distrigas, followed by the Régie des Transports Maritimes (the State shipping line) and the Office Central du Credit Hypothécaire —the State-owned housing loan company. Again, as in West Germany, France, Italy, the Netherlands and Austria, there is no plan to dispose of the State telecommunications authority, although, as in other countries, plans have been announced to liberalise the telecommunications system.

In Italy, the major impetus for privatisation comes from the management of the State holding companies—privatisation was never part of the Craxi government's programme or his or the **DC's** electoral platform. The IRI, ENI, and EFIM are generally responsible for identifying the firms to be denationalised—a right recognised by Parliament. There is no desire radically to dismantle them and there is no question of losing control over the main holdings, especially those perceived as 'strategic', Rather, the hope is to divest the holding companies of their peripheral and loss-making activities, or to raise capital by the sale of minority shareholdings. Far from weakening the public

sector by radical reduction, this privatisation strategy is designed to strengthen it by judicious trimming.

3.
THE PUBLIC SECTOR IN WESTERN EUROPE

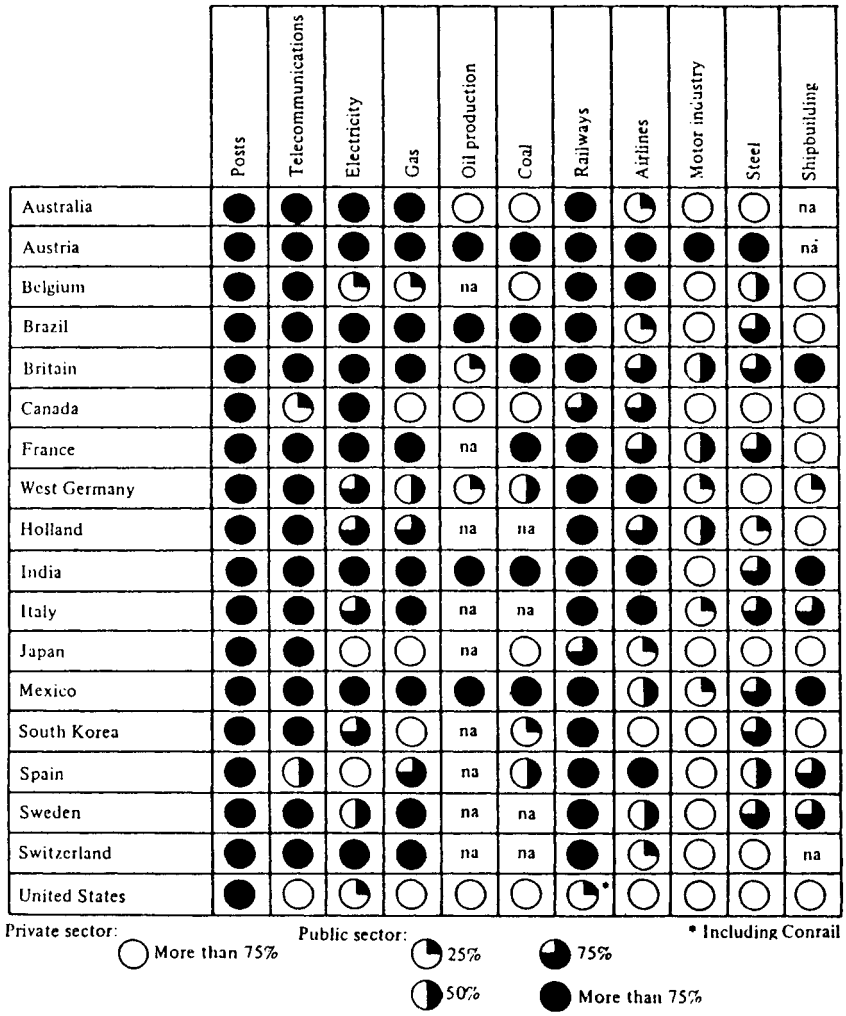
Since the pattern of privatisation in any country depends on what there is to privatise, the size and nature of the various public sectors in Europe must be considered. There are difficulties in establishing meaningful comparative data on the size of State-owned industrial sectors, since the definition of public enterprise varies so greatly. It is not surprising that problems of definition and calculation exist. In some countries the public industrial sector is constantly being expanded or contracted, as holding companies sell off or acquire subsidiaries—often quietly or even unlawfully. In some enterprises the State enjoys control but with only a minority stake, while in others it has a majority stake but chooses not to exercise control. In some countries State control is indirect, being exercised through financial holding companies such as the Société Nationale d'Investissement in Belgium or through State-owned banks such as the Caisse des Dépôts in France. Hybridisation (a subject to which we shall return) singularly complicates any assessment of the scope of public sector industrial activity. In short, public industrial sectors are often bewildering mazes. Of course, it is possible to establish a crude guide: whatever criteria are employed, Sweden, Denmark and Holland have small public industrial sectors while Austria, Spain, Italy and France have extensive ones. But a totally accurate comparison is not possible. The diagram opposite, taken from the *Economist,* provides a useful indication of the position in 1980.

The size of the State sector clearly determines the potential for privatisation-a point made with some force by Rudy Andeweg in his contribution on the Netherlands: it is difficult to indulge in extensive privatisation if there is little to privatise. But size is not the only factor. For instance, in West Germany in 1982, the Federal government held at least a 25 per cent stake in 958 companies, controlling 102 of them directly and 856 indirectly. Yet its privatisation proposals remain modest, as Josef Esser explains. Similarly, Austria and Italy have very extensive public industrial sectors but only modest privatisation ambitions.

Part of the explanation lies in the *structure* of the public sector. In some countries it is organised through vast industrial holding companies-the ÖIAG in Austria, the Instituto Nacional de Industria (INI), Instituto Nacional de Hidrocarbidros (INH) and Patrimonio del Estado in Spain, the Statsföretag Convention (renamed Procordia in 1984) in Sweden. The best example is probably that of Italy, with its three major *enti:* EFIM, ENI and, of course, IRI, which in 1982 controlled, among many other things, 100 per cent of the production of cast iron, 66 per cent of special steels, 22 per cent of ice-cream and 18 per cent of peeled tomato production. In many cases, too, direct stakes are complemented by extensive indirect stakes through State-controlled financial institutions. Thus, the Dutch State has direct stakes in some 40 companies but held stock in many others through institutions such as the National Investment Bank and the Industrial Guarantee Fund, while the Belgian government, through the Société Nationale d'Investissement, owns shares in many strategic companies.

The scope of the activities of the public sector is no less important than its structure. In terms of the political and economic justification of privatisation it makes a difference whether a firm represents a big public service monopoly, a small domestic competitive enterprise or a major internationally competitive group.

FIGURE 1. THE INTERNATIONAL EXTENT OF STATE OWNERSHIP OF INDUSTRY IN 1980



Source: The Economist

The nature of the relationship between government and public enterprise is also significant. The fact that parts of the West German public industrial sector are in the hands of the *Länder,* or that Swedish localities run some public utilities, presents difficulties to the central government that are absent in countries such as Britain where most nationalised industries are truly national. Yet even in centralised systems State—public industry relations vary across European countries and within each according to sector and to time, and depend on factors such as the strategic value of an industry, the extent of *dirigisme* willed by the government, the degree of technical competence required to run an industry, the legal relationship, and its profitability.

The very weak financial position of many European public enterprises in the early 1980s is another relevant factor. In Portugal, the State industrial sector accumulated losses between 1974 and

1986, which were the equivalent of a third of annual GDP, while in Spain the public sector was losing over $1 billion a year in the mid-1980s. The financial crises of the Italian *enti* were staggering in their proportions (in 1984, for instance, IRI was losing 4.5 million lire for every one of its 500, 000 employees). The Austrian State-holding ÖIAG (always a key instrument of government stabilisation policy) ran into severe difficulties in the 1980s, with Voest-Alpine, its steel group, piling up vast losses. In France, while the overall performance of the State sector greatly improved after 1982 there were still politically damaging black spots: Renault, once the flagship of the French nationalised sector, made immense losses after 1983, and in spite of considerable capital injections and a huge debt write-off was still in the red by 1988. As public enterprises collapsed financially (sometimes as the result of politically-inspired decisions) politicians were increasingly looked to for resources. This rendered the enterprises unpopular with politicians, whose own interventions, by curtailing managerial autonomy, had been unpopular with managers. Thus a slow spiral of unpopularity was created and sustained.

In West Germany, most of the public sector has been relatively successful, and little need has been felt to change the structures of the public-private relationship. But West Germany has been the exception. Elsewhere, the image of public sector industries has been far from flattering. They have been perceived as bastions of archaic, self-interested and obstructive trade-unionists anxious to defend over-staffing and costly work practices, as over-centralised and bureaucratised empires run by demotivated managers who were imbued with 'la logique technocratique' rather than 'la logique industrielle', as havens of waste and inefficiency cushioned against consumer pressure and market forces, and propped up by excessive subsidy—at a time when State resources were being squeezed by recession and fiscal resistance. This image has not only damaged the public sector in the eyes of the public and provided ammunition for the privatisers, but has also delegitimised it among groups of managers and employees, thus rendering it politically vulnerable.

Finally, the *role* of the public sector has been a key element in shaping the various privatisation programmes. That role was forged by the historical circumstances which led to the original creation and extension of the public sector. Where technology was naturally monopolistic—that is, where single firm production was the most efficient-there was a strong case for tight control, or even ownership, of such a monopoly. In some countries-Italy, West Germany (under both Weimar and the Third Reich) and Spain-nationalisation had strong nationalistic roots: IRI dates from Mussolini in 1933 and INI from Franco in 1941. In others, notably Britain and France, nationalisation was seen as an imperative linked with combating the dominant industrial oligarchies, with gaining control over 'the commanding heights of the economy', with refashioning State—industry relations, and with introducing new patterns of management-worker relations. The French Socialist nationalisation programme of 1982 involved a dramatic expansion of the public sector and was inspired by many (not always compatible) motives. The most politicised extension of the public industrial sector took place in Portugal after the 1974 Revolution, when the relatively small public sector of the Salazar years (characterised, however, by extensive State regulation of private-sector investment, wages and prices) became one of the biggest in Western Europe.[10]

In the post-war period in countries such as Italy, France and Spain, public sector firms played a major role as 'agents of growth' both at national and regional level, in industrial construction or reconstruction: for elements of the European left, IRI was once a model to be emulated. However, in the 1970s and early 1980s the public sector was, as already noted, in financial crisis, and came to be seen as a haven for bankrupt private firms. Almost everywhere, a troubled European private steel industry fell increasingly into reluctant State hands. Other sectors were affected too. In France, the

right-wing government of Raymond Barre not only nationalised (in all but name) the steel industry, but also took a major stake in the Marcel Dassault aircraft company after the conversion of the outstanding debts owed to the State into shares carrying dual voting rights. The British Conservatives brought the bankrupt Rolls Royce into public ownership. And in Sweden, the Conservative government elected in 1976, after 42 years of Social Democracy, was forced to expand the public sector notably in the steel and ship-building sectors. Ironically, when the Social Democrats regained power in 1982 a more market-oriented policy was introduced, and some $170 million of government shareholdings were sold to the private sector. In Spain and Italy, reticent public sector managers were obliged, under political pressure, to bail out insolvent private sector enterprises-often small and generally peripheral to the major interests of the State holdings. IRI became a Hapsburgian empire, vast, rambling, incoherent, while INI was transformed into 'a golden dustbin filled to the brim with the unprofitable refuse of the private sector': by 1976 the State had a stake in 747 industrial companies and a controlling interest in 379 others.[11] Enforced diversification was accompanied by a more voluntary form: the managers of ÖIAG in Austria, IRI in Italy, INI in Spain and the French State industrial groups all made important acquisitions to expand their empires.

Nationalism was not the only motive behind nationalisation: in Spain, Portugal and Italy it became integrally linked with a widespread system of political patronage. In Italy, the public sector grew under Christian Democracy (DC) which saw in it an instrument of economic interventionism which gave it independence from private industrialists who constituted the core of the traditional liberal oligarchy.[12] The DC extended the public sector as part of its *sottogoverno* or 'iceberg' — the submerged power structure which underpinned its political hegemony. As that hegemony came increasingly to be questioned, public sector posts became bargaining counters between the governing coalition parties, each with a keen eye on their patronage potential. For the critics, therefore, an extensive public sector was a means of consolidating the power of the political parties—'lo strumento con cui la classe politica può espandere il suo controllo sui cittadini, costrignendoli a farsi sudditi obbedienti'.[13] Close links between political parties also existed in Spain, Portugal, Greece and Austria.

Finally, the public sector in some countries was expanded and consolidated as part of a much wider political settlement: public enterprises in Italy and in Belgium were clearly used as buffers, designed to lessen sectoral or regional tensions in culturally and socially divided countries—a point emphasised by Anne Drumaux in her account of the Belgian experience of privatisation. As essential elements in economic and social regulation, they become less vulnerable to emasculation by politicians fearful of the consequences of such policies.

The creation, extension and protection of the public sector was the result, therefore, of pressures emanating from governments, political parties, regional and local interests, trade unions, certain client groups, and, on occasion, private sector industrial and financial interests ready to exploit State enterprises to socialise losses. Consequently, the public sector became saddled with wide-ranging and not always compatible political, economic, social and financial objectives. Furthermore, as Raymond Vernon has pointed out, 'Where conflicting and mutually inconsistent goals seem to exist, politicans may find it undesirable—even dangerous—to clarify the ambiguity'.[14] Only in Britain under the Conservatives, and increasingly in France, were some attempts made to clarify the ambiguity, as governments embraced a more economically functional conception of State industry, in which it is to be judged by its efficiency and financial performance. That being so, the step to private ownership is not as great as when public enterprise is traditionally associated with non-economic functions. In

other words, British and French right-wing governments in the 1980s have divested public sector industry of its political and social role, and have been able to act more radically and more effectively in adopting privatisation measures. Other governments, locked into a more socio-political conception of the public sector, have been unwilling or unable to proceed in so radical a fashion: only privatisation of a limited sort has, therefore, been available to them, and in the event it has been carried out largely by public sector managers.

The origins, size, scope, role, organisational structure, financial condition, and pattern of State-sector relations has clearly helped to determine the extent and nature of privatisation programmes, but there were other political and economic constraints of a more explicit nature, and it is to these that the next two sections are addressed.

4. The Political, Legal, and Institutional Parameters of Privatisation

Several major *political* factors may be identified as shaping the various European privatisation programmes. The first is linked to the previous discussion: protection will be afforded to the public sector-or parts thereof-according to the perception of its political or strategic importance. It has already been argued that in several European countries the public sector is deeply embedded in a general political settlement. Tampering with its ownership has wider ramifications which may be politically dangerous or destabilising. But the same holds for particular public sector industries. It is revealing that the loss-making Salzgitter steel group is viewed in political terms by the functionally-minded West Germans, because it is situated near the East German border. In France, the aerospace and aircraft industry has escaped the attention of the privatisers because of its significance for national defence,[15] and there has been no question, unlike in Britain, of transferring the national airline to private ownership. National political preoccupations therefore play a role in defining what can be privatised.

The second major political factor constraining the privatisers has been of a *constitutional* nature. The French Constitutions of 1946 and 1958 provide a constitutional basis for state-owned monopolies, and attempts to denationalise would almost certainly run into difficulties. The Constitutional Council and the Council of State were responsible for tightening some provisions of the July 1986 *ordonnance,* notably those dealing with the rights of shareholders, with fixing the price of the initial issue, and with foreign acquisitions. Moreover, the 1986 Enabling Act on privatisation specified the companies to be privatised, fixed a date limit for completion of the programme and laid down the rules on matters such as the use of receipts, the amount of capital to be sold to employees, and the preferential rights of individual small investors. No such legal provisions constrain a British government. The West German Basic Law also provides constitutional protection for the public monopolies: privatisation of the railways and the postal services would require a two-thirds majority in the Bundestag to pass the necessary constitutional amendment. Similar situations pertain in Spain and Portugal. In the latter country, the Law of 8 July 1977, in line with Article 85 of the Constitution, lists the industries in which private enterprise is not permitted. They include the banking, insurance, air, rail and urban transport, electricity production and distribution, post and telecommunications, petroleum refining, basic petrochemicals, and arms industries. Legislation passed by the Mario Soares government, elected in 1983, enabled the private sector to compete with the State in the banking, insurance, cement and fertiliser industries, and joint public-private venture were permitted in the steel, petroleum, chemical and arms industries.[16] But

the Conservative government elected in 1987 will have to tread carefully if it wishes radically to extend the list.

The third major factor shaping the various privatisation programmes has been *the structure of executive power*. The governments of Thatcher and of Chirac, each with a majority in Parliament, have not had to contend with the constraints of coalition-building and maintenance. Of course, Prime Minister Chirac had to suffer the delaying tactics of President Mitterrand who exercised his constitutional prerogatives in vetoing the initial *ordonnance,* but the delay was short and the legislation was finally passed with only minor modifications.

The *constraints of party coalition—a* fourth political factor—have been most acutely felt in West Germany and in Italy. In the Federal Republic, only the FDP has been enthusiastically in favour of widespread privatisation, and in 1984 — 85 coalition politics reduced the list of candidates for privatisation from thirteen to five. In Italy, the fragile balance within government coalitions gives disproportionate leverage and veto power to the obstructive, and this was clearly illustrated in 1985 with the failure to sell the loss-making State-owned Maccarese to a private company in the agricultural sector, in spite of promises on employment. It was highlighted, too, in 1985 with the blocking by Craxi of the sale of SME, the food-processing and distribution business, to Buitoni-Perugina (recently acquired by Carlo de Benedetti). Both cases are described in the Italian contribution to this volume.

The state of *party politics* has also been a factor in facilitating or hindering a drive to privatise. The ascendancy of Mrs Thatcher and her supporters within the Conservative Party, especially after 1983, greatly eased the implementation of the programme, in spite of grumblings in certain Conservative Party circles about the government 'selling off the family silver'. Yet even Mrs. Thatcher was obliged to drop plans to sell off the Austin-Rover volume car business to Ford, and Land Rover to General Motors in 1986. Conservative backbenchers forgot their market principles and remembered their nationalism. Accordingly, they greeted with enthusiasm the news in March 1988 that British Aerospace was interested in acquiring the Rover group.

In France, the dominance of the Prime Minister and his close ally, Edouard Balladur, Minister of Finance, enabled them to push forward the programme at a very rapid rate, in spite of carping criticisms of some members of the rightwing coalition. Similarly, the personal authority of Felipe Gonzales did much to convince reluctant elements of the Spanish Socialist Party of the need to sell off certain parts of the major State holding.

The *structure of territorial power* can be seen as a sixth political factor in shaping the programme. While this was most apparent in the contracting out type of privatisation (since local authorities are major service deliverers), it has also influenced industrial denationalisation in Austria (where provincial reticence is apparent), in Italy (where the hostile activity of the local authorities in Naples contributed to the failure of the SME sale, for example) and, more especially, in West Germany. In the Federal Republic, as noted above, the *Länder* hold stakes in the banking and industrial sectors, and they have proved reluctant to part with them: for instance, Lower Saxony refuses to sell its 20 per cent stake in Volkswagen, since the firm is seen as too important for the local economy. In Bavaria territorial and coalition politics become entwined, since Strauss is a powerful figure in both areas. He successfully delayed the Federal Government's attempt to reduce its stake in Lufthansa from 80 to 55 per cent, and was reported to be acquiring 5 per cent of the firm for his *Land* through the banks it controls. Strauss, a director of Lufthansa, fears that, if privatised, it might not buy from the European aircraft-maker Airbus, of which he is also a director. The Lufthansa case is related in greater detail by Josef Esser in his contribution to this volume.

Any consideration of public policy-making must take into consideration the nature of policy communities and the prevailing policy style. Privatisation is no exception. The Thatcher government since 1979 has slowly restructured a number of policy communities to diminish the power of elements such as the unions and local government, and this capacity to restructure has been important in removing obstacles to privatisation. Not only have the unions been excluded but even management have on occasions been left out of decisions to privatise. The announcement of the sale of BT apparently came as a complete surprise to management, but after they had displayed some enthusiasm for privatisation they were brought back into the policy community.[17] The influence of management over the implementation of privatisation policies, especially regarding questions of competition and regulation, has been altogether greater. The desire of government to secure the co-operation from management that is vital for speedy privatisation led to the sale of British Telecom and British Gas with their monopoly positions substantially intact. The influence of Lord King over the implementation of airline competition policy in the run up to British Airways' privatisation is another case in point. As a result of widespread public concern about the lack of effective competition and regulation in those privatised industries, the government has been more resolute in its dealings with the managements of the electricity and water industries, where more radical measures may be implemented.

In France, the unions wield considerable influence in the public service monopolies (which are not candidates for privatisation) but have essentially no leverage in the public sector competitive industrial groups. In a strategic industry such as aerospace there is a tightly-knit policy community comprising a small group of politicians, defence officials (from the powerful Direction Générale de l'Armement) and technocrats from the enterprises—all of whom are committed to retaining the industry firmly in the public sector.[18] But in general, the structure of public sector policy communities has not been a brake on the declared privatisation ambitions in Britain and France.

In other European countries, however, policy communities tend to be more decentralised and diffuse, and policy styles more consensual. Radical policies run the risk of being emasculated in such circumstances. It is clear that a centralised political system (focused essentially on the Prime Minister and a friendly Finance Minister) with a capacity to shape and reshape the appropriate policy community is better placed to promote radical policies than one with a fluid and diffused political system, or one in which industrial policy communities are stable and characterised by close and collusive relationships rooted in consensus-building (what Rudy Andeweg in his contribution terms 'the quagmire of corporatism'). When both conditions exist—as in several European countries—policy space is clearly reduced, and radical policies, such as extensive privatisation, are precluded.

The final political factor which has had an impact on the privatisation drive lies in the nature and organisation of the constituencies for and against privatisation. The early 1980s saw the weakening of the coalition which was committed to the extension or maintenance of public sector industry. The major political parties which favoured the public sector were either seriously weakened (the case of the British Labour Party and a number of European Communist parties), or increasingly sceptical about the merits of nationalisation (the Austrian, Spanish and French Socialist parties). On the other hand, Social Democratic parties in Sweden, West Germany and the Netherlands had never been ardent supporters of an extensive public industrial sector.

The trade union movement was also generally on the defensive during this period, being weakened by government legislation, unemployment, the changing structures of the labour market, the introduction of new style shop floor relations, internal divisions and falling membership. Despite being entrenched in the public sectors of Western Europe, the unions were unable to protect their

strongholds. In Austria, the ÖGB exercised some moderating influence on privatisation plans through its links with the SPÖ, and in Italy, where the unions are generally better informed and more widely consulted, they helped to block the sales of Maccarese and SME. In Britain, concerted action against the British Telecom Bill, spearheaded by local authorities in rural areas (which were worried about the curtailment of services), the Post Office Users' Council, certain Conservative Members of the House of Commons, members of the House of Lords, some telecommunications equipment manufacturers, and the unions led to a few minor amendments to the legislation. But opposition remained fragmented and divided, and it was unable to alter the Bill in any substantial way.[19]

If trade union leaders remained staunch backers of nationalised industries the same was not always true of their members. The unions of British Telecom mounted a campaign against its transfer to the private sector, but at the 1983 annual conference a substantial minority of members refused to resort to national industrial action to back the campaign. In certain countries work-force disenchantment with the public sector was widespread, and this was scarcely surprising, since in certain nationalised industries vast restructuring operations had led to wage freezes and massive lay-offs. As Georges Marchais, the French Communist leader, angrily pointed out, the French State under the Socialists had poured some 53 billion francs into the nationalised sector in order to reduce production and suppress 100,000 jobs.[20] In Portugal and in Italy, the policy of protecting public sector jobs—even when there were no markets for the goods produced—led inevitably to financial crisis which had immediate repercussions at shop floor level: wages were paid late or, in some cases, not at all. Thus there was a delegitimising of the pubic sector among those who might have been expected to defend it.

Attempts by unions to organise resistance were hindered by incentives and inducements offered to their members.[21] Employees' support for privatisation was encouraged by buy-outs (for example the highly successful National Freight buy-out in Britain) or by the sale of shares to the work-force at very heavily discounted rates (for example 96 per cent of British Telecom's workers took advantage of the offer). In France the 1986 Act guaranteed employees the right to buy a proportion of the initial issue of a privatised enterprise. The German Federal Republic issued employee stocks when Viag and IVG were privatised, and in Portugal shares in Fibras Sintetics, the State-owned textiles groups, were sold at a 60 per cent discount to its work-force.

The most serious dilution of support for the public sector was to be found among its managers. Indeed, by the mid-1980s they were among the principal proponents of the privatisation movement. In Britain, the chairmen of public monopolies fought to retain their monopoly positions, but within the private sector: for keen privatisers such as Lord King of British Airways competition was not to stand in the way of privatisation. The management of British Telecom, after a period of strained relations with the government, came to be influential supporters of privatisation.[22] In France, even some nationalised industry chairmen appointed by the Socialists were in favour of private sector minority stakes, and a small group became converted to outright privatisation.[23] After the electoral victory in March 1986 of the right, public sector managers pressed the Treasury to sell off their companies as quickly as possible.

In Italy and Spain the most explicit support for privatisation has come from the managers of the State holding companies. As in Britain and France, they wish to organise their enterprises without undue political interference, without constant recourse to unsympathetic finance ministries, and without being enmeshed in the web of politico-bureaucratic compromises which characterised public sector decision-making. Even before he became chairman of IRI, Romano Prodi made clear

that too much discretion was left in the hands of politicians whose policies were too frequently dictated by the requirements of coalition politics and of patronage. He was also extremely critical of Parliament's general failure to meet the equity needs of the public sector.[24] All public sector managers resent the second-guessing of civil servants and the constant political interference in purely operational matters. Most also resent the use of public sector firms as crude instruments of governmental macro-economic policy or regional policy. And they dislike being pressured into 'irrational' investments and diversification strategies, into under- or over-pricing, unprofitable employment practices, and politicallyinspired rescue operations of bankrupt private firms. All too frequently they were squeezed into financial crisis-for which they were then blamed.

For public sector managers in Britain and France, privatisation, which was placed on the political agenda by governments, was a means of acquiring commercial autonomy. Their colleagues in Italy, Portugal and Spain, where privatisation was not politically promoted and where outright denationalisation was politically infeasible, saw in partial privatisation a means of acquiring greater autonomy *vis-à-vis* the politicians, by introducing a buffer zone of private investors. Partial privatisation was favoured also because it would enable them to restructure their ramshackle holdings, rid themselves of loss-making peripheral activities, and improve their financial position (and thus lessen their dependence on the Treasury) by ploughing back into the holdings the proceeds of the privatisation operations. It must be recalled that in Austria, Italy, Spain and Portugal public sector holdings and firms which engaged in partial privatisation were able to use the funds raised to recapltalise their enterprises—once again a clear inducement to action.

The pro-privatisation constituency was, therefore, strengthened by the addition of public-sector managers. But the constituency would have been powerful and vocal even without them. Private industry welcomed the privatisation programmes, although with varying degrees of enthusiasm both across European countries and within each one of them. While the Confederation of British Industry was generally enthusiastic, the French *patronat* in the shape of the CNPF gave a more cautious response (it was worried about unbalancing the Bourse and about foreign acquisitions), and the largest Dutch employers' organisation (the VNO) was quite lukewarm. The Austrian Business League which was generally in favour contained elements which were also far from enthusiastic. The keenest support for privatisation came from those most likely to profit from it: the financial lobby comprising the institutional investors, the stock exchanges, the merchant bankers who organised the flotations, and the underwriters who (until October 1987) made considerable gains. Finally, there has existed a group of neo-liberal intellectuals who have been active in promoting the case of privatisation: in Britain, the Institute of Economic Affairs and the Centre for Policy Studies; in France, the Club '89 and the Clubs Perspectives et Réalités; in West Germany, a group of influential neo-liberal economists. Writings advocating privatisation or attacking nationalisation have proliferated, preparing the intellectual groundwork and furnishing the rationalisations for pro-privatisation politicians.

An analysis of the political background to privatisation reveals the importance of the interplay of constitutional and institutional arrangements with policy aspirations. The analysis suggests that such arrangements may have an inhibiting effect on some governments, but that resolute governments in propitious political and institutional circumstances have the capacity to effect very far-reaching change.

TABLE 1 CAPITALISATION OF EUROPEAN STOCK MARKETS AT 31 DECEMBER 1986 ($ BILLION)

United Kingdom	505.7
West Germany	232.1
France	149.5
Italy	140.8
Switzerland	127.4
Netherlands	82.6
Sweden	54.6
Spain	46.4
Belgium	36.9
Denmark	15.7
Finland	12.0
Norway	10.0
Austria	6.1

Source: International Equity Analysis, Salomon Brothers, Inc, June 1987

5.
THE FINANCIAL PARAMETERS OF PRIVATISATION

Differing economic and financial structures have influenced the courses that privatisation has taken in European countries. Capital markets, their size and nature are central to the issue, and a financial perspective may be useful at this point. At one level, privatisation may be regarded as a way of changing the mechanism whereby a company is financed. Public ownership transfers individuals' savings to industrial companies by means such as taxation, government borrowing, or through publicly-owned banks. When privatisation occurs, other channels of funding must be found. The basic alternatives are take-over by private industrial or holding companies, intermediation by private banks, management buy-outs, or direct investment via the Stock Exchange by private individuals or institutions such as pension funds or insurance companies.

The size and structure of many European financial markets has ruled out the 'popular capitalism' which has inspired privatisations of the British and French variety. This is clearly underlined in Table 1 which shows the capitalisation of European stock markets in 1986:

The size of even the Paris Bourse gave rise to disquiet in French financial and industrial circles that it would be incapable of digesting a rapid privatisation programme. Fears were also expressed that private companies looking for new capital would be crowded out. It was contended that the Bourse was too small and inefficient, that already a large volume of trade in French securities was carried out by American or British brokers in London, and that several major French banks—including BNP and Paribas—had based their international capital operations in London. Yet fears of saturation and crowding out proved to be unfounded. This was partly as a result of the growth of the French equity market, which almost tripled in size between 1982 and 1985, partly as a consequence of government measures designed to facilitate and increase transactions (the easing of exchange controls, new computerised trading techniques, tax incentives) and partly because privatisation at below market values attracted a normally reticent French public into the purchase of equity.

Both in Britain and France many of the major flotations were massively over-subscribed (see below), since the high probability of quick profits proved a powerful inducement to invest. As a rule, anxiety about the capacity of a stock exchange to deal with a major flotation proved misplaced. Even in Denmark, the sale of the State's 50 per cent stake in Kryolitselskabet Öresund—the largest flotation in the country's history—was comfortably absorbed. Yet fears of overloading the stock

TABLE 2 RISES IN EUROPEAN STOCK MARKETS END 1982-END 1986

Country	Percentage increase of index	
	in local currency terms	in US dollars
Belgium	197	245
Denmark	92	117
France	297	313
Italy	319	329
Netherlands	176	227
Norway	261	241
Spain	362	337
Sweden	172	190
Switzerland	84	126
United Kingdom	119	90
West Germany	168	225

Source: International Equity Analysis, Salomon Brothers Inc., June 1987

market clearly remained a limiting factor in countries such as Spain and Austria where there was also a strong tradition of bank saving rather than equity investing: it certainly explains the disquiet of prominent Austrian bankers such as Hannes Androsch of Creditanstalt who cautioned against excessive zeal in the pursuit of privatisation.[25] As Josef Esser points out in his contribution, the lack of a culture of individual equity-buying together with the unsuccessful experience of the *Volksaktien* in the 1950s and 1960s were also a sobering element in the West German privatisation debate. In Italy, the stock market could not cope with a major issue (such as British Telecom or British Gas), and different methods of privatisation were needed: Prodi of IRI needs the assistance of Agnelli and De Benedetti, the powerful private sector barons.

It is worth emphasising that the privatisation programme was greatly facilitated by the bull markets of the mid 1980s. Table 2 shows the percentage increases in the indices that measure the performance of the main European stock markets between the end of 1982 and the end of 1986. The volume of share transactions generally grew at even greater rates.

The stock market crash of October 1987 brought an end to the long bull market. It led to the flop of £7.25 billion British Petroleum issue and the Bank of England's promise to underpin the flotation. In France, it caused the partial failure of the Suez investment bank flotation, and brought to a halt the privatisation programme. It was not until February 1988 that the Chirac government restarted its programme, with the sale of Matra. Any major flotation was, however, postponed until after the May 1988 presidential elections, which the right failed to win. The Spanish privatisation programme was similarly stopped in its tracks.

The financial plight of many nationalised industries also generally prevented privatisation with the possible exception of the Rover Group (where massive debt write-offs will be needed to induce a buyer). The British and French governments denationalised only profitable enterprises—indeed, in the former case a number of enterprises were clearly helped to profitability in order to ensure a successful sale. British Airways, one of the earliest candidates for privatisation, had in the early 1980s neither the financial strength nor managerial efficiency to attract private investors: financial assistance, a change of management, a massive slimming-down operation, and protection against its competitors in the allocation of routes eased the path to a successful flotation. British Steel, the latest candidate for privatisation, has received similar government assistance. Other countries have

discovered, however, that it is much easier to sell 'the family silver' than the nation's debt-ridden steel: hence, the Dutch government's plan to sell its 28.4 per cent share in Hoogovens came to nothing. The state of the European ship-building and coal industries also effectively precluded them from transfer to the private sector. The West German government could, therefore, sell the growing and profitable VEBA and envisage a sale of part of Lufthansa, but the loss-making steel company Salzgitter (in the politically-sensitive east of the Federal Republic) and the coal-mining enterprise Saarbergwerke (in an area already suffering high unemployment) have never been mentioned as candidates.

6.
THE ECONOMIC AND POLITICAL IMPACT OF PRIVATISATION

Assessing the impact of the privatisation programmes requires making distinctions between the Franco-British radical models and the piecemeal and limited measures of other countries; between the financial, economic and political consequences; and between the short and possible long-term effects, some of which already hint at being of an unanticipated sort. It also requires isolating the variable of privatisation from other accompanying pressures and policies such as deregulation. Part of the assessment must, therefore, be somewhat speculative.

The easiest impact to measure is in terms of revenues raised and of industrial ownership. The contrast between the extent of privatisation in Britain and France and that in other European countries is striking. By the beginning of 1988 the United Kingdom had sold well over £20 billion worth of State assets to the private sector by the sale of around 40 per cent of the nationalised sector, and the massive water and electricity flotations are scheduled before the next election. The Chirac government in France had realised a third of its privatisation programme by January 1988, and in less than eighteen months had raised 70.8 billion francs. The 22 companies sold include Suez and Paribas, major merchant banks, Saint Gobain, the multinational glass company, Havas, the communications groups, and the CGCT, France's telecommunications giant.[26]

In both France and Britain there has been a major shifting of the public-private industrial boundary. Elsewhere in Europe, that boundary has been tampered with, not shifted. Between 1980 and 1987 Italy sold four or five public enterprises a year, raising some 7,000 billion lire and transferring a work-force of 100,000 to the private sector. The Federal government in West Germany between 1984 and 1987 reduced or eliminated major stakes in over 50 companies for over D.Mark 5 billion. Some sales were quite significant: VEBA, the energy and chemicals conglomerate which was sold in two tranches (the second netted DM 2.5 billion and was the biggest sale in German stock exchange history); the 45 per cent stake in VIAG, an aluminium and chemicals groups, raised DM 745 million; a 45 per cent stake in IVG, a transport and property group. Nevertheless, the West German programme was essentially 'symbolic', to use Josef Esser's phrase. In Spain, most of the 245 companies of the Rumas empire, which was nationalised in 1983 to prevent the collapse of the group, were reorganised and privatised by the end of 1986. In November 1986, 38 per cent of GESA, an important electricity utility, was sold for $61 million on the stock market. In the Netherlands, 36 small public companies were sold off for $60 million and a 23 per cent share of KLM for $307 million. The Swedish government has disposed of its total stake in Pripps, 15 per cent of PK Banken, and 90 per cent of Luxor to Nokia of Finland. And in Austria, $353 million has been raised by selling off parts of ÖIAG, the State holding company, and a further $400 million sell-off is envisaged in the steel and pharmaceuticals industries) as well as a 20 per cent stake of the OeMV oil

company (worth an estimated $155 million). All the privatisation operations have raised useful money for hard-pressed Finance Ministries, but nowhere outside Britain and France have they significantly altered the balance between public and private industry.

It is too early to analyse the impact of privatisation on the *performance* of the companies involved. There is the problem of isolating the ownership variable from a host of other factors that bear on performance. In principle, privatisation can improve industrial efficiency in several ways. One of its effects may be to remove financial constraints on the firms in question. Thus, IRI in Italy has been raising capital for some of its subsidiaries by selling shares in others, thereby circumventing cash controls set by the government. In France, only two uses are allowed by the 1986 Act of the proceeds of privatisation: repayment of the public debt (or disindebtment), thus reducing the State's demands on the bond market, and capital increases for enterprises that remain in the public sector. In fact, until January 1988, the government used 50 billion francs (or 71 per cent of proceeds) for disindebtment and the remaining 20.8 billion (or 29 per cent) for recapitalising State companies.

Secondly, private ownership may sharpen incentives for internal efficiency by stimulating the profit motive. This is most likely to be achieved in competitive market conditions. But the flotations of British Telecom, much of whose business (for example, local network operation) is naturally monopolistic at the current state of technology, of British Gas and of the British Airports Authority were effected (in 1984, 1986 and 1987 respectively), with their integrated near-monopoly structures intact. However, there are clear indications that the electricity industry will be restructured before privatisation in an attempt to foster competition. Thirdly, privatisation can improve industrial efficiency by preventing government from exploiting the firms as instruments to pursue other goals-macro-economic, distributional or regional.

In truth, however, there are great problems in comparing the performance of public and private enterprises, because the criteria for assessing performance are varied, and because their activities do not always overlap sufficiently to permit meaningful comparison. Furthermore, private sector management has a basic duty to maximise profits for shareholders, which is not the case with public sector firms which are frequently bound by other objectives: low profitability is not necessarily inconsistent with efficient management. Difficulties of comparing have not, of course, prevented comparisons—but the evidence is confused and far from conclusive. The evidence does not support any general propositions about the superiority of private over public ownership, or vice versa.[27] The nature of competition in the relevant market emerges as an important factor, with private ownership appearing relatively more efficient in competitive conditions. The record of nationalised industry in France and Britain since the early 1980s suggests that public sector firms are capable of transforming their performance. By being accorded greater autonomy and encouraged to make unpopular decisions on layoffs, by tightening up financial management and by requiring higher product and service standards, many became distinctly more profitable and were thus able, perhaps paradoxically, to prepare the path for their own privatisation.

The general impact of privatisation on corporate structures in Western Europe varies from country to country. In most, the impact was negligible because the programmes were so limited. In Italy, however, the effect was to strengthen certain already powerful private sector groups (such as Agnelli, De Benedetti) which alone had the financial capacity to acquire privatised stock. In France, the claims for privatisation were certainly ambitious: according to Edouard Balladur, French Finance Minister, 'le capitalisme français d'après les privatisations ne ressemblera pas a celui d'avant',[28] but the statement was exaggerated and misleading: exaggerated because, as Michel Bauer convincingly shows in his contribution, traditional French capitalism will certainly be readily

recognisable after the privatisation programme, and misleading because privatisation will not herald in a more market-oriented economy but rather a restructured private capitalism. The Finance Ministry was clearly trying to establish an inter-locking network of French-controlled holdings in the privatised groups through the core controlling interests-the *noyaux durs-which* are carefully selected by the Ministry: by January 1988 the Rue de Rivoli had chosen 73 mainly French groups to control 16 billion francs of capital in the privatised firms. As a result of cross-shareholding, three major poles-Saint-Gobain, Paribas, and CGE-Société Générale-are emerging as the props of French industry. The result of privatisation in France, as in Italy, is likely to be a greater concentration of private economic power and not necessarily a more competitive economy.

Recent take-over bids by newly privatised companies in the United Kingdom (e.g. Britain Telecom/ Mitel, British Airways/British Caledonian, BP/Britoil, and possibly British Aerospace/Rover) suggests that similar forces may be at work there as well. Privatised utility companies (e.g. BT and British Gas) were in any event endowed with considerable market power, as was explained above. The extent of their corporate power in the future will depend on the degree of effectiveness of the competitive and regulatory processes that have been introduced.

The *political* ramifications of privatisation have yet to be fully explored. Curiously, even the political implications of the transfer of wealth, through equity holding, have attracted little attention in political science literature.[29] Ownership has two dimensions: the entitlement to a share of the profits of an enterprise in the form of dividends, and some say in determining its policies. The latter aspect raises thorny questions, because the links between ownership, control and the distribution of power are often very tenuous, especially if shareholding is widely dispersed, as in French and British privatised companies. Corporate control is likely to remain firmly in the hands of management in the United Kingdom, since the major institutional investors—banks, insurance companies, pensions funds and unit trusts-show little interest in control. In any case, as in France, the creation of millions of new shareholders is not likely to have an impact on the distribution of corporate power.

Between 1986 and 1987 the number of shareholders tripled in France, while the Thatcher privatisation programme has resulted in a similar increase to about 9 million by the end of 1987. Each government has proudly proclaimed the establishment of a new and large share-owning class, and each has claimed that there are now as many shareholders as trade-union members. Each has also deliberately sought to widen share-ownership by selling privatised stock at very attractive prices. This new class of shareholders is supposedly more independent and more free, and displays greater responsibility because it is sensitised to the requirements of the firm and to the exigencies of the market: with a direct personal stake greater interest would be stimulated in the performance of industry. While there is no doubt about the popularity of most of the major flotations in Britain and France (most were massively over-subscribed), a closer look at the figures is not so reassuring, as Michel Bauer makes clear in his study of the French case. Many new small investors simply had an eye for a bargain, and made quick and easy profits by selling their newly acquired shares-to the institutional investors. Thus, in spite of inducements to encourage fidelity in the form of loyalty bonus shares and vouchers to set against bills, British Telecom and British Gas have experienced large reductions in the numbers of individuals holding their stock. Proportionate reductions in numbers of individual shareholders have generally been still more dramatic in other privatisations, where loyalty bonuses have not been so easy to give. Survey evidence shows that the majority of shareholders in Britain have holdings in just one or two companies. Even the privatisation drives of Britain and France are unlikely substantially to reverse the trend towards a progressive reduction in

the proportion of equity held by individuals. In short, individual share ownership has been spread more widely by privatisation, but very thinly.

Not unnaturally, quick profit-making and taking led to criticisms in both Britain and France of privatisation creating *'une économie de casino'* more reminiscent of the Bingo hall than the Bourse, and that far from creating a realistic understanding of the market, the sale of stock at below market value was projecting a totally false vision of how the market operated. More important, it is clear that the creation of a vast group of new shareholders does little to alter the *control* of industry. Atomised, ill-informed and largely uninterested, the individual shareholders have very few effective powers. Popular capitalism is clearly not going to disturb corporate managers, and a consideration of the property rights in Britain and France as the result of privatisation should perhaps lead to a debate about the concentration of economic power rather than its much acclaimed diffusion.[30]

Large-scale industrial privatisation may have important consequences for key political actors, but caution is warranted. In France, it is alleged that many of the State-appointed managers of the newly privatised firms have close links with the ruling Gaullists, and there are accusations that the Gaullist party, the RPR, is creating baronies for its friends—*la vieille nomenklatura politico-financière*.[31] In spite of repeated rebuttals of the allegations by the Finance Minister, the spectre of the '200 familles' is once again being invoked by the left. In Britain and France civil servants in the sponsoring ministries of previously nationalised companies may lose ground, but those in the new regulating agencies may come to exercise greater influence, despite the rather limited formal powers initially given to bodies such as Oftel and Ofgas. Trade unions may be weakened by privatisa tion, but this may not be the case in the vast private monopolies that have been created. Conservative parties may gain votes and there is some poll evidence from the 1987 British election to suggest that this happened, which is scarcely surprising: the underpricing of privatisation issues is appreciated more by those who gain than deprecated by the general public which loses. Secondly, the election of a party which sought—or might seek—to reverse privatisation or introduce tougher regulatory policies would jeopardise the value of shares held by millions. Yet in bearish markets holders of devalued equity may not be so well-disposed towards the privatisers. In other words, there are too many imponderables to hazard any predictions about the impact of privatisation on the longer-term distribution of political power.

At a totally different level, privatisation may be seen as a means of facilitating the vast process of the rationalisation. Europeanisation and internationalisation of industry, as foreigners have acquired important stakes in privatised enterprises. Thus, the Spanish government sold its stake in the Spanish subsidiary of SKF to the Swedish parent company in 1985, transferred its control of the debt-laden SEAT car firm to West Germany's Volkswagen, and of the troubled lorry and bus-maker ENASA to America's General Motors. It also allowed Telefonica to sell its 49 per cent stake in Intelsa, its switching equipment joint venture with Ericsson, to the Swedish partner. IRI justified its sale of Alfa-Romeo to Fiat in terms of achieving economy of scale at European level, and has entered a number of joint public-private ventures to achieve competitive scale in the telecommunications and electronics sectors. Strategic foreign firms have been introduced into the hard-core stable share ownership of French privatised firms, and in the United Kingdom, by the end of 1987, foreigners held 45 per cent of Jaguar, 20 per cent of Rolls Royce and 15 per cent of British Aerospace, while the Kuwait Investment Office, with a stake approaching 20 per cent, had become BP's biggest single shareholder. In some cases in Britain and France, foreign ownership was higher than that permitted by the law.[32] The denationalisation of key industries and the introduction of foreign capital into their ownership may raise delicate questions of national sovereignty in countries

such as France with a strongly nationalist industrial culture or Italy where very few laws restrict foreign direct investment.

One final question needs to be addressed: does privatisation mark a fundamental break with State interventionism? Certainly, the claim has been made in France and in Britain where the Chancellor of the Exchequer has talked about 'the transformation of the economic landscape of the country'.[33] Yet a certain scepticism is permitted. Again, the modest scope and extent of privatisation in most European countries has been such that change is unlikely, while in France privatisation has represented an adjustment in the pattern, and not the extent of the State-industry relationship. In spite of an expansion of allocation through markets rather than through politico-administrative compromise there has been no systematic withdrawal of the State. In Britain, the effect of privatising monopoly utilities may well have the result of creating a situation of more detailed and more explicit interventionism through the publicity-appointed regulatory authorities which, subject to the attitude of the Monopolies and Mergers Commission, might come to enjoy wider discretion to shape the terms and conditions on prices and the services provided.

The State, everywhere in Western Europe, continues massively to intervene in the economy by regulating the terms and influencing the environment of public and private industry operations in a number of ways including:

- competition policy (including merger control)
- regulatory policy (e.g. price control for privatised utility industries)
- regional policy
- employment and training policy
- industrial relations policy
- policy for high technology industries (RD and diffusion)
- trade policy
- public procurement policy
- planning and environmental policies
- energy policy
- corporate taxation policy

In short, the European States have at their disposal a vast range of industrial control mechanisms, some of which are of an undifferentiated nature affecting the industrial environment in general, others of a more specific, micro-economic nature. The State continues to be provider, regulator, entrepreneur, purchaser and umpire in industrial affairs, imposing a corset on some actors and providing a safety net for others.

State involvement in the affairs of privatised companies—before, during and after their sale—may be seen very clearly in Britain and France. The attitude of the government towards British Airways is a good illustration. It protected the airline before privatisation against British Caledonian, the private airline and its main competitor, in heated negotiations over route allocations (thus being partly responsible, according to some observers, for the eventual demise of British Caledonian). It ensured British Airways' successful privatisation by the favourable conditions pertaining to the sale. And it continued to protect the company after privatisation. When the partly State-owned SAS made its bid in NovemberDecember 1987, to buy a controlling stake in British Caledonian in an attempt to form the first major cross-border airline in Europe, it was blocked by the Thatcher government which allowed a counter-bid by British Airways to proceed. (It is ironic that the SAS bid would have

resulted in Scandanavian partial nationalisation of B Cal within a year of the privatisation of BA.) The government was under severe pressure from erstwhile free marketeers such as Lord King, chairman of British Airways, and Norman Tebbit, ex-chairman of the Conservative Party, both of whom declared the need to protect the national interest. Even when SAS revised its bid to leave the control of British Caledonian in the UK, their opposition did not diminish. The incident revealed fully the clash between the demands of the market, the requirements of management, and the exigencies of sovereignty. It will be interesting to see how the government treats the privatised British Aerospace (already a recipient of government aid in connection with the Airbus project) in its bid to acquire the Rover Group.

Perhaps one of the most significant political features of the privatisation programmes in Europe has been the increase in *industrial hybridisation* and the *interpenetration of public and private industry*. Industrial hybridisation has been a traditional feature especially in France, Belgium and Italy, where the *mulatto* nature of many enterprises has often been pointed out. By introducing or increasing private capital into public firms—a distinguishing characteristic of many privatisation programmes —hybridisation has been reinforced. This point is underlined by Anne Drumaux in her description of the Belgian case. The British government initially retained important stakes in some of the privatised firms (including British Aerospace and Cable and Wireless), but has since sold virtually all of them (its 49 per cent stake in BT being an exception for the time being). However, the Chirac administration maintained small stakes in the stable core shareholding of some companies (for example, Saint Gobain) through the State-controlled banks, and has retained majority stakes in some partially privatised groups.

As noted above, both the British and the French governments have also retained a 'golden share' in many companies, which gives them theoretical power to block unwelcome take-over bids. However, the BP/Britoil case illustrates that golden share powers can lack credibility and be of limited effectiveness (at least given the objectives of the current government). Nevertheless, this continuing State presence raises a series of complex and unanswered questions about the relationship with the industries involved.[34] Arrangements vary from hybrid to hybrid, resulting in a nebulous and unpredictable situation: it is difficult to know in what circumstances governments might activate their rights. The result is that publicprivate industrial relationships in some areas may well have been obfuscated rather than redefined.

The interpenetration of public and private industry has long been analysed: Lindblom, Galbraith, Shonfield and Andrew Berle were among many who pointed to the inextricable mixing of the two—a mixing rooted in mutual dependence (in sectors such as aeronautics, atomic energy, electronics and telecommunications), and overlapping functions (both make regulations, employ people, produce goods and services, are major investors, generate national income, and deliver social welfare). Major public and private firms are both subject to varying degrees of political authority, both function in the same environment shaped by the State, and both suffer the 'same ambiguities of purpose and problems of multiple over-sight'.[35] In some countries—Sweden, West Germany, Austria, Belgium, the Netherlands—both are trapped in 'the quagmire of neo-corporatism', in a network of institutions designed to link State and industry. In other countries, such as France, intimate and collusive relationships exist in certain sectors between ministry officials, public technocrats and managers in the public and private sectors: the mutually beneficial links between the Direction Générale des Telecommunications and CGE and CGCT or between the Direction Générale de l'Energie, the nationalised Electricité de France and certain private sector managers have been unaffected by the ownership of the firms involved.[36] There are, of course, differences between public

and private firms, but they should not be exaggerated. It may be possible to adjust State-industry relations but it is intrinsically impossible to eradicate them.

CONCLUDING REMARKS

In this Introduction we have attempted to provide an organising framework for the comparative study of privatisation policies. We have described and contrasted the course of privatisation programmes in Western European countries under four broad headings:

- the motives and ambitions of the privatisers, which have contained various mixtures of ideological, economic, political and financial objectives;
- the different starting points from which privatisation is proceeding, as defined by the origins, nature and scope of public sector enterprises in European countries;
- the political and institutional structures in which the privatisers operate, including the nature of their respective party political systems, the degree of centralisation of political and industrial power, the structure of policy communities, and the prevailing policy style;
- the financial systems through which the transfer of ownership to private investors is carried out.

We have also offered a preliminary assessment of the economic and political impact of privatisation policies, and their implications for State-industry relations in the future. We do not claim that our grouping of explanatory factors is necessarily the best way of approaching the comparative study of privatisation in Europe (let alone elsewhere), and no doubt there are other important influences to consider. Nevertheless, we hope that this brief comparative overview provides some useful perspectives for the eight country studies that follow.

NOTES

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The United Kingdom: Privatisation and its Political Context

David Heald

There has been a remarkable transformation in public policy towards the role of the State in the economic life of the United Kingdom. It dates very clearly from the election of the Conservative government of Mrs Thatcher in May 1979 and it has gone much further than was anticipated by informed observers.[1] It has set a policy example which right and centre-right governments in many other countries are professing to emulate, and which some governments of the centre-left are imitating.[2] Although this analysis focuses upon the privatisation of public enterprises, it is essential to set this process within its wider context. Indeed, there are clear indications that the agenda of public debate in the United Kingdom has moved on from public enterprises to the Welfare State. Being precise about its definition and rationale is doubly important because of the way in which privatisation is becoming an international phenomenon. The forms of privatisation considered here are:

- denationalisation, whereby public enterprises are sold to the private sector;
- liberalisation, whereby statutory restrictions on market entry are relaxed or removed so that hitherto protected public enterprises face greater competitive pressures.

There are a number of different motives underlying privatisation initiatives. It is not logically necessary to accept or reject them as a package but there can be no denying that much of the driving force behind the programme stems from acceptance of the total vision. Writing in 1982 about the United Kingdom, at a time when the government itself had not fully articulated the programme's rationale, Heald and Steel[3] distinguished four motives:

- to increase efficiency, by transferring enterprises from public to private ownership (which is held to be inherently more efficient) and by increasing the exposure of organisations to competitive market forces;
- to enhance freedom (which voluntary exchange in the market is held to promote and State activities to destroy) by means of policies which reduce State ownership; cut back the web of State regulation; and establish a people's capitalism by building into denationalisation plans special provisions for extending equity ownership by individuals and employees;
- to relieve budgetary pressure on the government by means of denationalisation which generates cash from asset sales; removes the financing of investment by profitable public enterprises from budgetary entanglement; and may stem the drain of finance into persistent loss-makers;

- to weaken trade unions by avoiding the obligation placed upon public bodies to be 'good employers'; by facilitating anti-union tactics and employment practices which statutory provisions and political pressures make unacceptable within the public sector; and by disengaging government from the intractable questions surrounding public sector pay.[4]

These policy aspirations clearly embody both value judgements about political objectives as well as empirical propositions about facts (for example, the inherent superiority of private enterprise) and about consequences (for example, privatisation will weaken trade unions). Although the categories were devised in the context of trying to understand the UK privatisation programme, the evidence available on other countries suggests that these classifications of elements and motives are more generally applicable. In terms of the UK programme, they have stood the test of time: however, the 'people's capitalism' argument has subsequently dominated the 'freedom' category in a way which was not anticipated back in 1982.

THE BRITISH CULTURAL CONTEXT

Before any lessons can be learned from the experience of the United Kingdom, the country at the forefront of privatisation measures, it is necessary to comment upon the specifically British context. The distinction between the 'public market sector' (public enterprises) and the 'public non-market sector' (broadly, the Welfare State) is useful in certain contexts but reflects institutional features and past political choices about financing as well as the characteristics of the goods and services supplied. Many of the goods and services currently in the public non-market sector (for example, education and health care) are 'marketable but not marketed'. The future of such services will hinge upon prevailing value judgements about policy objectives, more than upon technical obstacles to privatisation.

Indeed, if the twin propositions about efficiency are accepted unreservedly (i.e. private enterprises are inherently more efficient and competition breeds efficiency), the public non-market sector ought to be at the centre of enthusiasm for privatising: this observation prompted Heald and Steel[5] to wonder whether the Conservative government would perceive any logical boundaries to the process. However, there is convincing opinion poll evidence that there have been huge differences in public perception about the two parts of the UK public sector. The view that 'nationalised industries are less efficient than private enterprises' has commanded steady and decisive support since the mid-1970s.[6] In contrast, parts of the public non-market sector, most notably the National Health Service, command strong public support. This divergence perhaps explains the minimal opposition there has been to the privatisation of public enterprises, a minor theme in 1979 but which formed the core of the legislative programme in the second term. The ambitious legislative programme for the third term, reflecting the absolute victory of the 'radicals' over the 'consolidators' within the Conservative Cabinet, will mount an unprecedented challenge to this deeply-embedded cultural distinction.

Public ownership of *industry* has proved a more divisive political issue in the United Kingdom than in many European countries. The activist membership of the Labour Party has often appeared to define socialism in terms of public owner-ship, bringing clashes with the parliamentary leadership who were aware of the deep unpopularity of industrial nationalisation. Despite the clashes of party rhetoric, however, there was much stability in the scope of public enterprise from 1951 to 1979, with such changes as happened taking place at the margins (as in steel, oil, aerospace and

shipbuilding) against a backcloth of falling employment in 'traditional' enterprises such as coal and rail. This stability contrasts markedly with the widespread perception, both in the United Kingdom and especially overseas, that many industries had become political shuttlecocks. In fact, Conservative politicians such as Stanley Baldwin and Harold Macmillan themselves contributed to the development and shape of the public enterprise sector, and Conservative governments did little to reverse the nationalisation measures of the Attlee Labour government of 1945–51. However, UK private business has displayed an untypical hostility to State involvement in the economy and has remained distant from government, thus making a vivid contrast with France and Japan.

What came as a surprise after 1979 was the way in which privatisation, once set in motion at the fringes of the public enterprise sector, took such a hold and became the universal 'solution', even in the monopoly industries which have been the public enterprise heartlands. The government's starting assumption now is that all public enterprises should be denationalised. Paradoxically, there has been little in the way of reasoned criticism of the performance of particular candidates for privatisation, merely restatements of the general case. Neither was there much discussion of alternative organisational models until the practice of denationalising monopolies intact spurred counter-proposals.

The characteristics and development of public enterprises have owed much to the sectors in which they were located. There are relatively few examples of public enterprises functioning within competitive markets; one important example being the National Freight Corporation, now denationalised as the National Freight Consortium. Most public enterprises have been monopolies (e.g. electricity, gas, posts, telecommunications and water) or have operated in markets highly regulated by government or dominated by international cartels (for example, buses, airlines and steel). The *ownership* and *competition* issues have traditionally been confused. One of the consequences of this misunderstanding was the transfer of the monopoly public corporation model from the public utility sector to mining and manufacturing (for example, coal and steel). There was a deeply-ingrained belief in giantism (based upon unsubstantiated claims of large economies of scale) and in the benefits of centralised planning within enterprises. The renationalisation of steel in 1967, setting up the British Steel Corporation, was an unparalleled disaster. British Airways never coped with the management problems following its creation through the merger of British European Airways and British Overseas Airways Corporation. Looking back, it is striking that competition was always interpreted in terms of wasteful duplication, rarely as a stimulus to performance. There was a reliance upon general solutions rather than case-determined measures, and very little in the way of underlying theory.

This point is further illustrated by looking at decisions about the structure of public enterprises. They may take a number of legal and organisational forms: this point is particularly important to note when making cross-country comparisons. In the United Kingdom, the following models were available:

- the public corporation, in which the assets of the enterprise are vested and controlled by directors appointed by the minister, is set up by means of an Act of Parliament: this was overwhelmingly the model adopted in the United Kingdom before the radical policy change in 1979;
- the government department, headed by a minister, was decisively rejected as the model for public ownership, and the most important example, the General Post Office headed by a

minister (the Postmaster-General), was transformed into a public corporation in 1969 (called the Post Office but *then* including telecommunications);

- the Companies-Act company wholly-owned by government has rarely been used; the most important exceptions have been the international telecommunications group Cable & Wireless (now denationalised); the aeroengine manufacturer Rolls-Royce Ltd (reconstituted by the Conservative government in 1971 after the bankruptcy of the private enterprise, and denationalised in 1987); the car manufacturer BL (rescued from the brink of bankruptcy in 1975 and in which there has remained a negligible private shareholding, though enforced cannibalisation against the wishes of management has progressively altered the nature of the business); and two commercial offshoots of the Atomic Energy Authority, the nuclear fuel and reprocessing British Nuclear Fuels Ltd and the isotope manufacturer UK Radiochemical Centre Ltd (now privatised as Amersham International plc);
- the large public shareholding in a Companies-Act company is exemplified by British Petroleum plc, but this model was never extended, except that in the early days of the present privatisation programme (i.e. 1979–82) the government retained a 49 per cent stake in privatised enterprises (such as British Aerospace plc, Cable & Wireless plc and Britoil plc): there is now an explicit ministerial commitment to sell all 'residual shareholdings' (as has been done in the cases above). Greater confidence in the City of London financial markets' ability to absorb large privatisation issues means that the 'hybrid' mixed-ownership phase has increasingly been skipped;
- the State holding company model, based upon a superficial understanding of Italy's IRI, lay behind the Labour government's establishment of the National Enterprise Board in 1976. However, this never acquired its projected significance, in part because it became saddled with the 'lame duck' BL (then called British Leyland). The Conservative government instructed it to dispose of its shareholdings and, though legally still existing, it has lost its identity within the British Technology Group.

There is an obvious question which cannot be avoided, but to which it is difficult to give an unequivocal answer: does the choice of structural form within the public sector influence enterprise performance, and is there a consistent pattern within and between countries? There can be no doubt that the public corporations have faced severe practical problems with their External Financing Limits (EFLs), as a result of the Treasury's definition of the Public Sector Borrowing Requirement (PSBR) and the overriding importance as a macro-economic target which the government placed upon this dubious and manipulable statistic. Whereas those few public enterprises set up as companies could in principle borrow from the market outside the PSBR (as Rolls-Royce Ltd did), the vast majority were ensnared in short-term budgetary pressures which led to cuts in investment programmes and to price increases (as for electricity) designed to make the EFL more negative and thus 'reduce' public expenditure and the PSBR.[7] As the Treasury itself was responsible for the definitions being used, it could have altered them had the political will existed. In reality, problems with EFLs began to be recognised by Treasury ministers after 1981 as a powerful weapon for persuading the top management of public enterprises that denationalisation would liberate them from irrational 'public sector constraints'. However ludicrous this might all seem, there can be no denying the spur to privatisation afforded by these PSBR arguments. The comparison with the financial freedoms enjoyed by, for example, French public enterprises is dramatic.

More substantively, and not merely a matter of accounting practice, there are two other ways in which the choice of organisational form might be important. First, the reliance upon the public corporation model did nourish the belief that enterprises could be managed in accordance with a centralised strategy. With more willingness to use the company model, the renationalisation of steel in 1967 might have taken a very different form, with competing public (and perhaps private) enterprises. Second, there is no automatic bankruptcy mechanism for public corporations, which means that enterprises such as British Steel Corporation and the National Coal Board (now British Coal) could accumulate phenomenal losses which automatically become an eventual charge upon the government budget. Company status might have made liquidation a more realistic option, and hence a more credible threat against both management and work-force, by delimiting access to the Exchequer. Whether or not it would have made any practical difference is a difficult question to answer, not least because the political resistance to plant closures and redundancies would have remained. However, the fact that bankruptcy could not be effected without controversial new legislation was a factor in the government's decisions in 1980 about the future of British Steel.

It is essential not to resort to crude generalisations about the performance of public enterprises: the UK record has ranged from the excellent to the unspeakably bad. Such divergence should direct attention towards the factors conducive to good performance. However, there is evidence that ministerial and civil service cultures are alien to the long-term view required for enterprises with heavy investment programmes. The sponsoring relation between departments and enterprises has been an unhappy one.[8] There is a deep cynicism and ignorance about the world of business at the heart of central government departments. National Audit Office reports have shown how civil service employment practices of moving officials rapidly through a succession of jobs have prevented the sponsoring departments from building up the capability of making a constructive evaluation of enterprise plans. Neither is this an area in which ministerial reputations are likely to be made on the basis of effective long-term policy: rather, Labour ministers have delayed plant closures on employment grounds, without properly considering the impact upon the enterprises; and Conservative ministers have ordered price increases in order to increase the cash flow from profitable enterprises.

Almost inevitably, public enterprises suffer from the problem of multiple objectives which are ill-defined and conflicting: just what weights should be placed upon cost reduction, promoting regional development, limiting employment decline and containing inflation? The inability to resolve these dilemmas is a fac tor underlying the perceived failure of public ownership. Acknowledging this fact, however, does not necessarily invalidate these wider public policy objectives, nor even demonstrate that governments always possess better instruments. Ironically, the efficiency studies undertaken by the Monopolies and Mergers Commission and the programme of cost reduction targets might have paved the way for a more satisfactory sponsoring function, but for the way in which privatisation has fundamentally altered the landscape.

THE UK PRIVATISATION PROGRAMME

Until 1979, the United Kingdom possessed one of the largest public enterprise sectors in Europe.[9] By the end of three terms of Thatcher government (i.e. 1992), it is scheduled to be extinct. If the Conservatives had lost the 1983 election, the legacy of that single term would have been some important but not drastic changes. If they had been defeated at the 1987 election, denationalisation had by then gone far beyond the point from which any new government could have readily reversed

the process. Parallel to the privatisation of financially successful enterprises have been drastic reductions in employment in unprofitable public enterprises such as British Coal (previously National Coal Board), British Rail and British Steel. In the early days of the privatisation programme, it was possible to document detailed progress to date.[10] So extensive is the programme now that it is difficult to keep track of developments without an army of research assistants. Here, the description of privatisation measures is deliberately illustrative, with most attention being placed upon the underlying policy issues. Three distinct phases in the privatisation programme can be identified, though there is some overlapping in time and 'exceptions' could now be found.

Limited Horizons: Eliminating the Fringes

The first phase was relatively modest and exploratory, in line with the limited commitments of the 1979 Conservative Manifesto. There was political pressure to show results in terms of enterprises shifted into the private sector. The government's desire to cut both public expenditure and the PSBR also encouraged this process. Nevertheless, overt progress was initially very slow, reflecting the time required to prepare legislation, secure parliamentary assent and then organise the flotation. This was unexplored territory, with there being no experience of major denationalisation programmes; doubts about whether businesses tarred with the brush of being 'nationalised industries' would be attractive to private investors; and widespread scepticism about the ability of the capital market to handle such unprecedentedly large new capital issues.

This first generation of denationalisations consisted mainly of profitable enterprises, such as British Aerospace, Cable & Wireless and Britoil. A two-stage process was involved. First, Acts of Parliament were required to empower the minister to convert public corporations into companies established under the Companies Acts. Despite the apparent simplicity of this process, the legislation tended to be quite complicated and there were sometimes unexplained variations (for example, whether government directors were to be appointed). Second, the minister arranged through merchant banks for shares in the new company to be offered for public subscription, either by the fixed-price or tender methods. At both of these stages there were hurdles at which the initial programme might have fallen.

Instead, however, the combination of political good fortune and prime ministerial determination enabled them to be overcome. The 1979 Conservative government enjoyed a comfortable majority in the House of Commons and a huge in-built majority in the non-elected House of Lords. The latter, which had seriously delayed the previous Labour government's election commitments to nationalise the aircraft and shipbuilding industries, did not object when enterprises, not mentioned in the 1979 Conservative Manifesto, were denationalised. Moreover, in the years 1980–82, when there emerged deep divisions among Conservative MPs over macro-economic policy, privatisation was a unifying theme because of their nearunanimous hostility to the concept and practice of industrial nationalisation. Opposition outside Parliament was subdued: the Labour Party was racked by internal conflict; and the trade unions weakened by unemployment, public hostility and new labour legislation. In such circumstances the government was able to pass a stream of denationalisation legislation without much difficulty; supporters and critics alike who mocked the initial slowness simply failed to understand the practical timescales involved.

In terms of the second stage, that of flotation, the government's luck again held. The privatisation flotations, which involved much learning-by-doing, took place within the context of the longest UK bull market of the post-war period. The merchant bankers brought in to organise the flotations

confounded the sceptics and showed that denationalisation was indeed a feasible policy. There has been much justifiable criticism of excessive fees and of enterprises being sold at heavy discounts.[11] Yet, in one important sense, all this was irrelevant because of the momentum which was generated; any 'loss' could be 'made up' by bringing forward new candidates for denationalisation!

Growing Ambition: Denationalising the Monopolies

The second phase of the programme marked the extension of denationalisation into the public utility sector. The initial moves had been towards liberalisation, particularly in telecommunications where the appliance monopoly was diminished; the competitor Mercury project was licensed; and the commissioned Beesley Report[12] supported competition for 'value added network services' (now permitted) and resale of capacity (not permitted). Denationalisation was apparently not then contemplated; at the very least, it had much lower priority than the stimulation of competition. Curiously, the origins of the second phase owed much to the sudden realisation, after the 1982 war in the South Atlantic, that the Conservative government would almost certainly be re-elected. This confident expectation of a second term generated enthusiasm for planning more ambitious schemes of privatisation, with denationalisation now being judged appropriate for the public utilities. Substantial efforts[13] were exerted by enthusiastic supporters of privatisation in order to secure much firmer commitments in the 1983 Conservative Manifesto. Although the Bill to denationalise British Telecommunications fell with the 1983 dissolution of Parliament, it was quickly reintroduced after the government's landslide election victory.

British Telecom became the model for the denationalisation of all public utilities. The legislation for British Gas was highly imitative and the sale of 100 per cent of the equity took place in December 1986. Planning for the privatisation of the regional water authorities in England and Wales accelerated, with legislation having been expected in the 1986/87 session, with a view to the early flotation of the Thames Water Authority which had enthusiastically volunteered itself as the first candidate. These preparations stuttered badly in the run-up to the 1987 election, but the internal industry opposition has now been stilled and the argument focuses solely upon regulatory mechanisms. Rather earlier, electricity supply slipped back in the queue for a number of reasons: the City of London financial markets would be unhappy about subscribing to a flotation unless the issue of nuclear insurance could be resolved; there are worries that a privately-owned supply industry might not share the government's unqualified enthusiasm for a nuclear strategy; and the electricity unions have anticipated denationalisation plans and have signalled that they might use their undoubted industrial muscle in order to frustrate it. Both the electricity and water privatisations were scheduled for completion during the third term: there is perhaps an outside chance that the barrage of criticism of British Telecom might disrupt that process.

The 'BT model' can be described in terms of four characteristics. First, there is no 'independent' investigation (such as by a Royal Commission or Committee of Inquiry) into the future structure of the industry. The interdepartmental committee within government concludes in favour of denationalising the existing enterprise(s) and against any fundamental restructuring or significant liberalisation. Such an exercise would not only alienate top management, upon whom massive reliance will be placed during the process, but would also require much longer timescales than the government is prepared to contemplate. In exchange for management backing, or at least forbearance, the government thereby rejects 'break-up' solutions and contents itself with limited or

minimal measures of liberalisation. Public monopolies thus pass, virtually untouched, into private hands.

Second, a separate regulatory office is established with responsibility for policing the licence under which the business now operates. OFTEL, the Office of Telecommunications, was itself based upon the Office of Fair Trading headed by the Director-General of Fair Trading, and has now become the standard model which will apply across the public utilities. It is a non-participatory model, with none of the public hearings characteristic of US regulation: rather, powers are vested in an individual regulator whose terms and conditions of appointment are designed to insulate him/her from political pressure. There is inevitably a huge imbalance of resources between the regulatory agency and the regulated monopoly. However, OFTEL has possessed certain advantages which will not be repeated elsewhere. Its first Director-General, Professor Bryan Carsberg, on leave from his chair of accountancy at the London School of Economics, is unusually resourceful, clearly a person of independent mind and a firm believer in competition; regulators of such calibre will be in short supply. There have been unkind comparisons between Professor Carsberg and Mr James McKinnon, his counterpart at the Office of Gas Supply and previously the Finance Director of the Imperial Group which was subsequently acquired for dismemberment by Hanson Trust, an aggressive conglomerate. Moreover, the rapid technological change which is blurring the distinction between the communications and computer industries has increased the possibilities for competition by making certain segments of the telecommunica tions market more 'contestable'.[14] The regulators of the gas, water and electricity industries will not enjoy such leverage; the greatest scope for competition there is likely to come from 'common carrier'[15] arrangements which they will find it exceedingly difficult to make work against the direct interests of privately-owned monopolies.

Third, there is a price-control formula which applies only to those parts of the business in which monopoly power is believed to exist. For British Telecom, RPI-3 applies to a basket of services constituting about 50 per cent of its total revenue, and restricts average price increases to 3 per cent below the change in the Retail Price Index ('rebalancing' of tariffs within that ceiling is permitted). In the case of British Gas, there are two separate elements to the formula, covering gas and non-gas costs.[16] Much reliance is being placed upon this approach, developed by Littlechild,[17] and intended to avoid the problems associated with rate of return regulation. There was a British precedent imposed by the Office of Fair Trading upon the dominant firm in the contraceptive sheath market, and the same mechanism has also been used in the French government's *contrat du plan* with the State-owned Electricité de France. However, sceptics believe that, in the long term, the arrangement will degenerate into rate of return regulation over private monopolies.

Fourth, each successive major flotation is hyped as the 'sale of the century', with massive advertising and public relations campaigns to persuade individuals to buy shares in the denationalised company. British Telecom broke all records in terms of the size of the flotation and of the 2.25 million shareholders who bought shares. The impression was thereby created that the small shareholder has been the main beneficiary whereas, in reality, financial institutions received both their underwriting commissions and, through preferential allocations, high profits when the shares immediately traded at a large premium.[18] The government and its merchant bank advisers have in most cases opted for fixed-price rather than tender offers, and the overriding concern to transfer enterprises out of the public sector has ruled out the idea of selling in small tranches.[19] As time elapsed, a major objective became to maximise the number of 'founding shareholders' and of employee shareholders, partly in the belief that such events would make renationalisation more difficult. In the earlier privatisations, there were dramatic falls in the number of shareholders, as

individuals took their capital gain and the financial institutions increased their holdings. The reduction in shareholder numbers has been much less pronounced in the case of British Telecom, perhaps due to the incentives to hold for a number of years (bonus shares or discounts on telephone bills) and the inertia created by the presence of so many first-time shareholders. Nevertheless, the financial institutions dominate, with only 11.5 per cent out of the 51 per cent privately-held equity being accounted for by UK individuals. Government has undoubtedly placed more and more emphasis upon 'people's capitalism' which it believes will have a powerful effect upon public attitudes towards capitalism and on voting patterns. By structuring the offers, with heavy discounts meaning that investors and employees play a 'no-lose' game, the government has registered a spectacular public relations triumph.

In summary, the United Kingdom, with little inquiry or thought, is in the process of jumping to a position whereby privately-owned public utilities, enjoying extensive monopoly power, are regulated by small regulatory offices. Gas and airports moved rapidly in the last year of the second term into the mould established by British Telecom, with water, electricity and perhaps posts likely to follow during the third term. Quite apart from the ideological momentum, there was a strong bureaucratic urge to 'get rid of the problem' of the nationalised industries. However, US regulatory experience indicates that public regulation of privately-owned utilities raises problems different from but comparable with those experienced under public ownership; the domestic price ceilings on energy resources which stimulated consumption and then imports are a classic example.[20]

There were early warning signs in the United Kingdom but these were not heeded. British Telecom has been told to behave like a private enterprise, yet there is surprise when it takes advantage of regulatory 'loopholes': for example, the first price increase which it was allowed under the RPI-3 formula was fortuitously boosted by the impact of high interest rates upon the mortgage finance component of the Retail Price Index. The relaxation of the appliance monopoly has brought undoubted benefits to consumers but the speed and manner of transition has significantly increased import penetration. After an investigation by the Monopolies and Mergers Commission granted approval, British Telecom has taken over Mitel, a Canadian telecommunications equipment manufacturer, much to the consternation of the British manufacturers. Far more dramatic examples will arise in the case of British Gas: it is likely to go on a rampage of acquisitions in the North Sea (having had its North Sea oilfields forcibly removed and then floated as Enterprise Oil plc); and it is likely to use its UK profits as the basis for overseas diversification (to strengthen its position against its regulator) and into other fuels (as a risk-reducing measure and perhaps to weaken its other-fuel competitors). Nor should it be forgotten that the Department of Energy was heavily dependent upon British Gas' technical expertise in the design of the regulatory system; tellingly described as a case of regulatory conception rather than capture!

Transport markets are much more contestable than those for public utilities. Yet there is an intriguing contrast between the respective fortunes of British Airways and the National Bus Company. The Civil Aviation Authority, the UK's airline regulator, realised rather late the implications of the denationalisation of British Airways.[21] The value of an airline consists of its physical assets (aircraft and buildings) which appear in its balance sheet, and its routes, bilaterally negotiated by governments, which do not. British Airways, the chairman of which, Lord King, is a close personal friend of the Prime Minister, mounted a shrill and effective campaign against the Civil Aviation Authority's proposals for route transfers to British Caledonian and the smaller UK airlines prior to denationalisation. The humiliation of the regulatory body, one which had built a

reputation for promoting competition within the constraints of the international licensing system,[22] was an unhappy omen for the future.[23]

The flotation of British Airways, originally first in the queue in 1981, was repeatedly delayed until the eventual flotation in February 1987: at different stages, the reasons for postponement included the poor financial health of the airline; impending legal action in the US courts alleging predatory pricing against the now-defunct Laker Airways; and the damaging effect on international travel resulting from the US bombing of Libya. In July 1987, only five months after denationalisation, British Airways announced an agreed merger with British Caledonian and attempted to bounce the government into avoiding a Monopolies and Mergers Commission (MMC) reference. After considerable uncertainty about whether there would be a reference, partly fuelled by rumours of British Caledonian's impending collapse, the Secretary of State for Trade and Industry established a three-month inquiry. With the realistic options dramatically narrowed, the MMC concluded in favour of the merger, though subject to certain conditions regarding the surrender of domestic routes. However, the October 1987 stock market collapse led British Airways to cut its offer bid; British Caledonian desperately searched for a rival bid, partly to talk up the price. A serious bid for a partial takeover was then launched by the Scandinavian Airline System (SAS), itself 50 per cent owned by the governments of Denmark, Norway and Sweden. British Airways then orchestrated a political campaign, encouraged by Norman Tebbit MP, the Conservative Party Chairman and a former Secretary of State for Trade and Industry, who waved the British flag and raised the spectre of backdoor 'foreign' nationalisation. To the delight of British Airways, the Civil Aviation Authority announced that it would revoke British Caledonian's licences if control were to pass overseas. This decision made the victory of British Airways inevitable.

Much of this is extremely ironic: Colonel Gaddafi has wrecked 20 years of mildly deregulatory policy by the Civil Aviation Authority, and British Airways has taken over its erstwhile private sector rival, with which it had been unfavourably compared.[24] Some of these developments were perhaps inevitable: the speed and intensity owed much to the way in which British Airways accounts were massaged in 1981/82 to prepare the way for denationalisation and the way in which Lord King's political connections were exploited to scupper the route reallocation exercise. Moreover, two previously impressive British institutions, the MMC and the Civil Aviation Authority, were manoeuvred into positions whereby, according to taste, they looked ineffectual, or recognised the political realities as manipulated by those supposedly being regulated.

In complete contrast, the same sponsoring minister (Nicholas Ridley) embarked upon a highly ambitious and politically controversial scheme of complete deregulation of the bus industry outside London and the break-up and sale of the National Bus Company. Local authority-owned bus departments have been forced to register as companies and subsidy can be paid on routes only after they have been thrown open to tenders on a least-subsidy basis. Among the issues of controversy are the possible effect upon safety, expected reductions in the pay and conditions of bus employees, the impact upon the public transport network, the future of 'uneconomic but socially desirable' routes, and whether competition will lead either to better services at lower cost or to vehicle bunching on profitable routes and eventually back to monopoly. In view of its failure to take competition seriously elsewhere, the government took considerable political risks in this case, not least as the experimental scheme was in a rural county environment (Hereford and Worcester) completely unlike the areas into which it was then extended. If this scheme should fail in political terms, there might be a pendulum effect back to strict licensing, even though the earlier deregulation of long-distance coach travel had produced clear benefits, albeit in a different operating environment.

Although the policy may have contributed to an embarrassing by-election defeat in a 'safe' rural constituency in May 1986, broader political events, notably the 1987 election landslide, seem to indicate that the issue has faded from political attention.

Finishing the Job

The third phase of the programme represents in part a tidying-up exercise, but it also reflects the way in which enthusiasm for privatisation has grown within government. There are two separate developments: the disposal of further tranches of shares in already-privatised companies, and the development of plans for the enterprises still remaining in public ownership, often involving systematic dismantling of loss-making industries.

In the phase 1 flotations, such as those of British Aerospace and Cable & Wireless, the government had sold 51 per cent of the equity, and thus there remained a significant government shareholding. The government pledged not to exercise this, save in exceptional circumstances (such as an attempted foreign take-over of British Aerospace). Except for occasional references to the precedent of British Petroleum, very little in the way of solid argument was produced in support of this decision; particularly as the rhetoric proclaimed that government intervention in business enterprises was always damaging. Several commentators[25] pointed out that the government had not thought through the role of its 'absentee' shareholding in these 'hybrid' enterprises, or the role of government directors.

In March 1984, the then Chief Secretary to the Treasury[26] announced the government's intention to dispose of its 'residual shareholdings' as and when market circumstances permitted. The original decision to retain 49 per cent was said to have reflected the early uncertainties about whether the stock market would absorb large privatisation issues. In reality, many of the earlier doubts had stemmed from fears about how the government shareholding might in future be used. Further tranches have subsequently eliminated the government stake in the major enterprises, and the retention of 49 per cent of British Telecom almost certainly did reflect concerns about the size of the issue. The prospectus stated that there would be no further tranches of British Telecom before 1 April 1988, though that might not necessarily have been treated as a binding constraint. The initial prospectus for Cable & Wireless plc indicated that there would be no further sale of the government shareholding 'in the foreseeable future'. When the government decided to sell a second tranche, the legal opinion it received indicated that the courts might interpret that phrase as meaning 18 months! British Gas was sold as one lot, on a phased-payment basis, in order to press through the denationalisation before the general election due in or before 1988. Since the Rees statement, the Treasury view has been that the government shareholdings are now irrelevant because specific national interests (such as protection against foreign take-over) can be safeguarded by means of the device of the 'golden share' in key enterprises held by the relevant minister which can, in circumstances carefully specified in the company's articles of association, outvote all the other shares. Whether it is wise to rely so much upon this untested device remains a contentious question.

A significant number of the public enterprises which have not directly been affected by phases 1 and 2 are recurrent loss-makers in financial terms (though some, like British Rail, would claim to generate external economic benefits). Among the loss-makers, there have been major reductions in employment and government pressure to dispose of subsidiaries. Although the privatisation programme has so far paid most attention to the profitable enterprises and the monopolies (which are unsurprisingly easier to sell), a clear pattern is now emerging for the loss-makers. The operations

of British Shipbuilders were divided into warship and merchant divisions, with the Corporation being instructed to dispose of its warship yards such as Yarrows on the Clyde, Swan Hunters on the Tyne, and Vickers in Barrow-in-Furness. The first of these was bought by GEC, the large conglomerate which has been building up its defence interests, and the other two became subject to management buy-outs (though only after a bitter political battle in the case of Vickers when a higher bid from the conglomerate Trafalgar House was rejected).

A similar process of contraction and cannibalisation is being experienced by BL; the prestigious Jaguar Cars was taken from it in 1984, and the government confronted intense opposition in 1987 to plans to sell the Austin-Rover volume car business to Ford (now dropped), and the Land-Rover specialist vehicle business to General Motors (now vetoed, with other bids including a management buy-out being evaluated). The intensity of these controversies, involving some of its own backbenchers who were outraged at the extent of the secret negotiations to transfer ownership to US multinationals, only serves as another reminder of how little real political debate and conflict has been generated by most of the privatisation programme. The government has been actively making plans for British Steel (flotation, not cannibalisation) and for British Coal.

INTERPRETING THE POLITICS OF UK PRIVATISATION

The sheer scale of UK privatisation has been unexpected.[27] The more that has been privatised, the more vulnerable have seemed the remaining enterprises. To a significant extent, the rationale for the programme was invented after the event.[28] In particular, economists have attempted to adopt and redirect the programme, highlighting the efficiency rationale, with limited, but variable, success. Much of the telling criticism has (at least implicitly) come from a market-oriented perspective, namely that the government was not taking its own efficiency objectives seriously enough. This is a reflection of a shift of the entire policy debate on to more market-oriented terrain. However, when the crunch came, *private ownership* was much higher on the government's priorities than *competition*.

This concluding section is organised around three issues: the importance which became attached to people's capitalism; whether there has been an abandonment of objectives or a substitution of instruments; and the role which the structure of government and political power may play in promoting or obstructing privatisation.

People's Capitalism

Although it did not initially figure prominently, the government stumbled upon a mechanism for legitimating denationalisation: wider share ownership through privatisation issues has been a device of symbolic brilliance, but devoid of direct economic importance. Rarely can two, four or six million people have taken active steps in response to an impending government policy decision: privatisation issues have become a yuppie version of the football pools. The long-term economic consequences are hard to judge: Kay[29] warned strongly that shareholder lobbies in privatised monopoly utilities might be an obstacle to further liberalisation; there is much evidence of substantial later reconcentration of shareholdings; the Trustees Savings Bank (not itself a privatisation but caught up in the wider share owner-ship game) has been attempting to 'disenfranchise' its small shareholders by urging that their rights to information should be restricted; and questions have been raised as to whether such unseasoned shareholders might add to market instability. In any case, the economic

rationale for portfolio diversification is overwhelming and tax incentives strongly favour institutional investment. The objective did have an effect on the broader design of the privatisation programme as the flotations needed to be 'successful' in generating short-term gains.

In essence, the emphasis attached to wider shareholding is political rather than directly economic. The objective has been to mollify hostility to capitalism and to erode the Labour Party's electoral base. Wider share ownership thus became a part of the government's political strategy closely linked to the sale of council houses. It will therefore be interesting to learn from analyses of the 1987 election results whether first-time shareholding had an *independent* effect on voting patterns. Nevertheless, the perceptions of political actors were important. The government clearly believed that wider share ownership was a vote-winner, thus enabling it to deflect criticisms about privatising monopolies and 'selling the family silver'. Fears that the government might be right were an important factor in the Labour Party's difficulty in defining a credible policy on either renationalisation or new forms of public control.

Instruments or Objectives

Because instruments and objectives have previously been thoroughly enmeshed, it is to be expected that the politics of privatisation will contain its own ambiguities. Public enterprises can be privatised because they are no longer regarded as an effective instrument for achieving particular objectives. Or, they can be privatised because of a rejection of the public policy objective itself. There is never likely to be absolute clarity, not least because of the force which is gained when there is adherence to both rationales. The rhetoric may be far removed from the reality. The motives for public ownership in a particular country are usually diverse: the Canadian crown corporations reflect nation-building and economic nationalism *vis a vis* the United States, and the provincial crowns reflect resistance to federal encroachment, rather than socialist ideology.[30] Explicitness in the rationale for instrument choice is, naturally, appealing to the system reformer and to academic specialists in economics and public administration, but a fair degree of ambiguity might oil the wheels, allowing different actors to attribute different meanings. Moreover, such ambiguity might circumvent delicate constraints posed by the constitutional division of power within a federation or by international obligations (such as those stemming from membership of the European Community or through signature to GATT).

Pragmatically, therefore, it is partly a matter of 'knowing' why certain public enterprises exist, without making that completely explicit. In contrast, it is possible for the symbolism to become so overwhelming as to impair practical judgements, leaving an ideological vacuum. The Labour Party, particularly its influential annual party delegate conference, often seemed to believe that a few more nationalisations would be evidence that capitalism was being abolished. Commitment to public ownership as a matter of essential principle sat oddly alongside boredom with the practicalities. If the Labour government of 1974 had possessed a decisive majority, there might have been a significant extension of public owner-ship: the leadership would have found it much more difficult to fend off such proposals by reference to parliamentary difficulties. Indeed, Stuart Holland, an academic (later MP) who was very influential in Labour Party policy circles in the early 1970s, had close contacts with economists who played a major role in the development of the Mitterrand presidential platform in 1981.

Abromeit[31] accurately observed that the academic critics of the UK privatisations had concentrated upon challenging the assumptions and mechanisms of the privatisation programme,

and did not launch a principled defence of public owner-ship. Undoubtedly, that reflected a degree of disillusionment with the realities of public enterprise performance and governmental sponsorship. Those economists sympathetic to public enterprise have cringed at some of the popular arguments used against privatisation, especially when couched in terms of automatically defending existing monopoly positions and uncritically extolling cross-subsidy. The miners' strike of 1984/85, fought between the National Union of Mineworkers which rejected economic criteria for pit closures and a government willing to open the Exchequer in order to win outright victory, may prove to have been a highly significant turning point in attitudes on the political left towards industrial nationalisation.

Three issues therefore stand: the role of public ownership for its own sake in the political programmes of socialist parties (a commitment now diluted if not abandoned); the continuing relevance of the nationalist and pragmatic arguments; and differential enthusiasm for privatisation. The nationalist and pragmatic arguments will not affect each country in the same way, as the salience of particular issues may differ. The United Kingdom can afford to be more relaxed about foreign ownership than Canada: the geopolitics are vastly different. Within Europe, some of the traditional nationalist concerns may be becoming refocused at the European level, with attention being paid to external ownership and control, particularly from the United States and Japan. Governments in industrialised countries would be more confident in their ability to regulate private monopoly than a developing country lacking the necessary skills, traditions and standards of public probity. Perhaps no government can effectively regulate the rapidly emerging communications conglomerates, or dare try because of the influence which the media can exert over domestic politics. An explanation is also required of the willingness of some governments of the centre-left, notably the Spanish Socialist government and perhaps the Hawke Australian Labour government, to imitate UK privatisations, while there is a lack of enthusiasm on the part of the Kohl government in the Federal Republic of Germany.

Structure of Government

The pace and style of privatisation policy is a reminder that old distinctions between federal and unitary states do contain real meaning in particular contexts. A federal government, whether in Canada or in the Federal Republic of Germany, cannot unilaterally privatise all public enterprises because of the significant ownership role of the provinces and *Länder* and the existence of constitutionally-embedded rights. The unitary nature of the United Kingdom does not explain why the Thatcher government adopted privatisation so enthusiastically, but it does explain the absence of constraints on the centre comparable with those which would exist in federal countries such as Australia, Canada and the Federal Republic of Germany. There is, of course, the counter-possibility that a province might itself initiate the privatisation of provincially-owned enterprises, though fears of external encroachment might set limits to this process.

An embedded constitutional position thus affords a degree of protection to lower tiers of government and the enterprises in which they have ownership stakes. In particular contexts, the dispersion of political power, even in the absence of constitutional checks and balances, might also impose constraints. Such is the position in Belgium and the Netherlands, where negotiation and consensus are prerequisites, even for the formation of governments. Central governments can cajole and bully but they cannot unilaterally impose because territorial interests possess extensive powers of veto. An excellent practical illustration is the current reorganisation of electricity generation in the Netherlands, being undertaken by the utilities themselves in the knowledge that the government

would other-wise impose a structure. Political events in the United Kingdom in the 1980s have been shaped by the absence of constitutional protections and the willingness of the Thatcher government to assert centralised power and to override so-called 'vested interests'. In this sense, there are common features between the privatisation of nationalised industries and the emasculation of local government.

NOTES

1. The decisive turning point on public expenditure, however, came earlier, in 1976, when the then Labour government negotiated a loan with tough conditions from the IMF. However, this was seen by the participants as being enforced by macro-economic necessity. The sale of British Petroleum shares in 1977/78, in order to avoid even deeper public expenditure cuts, was later to prove an embarrassing precedent which the Conservative government could cite.
2. J.Moore, speech at the Institute for International Research conference on privatisation, held on 17 April 1986 at the Institute of Directors (London: Treasury Press Release 51/86, 1986); OECD, 'Domestic and International Developments: Monetary and Fiscal Policies', *OECD Economic Outlook,* No. 40 (December 1986), pp. 1–17.
3. D.A.Heald and D.R.Steel, 'Privatising Public Enterprises: An Analysis of The Government's Case', *Political Quarterly,* Vol. 53 (1982), pp. 333–49.
4. There is evidence that the conflict between the 1970 — 74 Conservative government of Edward Heath and the miners in 1972 and 1974 was a crucial factor in putting privatisation upon the agenda of the Conservative Party. Moreover, the chronic failure to secure a stable framework for the determination of public sector pay has severely damaged the public image of the public sector and made privatisation a more viable political strategy than it would otherwise have been. See D.A. Heald, *Public Expenditure: Its Defence and Reform* (Oxford: Martin Robertson, 1983).
5. Heald and Steel (1982).
6. There have been many assertions in favour of inherently greater efficiency in the private sector, both of which are predictions of the 'property rights' and 'public choice' schools of economists, but relatively little in the way of empirical work. One of the problems confronting such an exercise in the United Kingdom has been the lack of direct overlapping between public and private enterprises which makes direct comparison more difficult. Robert Millward's survey of the empirical evidence judged that it is inconclusive but stressed the question of whether public enterprises face competition. See R. Millward, The Comparative Performance of Public and Private Ownership', in Lord Roll (ed.), *The Mixed Economy* (London: Macmillan, 1982); and R.Millward and D.M.Parker, 'Public and Private Enterprise: Comparative Behaviour and Relative Efficiency', in R.Millward *et al., Public Sector Economics* (London: Longman, 1983). Other surveys, especially by American economists, interpret the evidence as indicating private superiority. Whatever the empirical evidence, MORI opinion polls have shown since the mid-1970s a reasonably steady 20 per cent lead for the view that private enterprises are more efficient than nationalised industries.
7. The External Financing Limit (EFL) of a UK public enterprise includes the following: grants and subsidies; borrowing from the National Loans Fund (i.e. the Exchequer); issues of Public Dividend Capital (an intended proxy for equity capital in the public sector but which has often been a disguised subsidy) where available; and net market and overseas borrowing. A public enterprise can have either a positive EFL or a negative EFL. The aggregate EFL for public enterprises counts as part of the public expenditure planning total and as part of the Public Sector Borrowing Requirement (PSBR). Reductions in the investment programmes of a profitable industry or price increases dictated by the Treasury will therefore feed through into a lower PSBR. Criticism of the government's focus upon the PSBR, rather than the money supply, has also been levelled by monetarists such as Milton Friedman. Theoretical

support has come from the 'new classical' monetarists (the rational expectations school). The crude attacks on the Treasury for using some of the nationalised industries as milch cows or as vehicles for implicit taxation are seriously misleading. It is necessary to look, *inter alia,* at existing levels of profitability or economic return. However, the process of setting EFLs as part of the annual public expenditure round has reinforced cynical views of the Treasury's motives.

8. Parliamentary committees have pressed for access to the books of public enterprises. The compromise effected through the *National Audit Office Act 1983* is that the Comptroller and Auditor General, who heads the revamped National Audit Office, now has access to the papers of the sponsoring departments, but not to those of the Treasury or the public enterprises themselves. There has been a series of informative reports on the sponsorship function which have been critical of certain aspects but have acknowledged that improvements have been taking place. These reports have in turn led to hearings held by the Public Accounts Committee, and to reports from that committee supporting the Comptroller and Auditor General's conclusions. In terms of political realities, however, these investigations have been overtaken by events, as denationalisation has gathered momentum.
9. W.Keyser and R.Windle, *Public Enterprise in the EEC* (Oxford: Metra Consulting, 1978).
10. D.A.Heald and D.R.Steel, 'Privatisation of UK Public Enterprises', *Annals of Public and Cooperative Economy,* Vol. 52 (1981), pp.351–67; D.R.Steel and D.A.Heald, The Privatisation of Public Enterprises 1979–83', in P.M.Jackson (ed.), *Implementing Government Policy Initiatives: The Thatcher Administration 1979–83* (London: Royal Institute of Public Administration, 1985), pp. 69–91.
11. Public Accounts Committee, *Sale of Shares in British Aerospace; Sales of Government Shareholdings in Other Publicly Owned Companies and in British Petroleum Ltd; Postponement of Payments,* Tenth Report, HC 189 of Session 1981 -82 (London: HMSO, 1982); Public Accounts Committee, *Sale of Government Shareholdings in Publicly Owned Companies,* Seventeenth Report, HC 443 of Session 1983–84 (London: HMSO, 1984); and Public Accounts Committee, *Sale of Government Shareholding in British Telecommunications plc,* Third Report, HC 35 of Session 1985–86 (London: HMSO, 1986).
12. M.E.Beesley, *Liberalisation of the Use of British Telecommunications' Network* (London: HMSO, 1981).
13. See, for example, the proposals subsequently published as T.Eggar, K.Carlisle and M.Grylls, *Reversing Clause IV: A Policy for Denationalisation* (London: Conservative Political Centre, 1984).
14. There has been a revolution in theoretical approaches to the regulation of monopoly, stemming from the work on 'contestable markets' by William Baumol and his colleagues. See W.J.Baumol, J.C.Panzar and R.D.Willig, *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, 1982). Rather than focus upon percentage market shares, the new emphasis is upon barriers to entry and exit in markets in which large multi-product firms are common. Potential entry is seen as a crucial market mechanism for preventing distortions from monopolistic behaviour; whether actual entry takes place is viewed as a secondary matter. The main feature of a contestable market is that there is frictionless entry and exit. It is 'sunk costs' rather than 'fixed costs' which undermine contestability. There is a huge difference between the contestability of airlines (high fixed costs but low sunk costs because aircraft can either be sold or switched to other routes) and airports (high fixed and sunk costs).
15. The idea of a common carrier provision is that the owner of the pipeline/grid must allow consumers to buy their gas/electricity from a third party who injects into the system at one geographical location, with the consumer taking off an equivalent amount (minus transmission losses) at his own site. There are now published tariffs for use of both the electricity grid and the main gas transmission pipeline; as yet, there have been no contracts. Such arrangements are most likely to be relevant to large industrial consumers.
16. D.Helm, 'RPI Minus X and the Newly Privatised Industries: A Deceptively Simple Regulatory Rule', *Public Money,* Vol. 7, No.1 (1987), pp. 47–51.
17. S.C.Littlechild, *Regulation of British Telecommunications' Profitability* (London: Department of Industry, 1983).
18. R.Buckland, The Costs and Returns of the Privatization of Nationalized Industries', *Public Administration,* Vol. 65 (1987), pp. 241–57; C. Mayer and S.Meadowcroft, 'Selling Public Assets:

Techniques and Financial Implications', *Fiscal Studies,* Vol. 6, No.4 (1985), reprinted in J.A.Kay, C.Mayer and D.Thompson (eds.), *Privatisation and Regulation: The UK Experience* (Oxford: Oxford University Press, 1986), pp. 322–40.
19. R.Buckland and E.W.Davis, 'Privatisation Techniques and the PSBR', *Fiscal Studies,* Vol. 5, No. 3 (1984), pp. 44–53.
20. M.G.Webb, 'Privatization of the Electricity and Gas Industries', in D.R.Steel and D.A.Heald (eds.), *Privatizing Public Enterprises: Options and Dilemmas* (London: Royal Institute of Public Administration, 1984), pp. 87–100.
21. Civil Aviation Authority, *Airline Competition Policy* (CAP 500) (London: Civil Aviation Authority, 1984).
22. R.Baldwin, *Regulating the Airlines: Administrative Justice and Agency Discretion* (Oxford: Clarendon Press, 1985).
23. D.A.Heald, 'Will the Privatization of Public Enterprises Solve the Problem of Control?', *Public Administration,* Vol. 63 (1985), pp. 7–22.
24. M.H.Ashworth and P.J.Forsyth, *Civil Aviation and the Privatisation of British Airways,* IFS Report Series No.12 (London: Institute for Fiscal Studies, 1984); R. Pryke, The Comparative Performance of Public and Private Enterprise', *Fiscal Studies,* Vol. 3 (1982), pp. 68–81.
25. J.Davis, 'Little Profit for City Advisers: The Great State Sell-off', *The Times* (6 October 1983); M.R. Garner, 'British Airways and British Aerospace: Limbo for Two Enterprises', *Public Administration,* Vol. 58 (1980), pp. 13–24; D.R. Steel, 'Government and the New Hybrids: A Trail of Unanswered Questions', *Fiscal Studies,* Vol. 5, No. 1 (1984), pp. 87–97.
26. P.Rees, *Hansard* (14 March 1984), col. 420.
27. G.Grimstone, 'Organising a Privatisation Programme', paper presented to the annual conference of the Political Studies Association at the University of Aberdeen, (7–9 April 1987); G. Grimstone, 'Privatisation: The Unexpected Crusade', *Contemporary Record,* Vol. 1, No.1 (1987), pp. 23–5.
28. C.Veljanovski, *Selling the State: Privatisation in Britain* (London: Weidenfeld & Nicolson, 1987).
29. J.A.Kay, The Privatization of British Telecommunications', in Steel and Heald (eds.), *Privatizing Public Enterprises: Options and Dilemmas,* pp. 77 — 85.
30. M.J.Trebilcock and J.R.S.Pritchard, 'Crown Corporations: The Calculus of Instrument Choice', in J.R.S. Pritchard (ed.), *Crown Corporations in Canada: The Calculus of Instrument Choice* (Toronto: Butterworth & Co., 1983), pp. 1–97.
31. H.Abromeit, 'Privatisation in Great Britain', *Annals of Public and Co-operative Economy,* Vol. 57 (1986), pp. 153–79.

The Politics of State-Directed Privatisation: The Case of France, 1986–88

Michel Bauer

The policy of privatisation carried out in France by the Chirac government between 1986 and 1988 was both novel and ambitious: novel, since it appeared on the political scene only during the electoral campaign of 1986; ambitious, since for the new government elected on this programme, it was not only meant to undo the policy of their Socialist predecessors but also to put in its place entirely new rules for the economy. The objective was two-fold: to make the French a nation of shareholders in the name of participation, an ideal once dear to de Gaulle; and to restrict the economic role of the State and to ensure that the Palais Brongniart (the French Stock Exchange) replaced the rue de Rivoli (the Ministry of Finance) as the symbolic and true heart of the world of business.

It is obviously too early to evaluate this new policy initiative properly. The gap between the ambitious nature of the programme and the short time which has elapsed since it was begun prevents any worthwhile assessment. One can, however, look at the logic of the measures taken and their socio-economic effects, after first studying the extent of privatisation and the procedures used.

THE EXTENT OF PRIVATISATION: OBJECTIVES AND IMPLEMENTATION

The government, which had fought its electoral campaign on privatisation, took office on 20 March 1986. On 6 August a law initiating the privatisation programme was passed. By 24 October the implementing decrees were in the *Journal Officiel*. It took only seven months to move from the programme of an opposition party to a set of legal rules specifying the aims and the methods of privatisation. This speed seems even more remarkable since the country was experiencing a period of *cohabitation* (and since the President of the Republic had prevented the government from carrying out its programme by *ordonnance)*. Furthermore, this set of legal rules applied to the privatisation of not just one firm but of a considerable number of them.

These legal texts envisaged and facilitated the biggest redrawing of the boundary between the public and private sector yet seen in the West. They applied to 66 firms comprising 27 independent groups, with a work-force of about 900,000. This involved a capital estimated at the time at 300 billion francs, a figure to be compared with the total capitalisation of the Paris Bourse at the same date: 1200 billion francs. In seven months the government thus provided for the privatisation of the equivalent of a quarter of the firms quoted on the Paris Bourse. Yet, an analysis of the list of the firms involved suggests that while the government was seeking an important political change its economic ambitions were more modest.

The desire for a political change is revealed by the fact that on the list of the firms to be privatised were not only those firms nationalised by the Socialist government but also those nationalised in

1945 by General de Gaulle. No one since 1945 had dared to suggest privatising these firms which had been nationalised with hardly a voice of dissent. In 1945 -46 the entire French population, including the owners of small businesses, had agreed to the anti-capitalist programme of the Conseil National de la Resistance which demanded 'the eviction of the great economic and financial feudalities from running the country…and the return to the nation of the means of monopolistic production which are the fruit of common effort, of the sources of energy, of all underground exploration, of insurance companies and of the large banks…'. This programme was adopted not only by the Communists and Socialists, but also by the Radicals and members of the future MRP—including Georges Bidault who headed the CNR—and the Gaullists. It was the holy alliance of the Resistance against private monopolies. This common desire profoundly to change the very basis of the economic system was fed, among certain groups, by arguments based on Marxist theory; and among others by a desire to punish the big bosses. As early as 1942 General de Gaulle had declared that 'the disaster and the treachery had disqualified most of the bosses and those who did well out of the system' and that it was, consequently, intolerable that 'the terrible events had given rise to a social and moral regime which had acted against the nation's interests'.[1] And in 1945 he had welcomed a group of businessmen who came to pay their respects with a typically blunt remark: 'I saw none of you gentlemen in London…'.[2]

The nationalisations, which were initially justified as a means of reducing *'les fonds stratégiques'*[3] of big business, were greeted with only a whimper compared with the battles engendered 35 years later. Fewer than 60 Deputies voted against, that is to say four fifths of the Deputies voted for the nationalisation Bills, thus reflecting the opinion of large sections of the public, employees, a majority of small business owners, members of the liberal professions and managers.

Thereafter, any attempt to call into question this programme was to attack one of the principal achievements of the Resistance. The left obviously never envisaged it; nor could the political right since the odour of collaboration remained too powerfully in the nostrils. It would have to wait 40 years, a whole generation, before this taboo could be questioned; and no doubt it could only have been the Gaullist party which would dare to do so. No one on the right had even mentioned it before 1985. Until then even the most daring had suggested only the privatisation of what the Socialists had nationalised in 1982 and putting a stop to the process of 'rampant nationalisation' that the country had witnessed since 1950. But as for privatising what General de Gaulle had nationalised, particularly the big banks and insurance companies-no political observer would have placed a bet on such a possibility.

The break with previous economic policies was less marked than many have contended. Privatisation did not start on 24 October 1986. The Socialists, without shouting it from the rooftops, and even somewhat surreptitiously, had begun it in 1983 and it accelerated between 1983 and 1986. On the one hand, the Socialist government allowed certain firms in the public sector to sell to private firms one or other of their subsidiaries: thus the nationalised firm of Thomson sold its subsidiary the Compagnie des Lampes to Philips. On the other hand, it allowed nationalised enterprises to raise funds on the Stock Exchange (which is the major prerogative of private companies), initially as *titres participatifs,* then, after November 1984, in the form of investment certificates, a new financial mechanism which bore a strong resemblance to non-voting shares. Many public companies took advantage of this, notably Société Générale, Havas, Péchiney, Rhône-Poulenc, Paribas, CIC, Suez, BNP and Credit Lyonnais. Some 50 billion francs were apparently raised in the financial markets by these companies. Lastly, the Socialists even authorised the public

flotation of the subsidiaries of State-owned companies: thus, in 1985 Saint Gobain sold 15 per cent of the stock of Saint Gobain Emballage.

From an economic point of view, the policies of privatisation introduced by the right quite considerably extended the policy of the government of the left, but were not totally inconsistent with it. So much so that on the list of firms included in the Law of 6 August two major types of firm were excluded. These were public service utilities and monopolies (SNCF, RATP, EDF, Telephone), and those firms with poor financial performances such as Renault, Usinor and Sacilor. Only those firms involved in the competitive sector were involved.

Privatisation was not, as in some other countries, used to reinforce market forces or to undermine public monopolies. Traditional economic realities were not, from this point of view, changed. Finally, in spite of the ambitious nature of the programme only healthy firms were to be sold off, thus explicitly underlining the two premises which were at the root of the nationalisation programme of the Socialists: that nationalised firms can become economically viable; and that firms in difficulties cannot get out of trouble if they belong to the private sector. From a strictly economic point of view the liberal *credo* was very watered down: the French remained faithful to the practice of 'nationalising losses and privatising profits'.

Despite the unwillingness to make a radical break with existing economic practices, everyone thought that the programme announced in August 1986 was entirely unrealistic. Certainly it was a legislative programme (destined to last five years) and the electoral calendar meant that the government had only a year and a half to carry it out. But no economic observer thought that the French financial markets would be capable of absorbing, even over five years, so many firms.

Yet, within a year the Chirac government, with its policy of privatisation, pulled off a remarkable political and economic success. With eleven flotations it privatised eight large groups (Saint Gobain, Paribas, CGE, CCF, Havas, Société Générale, TFI and Suez) and three medium-sized banks (Sogenal, BIMP, BTP). If one adds the three non-stock market sales (MGE, CGCT, IDI) the government carried out within one year a third of its five-year programme. It privatised eight of 27 groups, and increased the capitalisation of the Paris Bourse by about 100 billion francs (of the 300 billion francs envisaged).

This economic success was even more astonishing when one considers that no one, not even in the ministerial private offices, felt that it was possible to privatise so many firms in such a short time. This economic record was all the more significant since the privatised firms belonged to all sectors, with the exception of insurance, where the problem of assessing value is particularly difficult. It was also a political success because among the firms privatised in this record time were not only those nationalised in 1982 (Saint Gobain and Paribas), but also firms created by the State (FIT) and groups nationalised in 1945 (Société Génerale). There was no longer, in this area, any political taboo.

In order to understand more fully this success we need to examine the methods used to privatise, to look at the results obtained and to assess the political and economic arguments which were used to justify it.

THE CIRCUMSTANCES OF PRIVATISATION AND THEIR UNDERLYING LOGIC

Any privatisation is the result of a unique combination of responses to the following questions:

- What method is used to introduce private shareholders: increase in capitalisation or the sale of shares and in the latter case the sale of the whole or part of the stock?
- What is the nature of shareholding—very dispersed or more concentrated, and if the latter what form of concentration has been carried out?
- Has an attempt been made to encourage popular shareholding or employee shareholding and by what means?
- How have the proposed 'large shareholders' of the firm been chosen?
- What sale price has been fixed for the share offer and how can the dilemma be avoided of being accused of squandering national assets (with a price fixed too low) or risk having the share issue under-subscribed (with a price too high)?
- What action has been taken with respect to foreign financial interests *(laissez-faire* or protectionism)?

We will, therefore, examine the French privatisations and consider the answers to these six questions. We shall also examine the extent to which institutional circumstances have influenced these answers. Four possibilities must be distinguished:

- The answers to the above questions or at least to some of them were anticipated in the law.
- The answers to the above questions were supplied by the market and especially the financial market, as a result of mechanisms established by the government.
- The answers were determined by a commission of independent experts, which was as political as it was economic.
- The task of answering these question was given to a so-called 'wise-man' (politician or high civil-servant).

The French privatisers always rejected flexible means for transferring a public firm into private ownership. At no stage was there a recapitalisation of a firm reserved for private shareholders, which has the advantage of bringing valuable finance to the firms in question. Nor was the sale of part of the stock of a public company ever sold off: every privatisation carried out before the 1988 election involved the sale of the entire firm in one go.

The government of Jacques Chirac refused a policy of allowing a firm to have both public and private capital. This refusal was particularly obvious in the rare cases where privatisation was accompanied by increased recapitalisation (as with CGE and Suez), since in such cases it happened in two stages: first the public enterprise was recapitalised by State finance alone, thus remaining 100 per cent nationalised; then the State sold off the entire stock, thus creating a 100 per cent private company.

From a strictly economic point of view such a refusal is hard to explain. On the one hand, it leads to a paradox for a government which is supposed to think more highly of business interests than those of the State, since it is the Treasury and not the firms which benefits from the new money raised by privatisations. On the other hand, France has for a long time had large firms which involved both public and private capital without any problem. The reasons for this form of privatisation were political in nature: the right wished to distinguish themselves from the Socialists and to avoid a consensus arising on an economic subject. In fact, since 1983, François Mitterrand had become the champion of a 'mixed economy', and had thus taken up an old Gaullist theme which sought pragmatically for a third way (between untrammelled capitalism and bureaucratic

socialism). Jacques Chirac and the parties of the right might have sought consensus over this issue and might even have been delighted if they had been joined by the Socialists. But they preferred to abandon such ideas and espouse the somewhat novel principles of liberalism: hence the severe criticism not only of nationalisation but even of the mixed economy.[4]

The way privatisation is carried out affects, and can be used to determine, the capital structure of the privatised firm. One can give small shareholders an important place and even seek to impose a maximum holding for any single shareholder, thus furthering the concept of popular capitalism; or one can hope for the creation of a relatively concentrated shareholding and enable several industrial or finan-cial groups to acquire a significant proportion of the capital of the privatised firm (or even ensure that such a situation take place). To appreciate these possibilities let us examine the proportions held by different types of shareholders who were given certain privileges, as well as analysing how the various choices were made.

The Law had little to say on the subject, and thus did not define any real constraints either for producing the diffusion of capital or for bringing about its concentration. At the very most, it required that 10 per cent of the capital be reserved for the employees and that foreigners acquire no more than 20 per cent. There therefore remained 70 per cent of the stock to be shared among shareholders not specified by the legislator. Article 4 of the Law reads: These sales will take place according to market procedures'. But, having sung the praises of the market, the next paragraph of the Law adds: 'Nevertheless, the minister in charge of the economy can choose the purchaser outside the market-place, after the *avis* of the Committee on Privatisation'. The minister had therefore complete freedom to decide the shareholding structure of privatised enterprises.

The government deliberately exploited this freedom to control the shareholdings of the companies which it privatised. All the large privatisations were carried out according to the same scheme: 10 per cent to the employees, about 15 per cent to foreigners, about 50 per cent to the public at large, and about 25 per cent to around ten larger shareholders comprising a 'stable nucleus' *(un noyau stable)*. Such a policy appears to hesitate between a fragmented and a concentrated shareholding. Some observers detected in the policy the first steps towards 'popular capitalism', the 'stable nucleus' having the role of a safety-valve which, during temporary upheavals in the market, would protect the firm. Others detected the creation of 'big-business capitalism' at bargain cost to the organisations concerned—the 25 per cent of the stable nucleus allowing for *de facto* control of the firm. To assess the truth of these two interpretation we need to examine further how the small shareholders are represented on the board of management and how the large ones were chosen.

The various privatisations resulted in a considerable increase in the total number of small-shareholders in large businesses: there were scarcely 1.5 million in 1985 yet 8 million by 1987. Before the present privatisation programme the firm with the greatest number of shareholders was Air Liquide, which claimed to have 300,000 shareholders. Privatised Saint Gobain sold its shares to 1.5 million people and Paribas to 3.8 million. The demands for shares were, moreover, so over-subscribed that on several occasions a quota system had to be applied. The Law provided for fulfilling all applications not exceeding ten shares before allotting the remaining shares *pro rata* to those requesting. In several cases, it was not even possible to supply the full ten shares promised, and in the case of Paribas no one received more than four shares each.

A significant portion of the French population thus manifested a remarkable taste for the shares of privatised companies. For some, this was because of the attractively low offer prices and the massive publicity campaigns mounted by the firms to sell them. The press, radio, television and all the media were mobilised to this end. Others, on the other hand, interpreted this success as a veritable

plebiscite in favour of the policy of privatisation. Without deciding yet between these two alternatives one should point out straight away a fact which is rarely mentioned: systematic oversubscription would undermine the justification of reserving part of the stock for institutional investors because of lack of demand.

Thus, despite everything that was done to create a widespread shareholding public the policy of privatisation revealed its true face: it allowed a few large shareholders to hold sufficient portions of the capital to exercise at least potentially some control over these groups. Moreover, nothing was done to encourage any organisation of these small shareholders or to give them any real representation on the board. Small shareholders were allowed to provide important new financial resources but were unable to exert any influence on the privatised firms. From this point of view, privatisation has brought about a peculiar divorce between ownership and control. Holdings, without any of the prerogatives of control, have been accorded to small shareholders. And all the trappings of shareholding which have been established (privatised firms have been remarkably innovative, since apart from the traditional methods of communicating with their shareholders they have set up televised shareholders' meetings!) merely underline the fact that the small shareholders' virtual only right is to keep quiet. They have, of course, the right to sell, but even this basic right has been noticeably trimmed: thus, the Law gave an option of one free share for ten shares bought so long as the shares were not sold for at least eighteen months.

It is perhaps easier to understand that the shares sold to the public at large did not carry the prerogatives which are, in theory, linked to the right of property, since the State disposed of a significant part of the capital of privatised firms to a few big shareholders at a price which was noticeably higher. At each privatisation about ten groups thus become privileged shareholders; together they constitute the 'stable nucleus' of the privatised firm: they each hold between 0.5 and 5 per cent of its capital and thus together own 20–30 per cent.

This method of creating a relatively concentrated shareholding is unusual in three ways. First, the Law prescribed no constraints in this area: on the contrary, it allowed total freedom of action to the Minister of Finance. Secondly, the minister always refused to establish clear and equitable mechanisms for constituting this controlling shareholding. He rejected both the idea of an independent commission[5] as well as procedures relying on market forces.[6] By contrast, he defended the arbitrary nature of his personal and secret choice: the liberal *credo* does, it seems, allow certain exceptions! Finally, this shareholding was never organised around one (or two) privileged groups but always by bringing together a dozen of them.

Proceeding in this profoundly anti-liberal way obviously excited criticism from many quarters. Accusations of favouritism, and the old-boy network were the most often heard complaints. As a matter of fact, the minister gave certain firms enormous privileges, allegedly to a quite outrageous degree. These privileges relate to both influence and property.

While the share sales were generally to be restricted to ten shares per applicant—and sometimes fewer—some could acquire several millions up to a total holding of between 0.5 and 5 per cent of the capital; while millions of shareholders had no means of making their voices heard, the large shareholders acquired the right to representation on the board of the privatised company. Doubtless they paid for these advantages: on the one hand, their shares had cost them about 5 per cent more than that paid by an ordinary buyer, and they had to agree to hold on to the shares for at least two years. Did these constraints constitute a fair exchange for the privileges they gained? Obviously this question cannot be answered without analysing more precisely the price of selling the shares. At the very most, one can see that for each privatisation a large number of buyers thought the price of the

advantages low enough to make it worthwhile being part of the 'stable nucleus'; and instead, therefore, of increasing the price (or the restrictions) in order to reduce the demand to the level of the offer, the minister arbitrarily selected the chosen few. Overall, the Minister of the Economy and Finances not only determined the share structure of the privatised firms, but even appointed the boards.

Deciding the price of a share offer is a difficult and indeed perilous task. Two dangers must be avoided: too low a price would provoke accusations of selling national property for a song; too high a price might jeopardise the whole process of privatisation by attracting too few buyers. To decide the correct price the State may hand over the problem either to an independent commission or to market forces. It may also be left to the administration or even the minister himself to decide.

The Law provided for a procedure which combined both mechanisms. A commission called the Privatisation Commission was set up, composed of seven members recognised for their competence and independence. This commission had to examine the balance sheet of the privatised firm. It listened to the comments and advice of bankers chosen by both the government and the firm, and then fixed a minimum price below which a share could not be sold. According to the Law, the minister then retained total freedom to fix the price as long as it was not below this minimum.

In practice, the minister generally exploited the freedom provided by the Law: for each privatisation he listened to the commission, consulted the banks on the state of the market and then alone fixed the price which seemed right to him. In general, this price was five to 10 per cent higher than the minimum price fixed by the Commission. But, compared with market forces, it represented a discount of 5 to 30 per cent. Indeed, on the unofficial market in London at the opening of quotations it was obvious to everyone that sale prices were clearly undervalued.

This situation would hardly have mattered had the sale been above board and open only to the shareholding public. In these circumstances everyone would have been able to avail himself of this underpricing: no one would have minded if the State had offered a present to each of its citizens-the same present to everyone since it had guaranteed a fixed number of shares to each applicant. This under-pricing became, however, much more questionable when it was also made available to the large buyers and even more so when they were arbitrarily chosen by the minister.

Faced with the dangers represented by the foreign financial groups, the government became necessarily involved in distorting market forces. A government-even one describing itself as liberal—must defend the national interest and particularly national independence which might be threatened if firms in strategic sectors were to fall under foreign control. But liberalism also required that privatised firms forge international links, and links which take the form of stock-sharing (notably by cross-shareholdings.

The Law of 6 August remained very indefinite on this subject. On the one hand, it restricted to 20 per cent the proportion of the capital that foreign groups could acquire at the time of privatisation. But, as noted, this figure represented a maximum and the minister could reduce it at his own discretion at each privatisation. However, whatever the percentage on the launch day, foreign companies could increase their holdings the next day simply by buying in the market. On the other hand, the Law allowed the possibility of creating preference shares (equivalent to the 'golden share' in the United Kingdom). These shares give the State, for five years, the right to prevent anyone, French or foreign, from acquiring more than 10 per cent of the stock of a privatised company. But this protectionist measure may not be automatically invoked-again it is at the discretion of the minister to decide whether to use it or not.

In practice, the minister did not appear too concerned about the risk of losing control of foreign groups. He appeared to have accepted that some 15 per cent of the capital of privatised groups may be held by foreign investors, and he made only exceptional use of his right to create preference shares (as in the case of Havas).

In other words, in this area it is relevant to ask whether the policies of Edouard Balladur were all that different compared with the protectionist and somewhat timid practices of the past. In fact, this apparent liberalism may well be based on a public and private regulatory system which form an effective defence of French interests against possible foreign take-overs. The common law, which has not been changed, provides a whole battery of measures which apply to all firms and notably to privatised businesses. Hence, prior notification is necessary for acquisitions of more than 20 per cent of the capital by foreigners and prior authorisation (from the Treasury) if the foreigners are not members of the EEC.Hence, too, the numerous rules which relate to many sectors; for example, in the credit sector all acquisitions of more than 20 per cent—by French people as well as foreigners—must be authorised by the Comité des Établissements de Credit. And in the armaments sector any modification in the capital structure of a firm must be authorised.[7] Furthermore, corporate law also requires every shareholder to inform the Chambre Syndicale des Agents de Change when it passes the thresholds of 5, 10, 20, 33, and 50 per cent capital ownership. And last but not least, many privatised firms have modified their internal conventions to ensure greater publicity about acquisitions: at Havas, Saint Gobain, and Paribas this publicity comes into play as soon as anyone acquires more than 1 per cent of the capital and then for every further 0.5 per cent thereafter. Indeed, there are so many rules that if they do not directly prohibit a foreign take-over the resulting publicity would give plenty of time for the organisation of effective counter-measures.

The methods used to implement (with great success) an ambitious programme of privatisation revealed an unquestionable suspicion of the logic of the market, and resulted in a considerable strengthening of the prerogatives of the State and particularly those of the Minister of Finances. To carry out a programme which was labelled 'liberal' the government was wary of market forces. Nor did it have recourse to an independent commission to which to turn to make a decision after public hearings. All the major decisions that had to be made to implement the policy of privatisation were, on the contrary, left to ministerial discretion. And the minister intervened not only to define the new rules of the game but also to fix the price, choose the shareholders and decide on the composition of the board. There never was so powerful a Minister of Finances in France: never did the rue de Rivoli matter so much in the business world. The French privatisation programme did not represent any great break with the past. Quite the contrary: it fully illustrated the State's interventionist tradition and even reinforced it.

Therefore, what happened to the ambition to call into question the fundamental characteristic of the French economic and political system? And what happened to the plan which was destined to create new rules for the economic game? To reply to these questions we need to look at what was achieved.

THE RESULTS

The ambitious privatisation programme sought to create a new social, political and economic system and to redefine the relationships which the firms enjoyed not only with the State and the financial market place but also with their shareholders and their employees. Certainly, it is far too early to

assess the consequences which can only be somewhat limited. We can at least try to envisage some of the resulting effects by considering three problems:

- Were the conditions for the development of popular capitalism created?
- Were the conditions for a new liberal regulatory system, that is through the financial markets, created?
- Were the conditions for a lasting weakening of the rôle of the State created?

The privatisations produced a truly popular group of shareholders, and from this point of view the change was remarkable and unanticipated, with respect not only with respect to the immediate pre-privatisation situation of 1986 but also to the pre-nationalisation situation of early 1981. Before the Socialists came to power in 1981 France had about 1.5 million shareholders. The recent privatisations turned that figure into 8 million. Some sections of the French population moreover, manifested such a taste for this form of saving that it surprised not only numerous observers but also even the Minister of Finances himself. Thus, for the first privatisation-that of Saint Gobain—the rue de Rivoli actually predicted 750,000 buyers and announced that it was expecting 500,000 in order to allow sufficient margin to be able to declare the result a success. There were 1.5 million applications. Indeed, on several occasions applications were so oversubscribed that it was not possible to allocate to each applicant the promised ten shares. Does this mean that the basis of a popular capitalism was created?

First, comparing it with the past, the numbers have to be divided by three or four. The Law, in an attempt to encourage widespread share ownership, was framed so that an attempt was made to fulfil each individual application up to ten shares each. To take advantage of various bonuses associated with some flotations a household of two adults and two children would effectively quadruple their share allocation. Thus, although four individual applications would have been received, this probably effectively represented only one shareholder. Among the new shareholders there were many wives, children, grandchildren or parents of the shareholder of yesteryear. The press even carried stories of two-day-old babies becoming shareholders of privatised companies.

One must also ask what exactly these new shareholders bought—shares as such or just a good short-term investment? The discount of 5 to 20 per cent of the price fixed by the minister compared with the market price ensured a rapid and guaranteed profit if the shares were quickly resold. The Ministry of Finance estimated that on 1 September 1987 20 per cent of the shareholders of Saint Gobain, Paribas and CGE had already resold their allocation. The 8 million individuals who became shareholders represented, in practice, some two million households. One year later this figure had been reduced to 1.6—a figure hardly different from that of 1981.

Finally, it must be emphasised that the State did nothing to encourage the creation of the structure of popular capitalism. The banks were not used to dealing with these direct shareholders and no doubt did everything to limit this form of savings. Up to 1986 they had dealt in SICAV (that is, institutional investment in property). Compared with this form of savings direct shareholdings have many disadvantages and hardly any advantages. The costs for an individual purchaser both for maintaining his account and for buying and selling are clearly much higher and markedly limit the profitability of this form of investment. Furthermore, since there exists virtually no organisation for small shareholders they have acquired the right merely to 'pay up and shut up'. Their representation on the board is, moreover, largely symbolic, and when it does exist the person is chosen by the

firm's management. Overall, it cannot be said that the privatisations created the conditions for even a modest development of popular capitalism.

Did they, then, at least create the conditions for a liberal regulation by the finan-cial markets? Far from having done so the measures taken under the privatisation programme have actually increased the mechanisms for protecting the management of the privatised firms from a possible sanction of the market place.

The 'stable nuclei' obviously deter takeovers and were created specifically to do this. But, concerned that this life-belt was inadequate to prevent liberal regulation, the minister created alternatives. Hence, first, there are the 'stable nuclei' for five years (whereby shares cannot be sold at all for two years, and for the next three years can be sold only to shareholders acceptable to the board). Secondly, there are the changes in the statutes already mentioned and which require a declaration for the acquisition of every 0.5 per cent of the capital. Third, and most notably, there are numerous cases of cross-shareholdings (CGE own 2.6 per cent of Société Générale, and Société Générale holds 5.6 per cent of CGE; Suez owns 4 per cent of Saint Gobain and Saint Gobain 3.5 per cent of Suez)—which means that only very few are needed to keep the system going. Lastly, there is the fact that, in choosing the members of the 'stable nucleus', the Minister of Finances was very sensitive to the wishes of the management of the privatised firms. The government did not create a different set of industrial powers to counteract the influence of the so-called established 'private governments'. Rather it strengthened the existing establishment network. It is scarcely surprising, therefore, that not one of the boards of the newly privatised firms changed the managing director.

France is a long way from the free market: it has reconstituted between 1986 and 1988, in many cases in identical fashion, the traditional structures of French capitalism: 'a capitalism without capital and without sanctions'.

The importance of the public sector and the effects of the political pendulum have gradually brought about almost a spoils system at the top of the large industrial and financial companies. One cannot, moreover, describe the management changes in the companies nationalised in 1982 or privatised in 1986 without taking into account the political variables. And yet the Minister of Finance, when defending his privatisation measures, never missed a chance to emphasise that his policy would result in a dismantling of this 'spoils system', and thus cutting the links between the companies and the State.

Did the privatisation programme change the means by which top management was chosen in the groups involved? Did they change the rules of the game by which these firms selected top managers? Did they simultaneously devalue l'*atoutEtat* and revalue *l'atout capital* and *l'atout-carrière*?[8] A close examination of the qualifications of the top management of the privatised firms shows that no such thing happened.

At the head of Saint Gobain is Jean-Louis Beffa, who comes from the *corps des mines;* the boss of Paribas spent his entire career in the bank but is also one of the closest friends of the Prime Minister Jacques Chirac; at the head of the CCF one finds Michel Pebereau, an *Inspecteur des Finances* who was an adviser to Valéry Giscard d'Estaing; and at the chairmanship of the CGE Pierre Suard, from the *corps des ponts,* and former adviser of Michel Debré-who was Minister of Finance and Prime Minister of General de Gaulle. The Havas Company is run by Pierre Danzier, most of whose career has been spent in the group, but is also one of Jacques Chirac's close friends. And if there is any doubt as to the continuing power and involvement of the State one has only to look at the head of Suez, the huge new private financial group: he is Renaud de la Genière, *Inspecteur des Finances* and the ex-Governor of the Bank of France.

The rules of the game were not, therefore, changed for reaching the top of the privatised companies: top posts were won, above all, through connections with the State, and in that respect privatisation changed nothing. At least these chairmen appointed to head the privatised companies do not risk being sacked when the political pendulum swings once more the other way. In privatising these groups the government of Jacques Chirac provided itself with the means of appointing people to the top for an indefinite period. It is not surprising, therefore, that observers have begun to speak of the creation of a 'new economic technocracy close to the Gaullist party'.

CONCLUSION. PRIVATISATION: A PROFOUNDLY ANTI-LIBERAL POLITICAL PROGRAMME

French privatisations were presented as a political success story by a government which called itself liberal. However, an analysis of the methods and the consequences suggests that they were profoundly anti-liberal. Market forces were involved neither as an actor in the privatisations nor as a regulator of the privatised groups. The small shareholders (who are also voters) were given a present (which they lost if they did not manage to sell before the market crash) but none of the rights traditionally associated with these possessions. By contrast, the Minister of Finances saw during this short period a remarkable enhancement of his own prerogatives. The heads of privatised firms benefit today from numerous safeguards which shelter them from political changes but also ultimately from economic sanctions. Far from creating a new economic system in France, the policy of privatisation bolstered up a traditional system of 'establishment solidarity' structured around an all-powerful Minister of Finance and constituting 'a capitalism without a financial market and without sanctions'.

NOTES

1. Cited by H. Ehrman, *La Politique du patronat français* 1936–1955 (Paris: Armand Colin 1959), p. 294.
2. Ibid, p. 99.
3. Ibid, p. 295.
4. There is a very lively critique of the 'mixed economy' in the book by Edouard Balladur *(Je crois plus en l'homme qu'en l'Etat)*. It is particularly interesting when one remembers that the author was one of the closest collaborators of the interventionist Georges Pompidou in industrial matters.
5. With the exception of what happened with TFI, where for the privatisation of this television channel it was the CNCL which chose the buyer after a public hearing of the candidates.
6. It was never intended to auction these preferential shares and the Minister of Finances who prided himself on his liberal convictions strongly criticised this method of choosing between competing applicants in his book.
7. The definition of what is included in this sector was up to the Minister and could be particularly elastic. Thus Balladur used this legal argument to oppose de Benedetti's attempt to take control of the Valéo company even though only 1 per cent of the company's business was in armaments.
8. For a more systematic analysis of the rules determining the choice of company chairmen for big French companies and the concepts of 'atout-capital', 'atout-Etat' and 'atout-carrière' see: M.Bauer and B.Bertin-Mourot, *Les 200* (Paris: Ed. Seuil, 1987), particularly pp. 189–92.

'Symbolic Privatisation': The Politics of Privatisation in West Germany

Josef Esser

Since the middle of the 1970s neo-liberal economists have dominated the public debates on economic and social policies in West Germany as in other Western liberal-capitalist industrial societies. However, in West Germany they had to wait for a possible implementation of their strategies until the autumn of 1982, when the new government coalition of CDU/CSU and FDP took power. In its inaugural address the conservative-liberal coalition promised to reduce government involvement in business and to revive market forces. Its general policies for the privatisation of public assets were spelled out in the economic report for 1983: 'State activities are to be concentrated on true public tasks; those public services which the private sector can perform more efficiently are preferably to be handed over to private firms; and those parts of State assets are to be privatised where it can be done without infringement of the public interest'.[1] This programme reflected the advice of the Council of Economic Experts *(Sachverständigenrat),* which, in its Report on Economic Trends of 1982/83, had urged the privatisation of public financial and industrial assets, on the grounds that these assets were not necessary for carrying out public tasks.

However, the federal government has not so far lived up to its promises. Neoliberal economists have, therefore, become disappointed about the fact that 'the intended deregulations and privatisations…have remained insignificant'.[2]

The purpose of this contribution on West Germany is to present the politics of privatisation of the CDU/FDP coalition, and to inquire into the reasons for the government's timidity, which the neo-liberals bemoan. This is preceded by a brief description of the size and structure of the nationalised sector in the Federal Republic of Germany.

THE SIZE AND STRUCTURE OF THE NATIONALISED SECTOR IN WEST GERMANY

A description of the nationalised sector in the FRG must distinguish between federal, state, and local public assets. Furthermore, property relations and measures of privatisation differ from state to state and city to city for public services such as sanitation, cleaning, education, health, transport, housing, power supply, and savings and loan associations. A differentiated analysis of this variety in public services would go beyond the scope of this study. What can be said, however, is that while sanitation, cleaning, slaughter-houses, public pools and schools comprise the main public property on a local level, the states own considerable holdings in the energy industry and in financial institutions.[3] Concerning economic and social policies, the most important assets of the communities and the states are the 12 state banks *(Landesbanken)*. The four *largest-Westdeutsche Landesbank* (total assets 141 billion DM), *Bayrische Landesbank* (115 billion DM), *Norddeutsche*

Landesbank (69 billion DM), *Hessische Landesbank* (69 billion DM)—have now become all-purpose banks, highly respected instruments for industrial and regional policies. Nobody in the FRG, least of all the state governments, whether Christian or Social Democratic, is considering privatising these banks. On the contrary, among the states, serious discussions are taking place concerning the merging of these state banks, in an effort to strengthen their competitiveness *vis-à-vis* the private banks.[4]

Since the middle of the 1970s the proponents of privatisation have concentrated their aggressive rhetoric on local public services. Nevertheless, little has happened: privatisation has taken place only in some communities and has been restricted to sanitation and cleaning services. In a number of cities public real estate has been sold in an effort to reduce debts. On the whole, however, irrespective of the type of party control of city governments, traditional public services have not been touched. The general attitude among local officials became apparent in 1984, when the peak association of the chambers of industry and commerce, the DIHT, a strong advocate of privatisation, organised a nationwide *Privatisierungsbörse* (privatisation fair). Although hundreds of private enterprises declared their interest in taking over public services, most communities stayed away. Equally revealing: in 1979 the neo-liberal Minister of Economics in Lower Saxony, Birgit Breuel, committed the state government to a comprehensive privatisation programme; but again, hardly anything of this programme has been implemented.[5]

The ownership by the federal government of enterprises—organised under either private or public law—is primarily a legacy of the Weimar Republic and the Third Reich. It was a result of the pre-war strategy of accelerating the industrialisation of Germany and catching up with Great Britain and the USA via a strong State and an efficient public sector.[6] After the Second World War no nationalisation of industries or individual companies took place in the FRG. Furthermore, as a matter of principle, the federal government did not take over any private company in financial trouble. Thus, the West German State holds a smaller share of the nation's business than some other European states where strong working-class movements brought about the nationalisation of important key sectors. It is important to note, however, that after 1945 all the influential social and political forces in West Germany have shown their interest in maintaining these public enterprises. The State's monopoly in sectors such as the railways, the postal and telecommunication systems as well as the waterways has been written in Article 87 of the *Grundgesetz,* the West German Constitution. The CDU administration of the 1950s and 1960s, which has been wrongly characterised as neo-liberal, used this historically created public sector for the State-supported reconstruction of the West German economy. In the 1970s the social-liberal coalition made use of this sector for its concept of a Keynesian 'mixed' economy. Shonfield's term 'organised private market economy', which he used to characterise the West German economy, is well chosen for this specific mix of successful free entrepreneurs, effective peak business associations, the big banks' strong industrial policy role, a nationalised sector, and State intervention whenever it was deemed necessary in the national interest.[7]

In the 1970s, the industrial assets of the federal State grew considerably. The industrial corporations that were (partly) owned by the State were traditionally active in sectors which increasingly faced stiff international competition. This was true especially for coal, steel and shipbuilding. These corporations attempted, therefore, to expand their industrial base by venturing upstream into manufacturing and commercial activities or in altogether different industries. As a consequence, the number of companies in which the federal State held at least 25 per cent of the

TABLE 1 FEDERAL INDUSTRIAL ASSETS

	Revenues Million DM		Net value added Million DM		capital expenditures Million DM		employees	
	1982	1983	1982	1983	1982	1983	1982	1983
Majority assets								
–Salzgitter	9,391	9,474	3,270	2,342	345	259	55,455	51,491
–VIAG	5,877	5,900	1,705	1,857	726	646	24,869	24,435
–Saarberg	6,165	6,594	1,971	1,695	416	330	32,599	31,963
–IVG	580	600	294	323	71	67	4,001	4,133
Total	22,013	22,568	7,240	6,217	1,558	1,302	116,924	112,022
Minority assets								
–VEBA	50,533	49,189	6,689	6,662	2,087	2,415	80,474	77,157
–VW	37,434	40,089	9,161	9,831	4,788	4,791	239,116	231,710
Total	87,967	89,278	15,850	16,493	6,875	7,206	319,590	308,867
Industrial assets total	109,980	111,846	23,090	22,710	8,433	8,508	436,514	420,889

Source: F. Knauss, 'Unternehmen in der Industrie', H Brede and H. von Loesch, Die *Unternehmen der öffentlichen Wirtschaft in der Bundesrepublik Deutschland* (Baden-Baden, 1986) p, 227.

TABLE 2 THE PERCENTAGE SHARE OF FEDERAL INDUSTRIAL ASSETS IN VARIOUS INDUSTRIES

Extent	Share of domestic production	
	1982	1983
pit coal	12.4	12.2
brown coal	5.2	5.4
natural steel	9.8	8.7
rolled steel	11.1	10.2
aluminium	48.7	50.3
petroleum	9.9	9.9
electricity	28.0	28.9
motor vehicles	36.8	36.3
shipbuilding	10.6	14.1
bottle glass	21.0	21.3

Source: As for Table 1, p. 228.

shares increased from 697 in 1970 to 958 in 1982. The federal capital involved rose from 3.7 to 7 billion DM during the same period.[8]

Table 1 shows the size of federal industrial assets: in 1983 about 420,000 employees produced revenues of around 112 billion DM. Investments in fixed assets totalled about 8.5 billion DM. In addition, there are the Deutsche Bundesbahn (railway), with some 350,000 employees, and the Deutsche Bundespost (postal system including telecommunications) with about 550,000 employees. The latter companies hold a special status as *Sondervermögen des Bundes*. Compared with some other European states, the West German State's share is rather small. In 1978, public enterprises held a share of 13.7 per cent of the revenues of the 269 largest West European companies. This average covered the extremes of, on the one hand, the FRG, where the State's share was smallest with 3.9 per cent and, on the other hand, Austria with the largest (82 per cent) share. In France, the share was 24.9 per cent, in the United Kingdom 12.5 per cent, Italy 51.8 per cent.[9]

Table 2 shows how federal industrial enterprises are distributed over different industries. It reveals that besides electricity generation and automobile production the crisis industries of coal, steel and shipbuilding are disproportionately represented. In 1983, the most important federal holdings were the steel company Salzgitter (100 per cent), the airline Lufthansa (74.3 per cent), the coal company Saarbergwerke (74 per cent), the Vereinigte Industrieunternehmen (VIAG), which is a holding with interests in electric utilities, gas and aluminium (86.5 per cent), the Industrieverwaltungs-GmbH (IVG), which is engaged in purchasing, managing and selling of industrial production facilities, real estate, transport equipment and oil (100 per cent). Among the minority interests are some of the largest West German companies: the energy and chemical corporation Veba (43.8 per cent) and the automobile company Volkswagen (20 per cent), in which the state of Lower Saxony holds another 20 per cent.

Quite important, too, are the holdings of the federal State in banking (see Table 3): excluding the federal reserve bank Deutsche Bundesbank the total assets of all federal bank holdings add up to 170 billion DM. Together they occupy third rank behind Deutsche Bank and Westdeutsche Landesbank among West German financial institutions. The crown jewel is the Kreditanstalt für Wiederaufbau (KfW), which concentrates its activities on the promotion of businesses, export loan guarantees, and foreign aid. Another of the so-called federal intervention banks is the Lastenausgleichsbank (LAB). This formerly specialised institute for the integration of refugees and exiles has been turned into the main credit institution of the European Recovery Programme (ERP)

TABLE 3 FEDERALLY-OWNED BANKS

	total assets 1982 [in billion DM]	stake of the federal state [in % of capital]
Deutsche Bundesbank	207.3	100
Kreditanstalt für Wiederaufbau	66.6	80
Deutsche Pfandbriefanstalt	46.7	67.9
DSL-Bank	27.7	99
Lastenausgleichsbank	11.6	100
Deutsche Bau- und Bodenbank	6.2	92.5
Deutsche Verkehrs-Kredit-Bank	5.5	100
Berliner Industriebank	4.1	68
DEG	1.4	100

Source: Wirtschaftswoche, 17 June 1983, p.111

Fund (like the KfW), This institution handles the banking business of federal agencies and acts as an agent for the loan programmes for business start-ups, small business financing and environmental protection. The Deutsche Siedlungs- Und Landesrentenbank (DSL) has specialised in agricultural support programmes. The Berliner Industriebank offers financing for the promotion of the West-Berlin economy. The Deutsche Pfandbriefanstalt together with its Bau-Und Bodenbank division (92 per cent) concentrate on housing finance and loans to communities. The Deutsche Verkehrsund Kreditbank is active for its sole owner, the Deutsche Bundesbahn.

The State is also heavily involved in the promotion of the natural sciences. The Ministry for Research and Technology operates 14 large laboratories and research institutes, usually together with the state in which they are located.

For the State's regional and industrial policies the accounting company Treuarbeit is of considerable importance, since it monitors for the federal government the balance sheets of the applicants for subsidies. Besides the federal government, five states (each with 11 per cent) share in the ownership of Treuarbeit.

THE POLITICS OF PRIVATISATION IN WEST GERMANY

1959–65: Privatisation for Popular Capitalism

In West Germany the first steps towards privatisation were taken between 1959 and 1965. The primary objective was not to change the balance between public and private spheres, but to let the ordinary citizen participate in federal wealth by means of stock purchases *(Volksaktien,* or people's stocks). Upper income groups were, therefore, excluded from buying *Volksaktien,* which were sold at a discount. In this way the Preussische Bergwerks und Hütten-AG (Preussag) was completely privatised in 1959. Partly privatised were VW in 1960 and Veba in 1965. While the intended side-effects, increased federal revenues, were achieved, the distributional objectives were not. After only a few years, less than half of the *Volksaktien* were in the hands of the original purchasers. Of the almost 2.7 million original small stockholders of Veba only about 700,000 remained. The number of Preussag small stockholders declined from 216,000 to 150,000 and the number of VW shareholders from 1.6 million to fewer than 600,000.

A decisive reason for this failure were unexpected massive losses on the stock exchange. Many small stockholders were introduced to equities for the first time through this 'wealth-for-all' campaign and after this initial shock preferred to buy fixed interest securities with the little savings they had. Today, German small savers still do not accept stocks as an investment alternative: 98 per cent of all government-supported savings are invested in traditional savings accounts, housing savings accounts, and life insurance policies.

A steep decline in equity markets thus stopped the first distributionally motivated privatisation campaign. As a result of these negative experiences the social-liberal coalition did not attempt to pursue this course again.

1983–87: SYMBOLIC PRIVATISATION POLICIES

In the wake of the political *Wende* important groups of the investment community and the dominant neo-liberal economic profession exerted strong (mainly) ideological pressure for the privatisation of federal assets. The Minister of Finance responded with the promise to devise a comprehensive privatisation programme for 1983. Article 65 of the federal budgeting regulations *(Bundeshaushaltsordnung)* was supposed to provide the legal justification for privatisation. This rules that the federal State shall have a stake in a company under private law only if there exists an important interest of the federal government, and only if this objective cannot be better and more efficiently met by alternative means. The programme was not announced until 1985. In order to pacify the proponents of privatisation, the sale of federal Veba shares was resumed in 1984, when the federal State reduced its share from 48 to 30 per cent. Next the State did not participate in the issue of new Veba rights, and its share decreased further to 25.6 per cent ('passive' privatisation). In 1987, finally, the rest of the State's holdings (2.4 billion DM) were sold to private interests.

The privatisation of Veba has remained the sole example of a consistent privatisation strategy in West Germany. Fiscal interests were a driving force behind this sale. Since Veba was a growing and profitable business it was well suited for contributing to the reduction of the federal budget deficit. The conservative-liberal administration was, therefore, able to combine privatisation with one of its major public objectives. The sale brought in 800 million DM (plus stock market sales tax) in 1984 and 2.4 billion more in 1987. The attempt to revitalise the CDU's 'popular capitalism' policies of the 1950s by launching Veba-Volksaktien failed again: of the 4.6 million shares which were sold in 1984 only about 70,000 were invested in State-supported investment accounts. The sale of Veba went through unopposed within the government coalition. Business interests welcomed the opportunity of an attractive investment. Only the SPD opposition criticised the sale on the grounds that it was not rooted in a comprehensive economic programme for the restructuring and modernisation of the German economy.

The privatisation of Veba was also of a primarily symbolic use for the government. Since it was becoming increasingly apparent that the administration was not able to fulfil its promise of drafting a comprehensive privatisation plan, the swift sale of Veba was intended to demonstrate action while little actually happened. In fact, it was to take the administration another two years before the privatisation concept was passed by the cabinet in March 1985.

During those two years, the Minister of Finance, while preparing an inventory of all public corporations, discovered that of the 958 companies in which the federal government held an interest only 13 were suitable for full-scale privatisation (see Table 4). All other companies were either unprofitable, which reduced the chances of selling them, or performed vital industrial policy tasks.

TABLE 4 LIST OF PRIVATISATION CANDIDATES

	capital [in million DM]	stake of State [in %]
VIAG	580	federal 87.4 KfW 12.6
Prakla-Seismos GmbH	26	federal 95 IVG 5
VW	1200	federal 20 Lower Saxony 20
IVG	54	federal 100
Deutsche Pfandbriefanstalt	243,9	federal 67,88 public institutions 32.12
Deutsche Siedlungs-und Landesrentenbank	256	federal 99 4 *Länder* 1
Deutsche Lufthansa AG	900	federal 74.3 public institutions 7.9
DIAG	160	ERP 100
Nebenbetriebe der Bundesbahn	61	federal 100
Schenker & Co. GmbH	60	Bundesbahn 100
Deutsche Verkehrs-Kreditbank AG	65	Bundesbahn 100
abr—*Amtliches bayerisches Reisebüro GmbH*	13	Bundesbahn 55
Deutsches Reisebüro GmbH /DER)	18	Bundesbahn 50.1

Source: Wirtschaftswoche, 22 March 1985, p. 24

The most important loss-making enterprises were Salzgitter, the steel and shipbuilding company, and the coal company Saarbergwerke. Both companies are severely hit by the structural crises in their respective industries. Important examples of companies excluded from the list for industrial policy reasons were the Kreditanstalt für Wiederaufbau and the Lastenausgleichsbank. These banks are used by federal and state agencies to handle their regional and industry-specific support programmes.

Furthermore, the proposal of the Finance Minister argued for maintaining State influence even in those companies which were suited for privatisation. In most cases a simple majority stake (51 per cent) and, in a few cases, a qualified minority stake (25.1 per cent) was considered sufficient to safeguard 'federal interests'.

Tough discussions within the government coalition about these privatisation proposals ended in the decision of March 1985 to schedule for privatisation five of the original 13 candidates: VIAG, VW, Prakla-Seismos, Deutsche Pfanbriefanstalt, Deutsche Siedlungs—und Landesrentenbank (see Table 4). Additional privatisation measures were either postponed until the 1987–91 legislature, or were the subject of further deliberations. By the end of the legislature of 1983 — 87 [January 1987] only the sales of minority stakes in VIAG (40 per cent) and in IVG (45 per cent) had been realised, thereby reducing the federal stakes to 60 per cent (VIAG) and 55 per cent (IVG). Again, the reduction of the budget deficit was a decisive reason for these measures. They were also motivated by distributional objectives: the issuing of employee stocks.

Industrial policy considerations, mainly entertained by Christian Democratic state governments, may be singled out as among the main reasons for the failure of more comprehensive privatisation

proposals. The state of Lower Saxony refused to participate in the privatisation of VW in which it has a 20 per cent stake: Germany's largest automobile producer is considered to be too important for the economic structure of Lower Saxony to justify the surrender of partial control of its business policies for the sake of free market ideology. Since VW was subjected to a spectacular foreign exchange fraud, which was discovered in the winter of 1986, the sale of the 20 per cent stake of the federal state had to be postponed anyway. The scandal depressed the value of VW shares on the stock market. For fiscal reasons it was decided therefore to wait for better market conditions. The sale was then scheduled for November 1987. But as a result of the general market crash in October 1987, it had yet to be realised by spring 1988.

Discussions about the partial sale of Lufthansa gave rise to serious conflicts between the Bavarian CSU state government and the conservative-liberal federal government. The Ministers of Finance and Transport had originally planned to reduce the stake of the federal government in Lufthansa to 55 per cent. This proposal met opposition from the Bavarian CSU which argued that the federal government had to keep its influence in order that the role of Lufthansa as a national airline be protected against foreign investors. Strategic defence arguments were also invoked: in case of emergency Lufthansa has to surrender its fleet of aircraft. Behind these rather specious 'national interest' arguments lurk the real industrial policy reasons for the opposition. The state of Bavaria is the centre of the West German aerospace industry (Messerschmitt-Bölkow-Blohm). It is also the place where the production facilities of the German share of the European Airbus programme are concentrated. Strauss, the Bavarian Prime Minister, is chairman of the Airbus supervisory board as well as a director of Lufthansa. It is feared that partial privatisation of Lufthansa would undermine the traditional extremely close-knit network between Lufthansa, MBB and Airbus, which rests on the sales order of Lufthansa. Although the FDP has branded this stance as 'state capitalism', the CSU asserted itself in the federal cabinet. The federal stake remains unchanged, and, in the meantime, the Bavarian state is in the process of acquiring an additional 5 per cent of Lufthansa through the banks it controls, However, the state of Bavaria cannot prevent a kind of 'passive' privatisation: the federal State may not participate in the airline's planned rights issue, thus reducing its stake.

Industrial policy considerations articulated by the CSU have also prevented the disposal of some of the government-held shares in the Deutsche Siedlungs-und Landesrentenbank, whose vital functions for the management of agricultural support programmes have led to the intervention of the Minister for Agriculture.

To sum up, little of the March 1985 privatisation proposals, which at the time the FDP ridiculed as a 'very modest parcel', has been implemented. The FDP has remained the only staunch privatisation proponent (at least in ideology) within the government coalition. Thus, it remains to be seen whether the federal government will stick to its promise to make up for its past neglect of privatisation in the current legislature. No consensus among the coalition partners is in sight and no attempts are being made to draft a mutually satisfying concept for privatisation. The sale of some 'crown jewels' for the purpose of consolidating the budget is the only project on which the coalition could agree upon without much conflict. Some distributional objectives embellish, but do not justify, the privatisation programme. Within the ruling coalition the more radical proponents of privatisation have called the intended sales of public property *symbolic,* but have welcomed them as the first step in the right direction.

1987: 'Soft Deregulation' in place of Privatisation of the Postal Services and Telecommunications ?

The State monopoly in postal services and telecommunications has traditionally been considered sacrosanct. But fundamental and worldwide technical. economic and regulatory changes in telecommunications have also led in West Germany to a questioning of this 'natural' order. Neo-liberals have urged, following the example of the USA, Great Britain and Japan, the privatisation of West German telecommunications.[10] Again, the conservative-liberal government has not followed this advice, although the liberal coalition partner, the FDP, has vehemently pursued the issue. However, out of concern for the international competitiveness of the West Germany economy the federal government has recognised the necessity to rethink the traditional structures in telecommunications. In providing the infrastructure for modern telecommunications (creation of an Integrated Service Digital Network, ISDN) the Deutsche Bundespost (DBP) performs a vital technological function for the modernisation of the West Germany economy. To carry out this pivotal role, it was argued that the DBP may have to be restructured in order to allow for quicker responses to technological, economic and political changes.[11]

An inquiry into the necessary structural changes was started in 1985 with the creation of a high-ranking advisory commission, the *Regierungskommission Fernmeldewesen*. Its members were selected in corporatist fashion, and accordingly it comprised important representatives of the respective business associations, one representative of each political party, and one representative of the postal union *(Deutsche Postgewerkschaft)*. Three academic consultants in telecommunication technology, law and business completed the membership. The process of hearings and of organising the decision-making process, which took place in a para-state sphere, lasted over two years. In the end the commission succeeded in creating a broad consensus about the future of the West German telecommunications regulatory system. Its political implementation will be the focus of coming debates.[12]

It is remarkable that a capitalist consensus was reached that did not involve the privatisation of the telecommunication system, despite manifest differences in interests within the commission between the telecommunication manufacturing industry, the data-transmitting industry, users of telecommunications services and the peak association of the Germany craftsmen *(Zentralverband des Deutschen Handwerks)*. The traditional postal services and telecommunications are to remain public, but will be divided into two separate autonomous companies: 'yellowpost' *(gelbe Post)* and telecommunications. Cross-subsidisation of the loss-making 'yellow' postal division by the profitable Telekom unit will be allowed only for a specific adjustment period. The State-owned Telekom will retain the network monopoly and will remain solely responsible for the implementation of ISDN. In addition, public tasks (network monopoly) will be distinguished from the competitive business: for all kinds of telecommunication services and user equipment private companies will be free to compete with the DBP. This liberalisation of services and user equipment meets the requirements of important private business interests. At the same time, the State-owned Telekom retains its strategically important techno-political functions: efficient expansion of the leading international telecommunication norm (ISDN) and binding standardisation of telecommunication technology. In addition, it is hoped that this strategy will avoid sharp social conflicts with the post union, which is opposed to privatisation. Although Telekom will not be privatised, the object is to commercialise it. For Telekom to raise the enormous funds necessary for the expansion of ISDN (according to current estimates 300 billion DM until the year 2030), it will have to act like a privately-owned, expanding service business. Management practices and the

organisation of work will have to be adjusted to the objectives and methods of the private sector. Since this strategy involves the loss of many jobs and the deterioration of working conditions, the *Deutsche Postgewerkschaft* has announced its opposition to 'soft' deregulation and commercialisation. In the coming years it will be seen whether this restructuring of the DBP is politically feasible.

THE TIMIDITY OF THE PRIVATISATION PROCESS IN WEST GERMANY: THE REASONS

In summing up the reasons for the slow privatisation process in West Germany it is important, first, to note that public ownership of industrial corporations is relatively insignificant. All those industries and corporations which are in the long run strategically important for the maintenance of key positions in world markets are privately owned. Private capital is the foundation and the driving force of the German economy. Its ability to function is the basic requisite for successful management of structural adaptation to the new competitive international environment. Equally, the private banks occupy a vital role in this process. They function effectively as 'private investment steering institutions' for the entire economy—as far as a planned steering of capitalism is at all possible. Their influence is built on the high levels of debt financing of Germany businesses, on their direct and indirect holdings (proxy voting rights), on interlocking directorates and, lastly, on an informal pool of information about the development of business and profitability in all enterprises and sectors. The vast German business community thus has at its disposal certain organisational capacities for co-ordination and implementation of strategies for adaptation to a changed pattern of world competition. The functions of the State, in contrast, have always been merely to create the legal and political climate and the general conditions (research, education) as well as to supply financial backing (subsidies, tax advantages) for industrial strategies which have been designed by 'self-organised private capitalism'.

Despite all the ideological rhetoric of the neo-liberal economists, the politics of privatisation in West Germany have always been seen in terms of international competitiveness and do not involve central political issues-in contrast to other European countries.

The debate on privatisation of public assets has, therefore, focused on a few companies which, for historical reasons, were publicly owned and have become profitable in the post-war era: Preussag, VW, Veba, Lufthansa and some state-owned banks. The disputes over whether and when to privatise, and how much to privatise, were inspired by fiscal, distributional and industrial policy concerns, and supplemented by the interests of a small group of rich investors who wished to expand their portfolios.

Generally speaking, the traditional consensus about State holdings among West Germany's large 'people's parties', CDU/CSU and SPD as well as business associations and trade unions, has been upheld. Public assets will not be privatised if they are considered indispensable for regional and industrial policy. This is true of the federally-owned banks, the large research institutes, telecommunications, Lufthansa, VIAG, IVG, and to some extent VW. In all these sectors the influence of the State is to be ensured either through monopolistic control or through majority stakes. Nevertheless, it is expected that all of these publiclyowned businesses will be managed according to private business criteria and that they will work effectively and survive in the free market.

An important role in maintaining this non-privatisation policy is played by the Länder-governments —especially the CDU- or CSU-governed states. They prefer what the FDP calls 'state capitalism': supporting the industrial policy of the big corporations and subsidising the research and technology efforts of the smaller firms (through state-owned banks, for instance). The managers of the public sector accept this role and do not wish to be privatised. Nor is public opinion noticeably enthusiastic about privatisation. Only the FDP has moved away from this consensus and represents rather aggressively the interests of its rich voters who want more investment alternatives.

Differences between CDU/CSU and business associations on the one hand, and SPD and trade unions on the other hand, arise when —subject to this industrial policy consensus-fiscal and distributional issues are at stake. Privatisation for the sake of fiscal objectives or the promotion of wider share ownership is not approved of by the SPD and the trade unions. They expect fewer benefits from the consolidation of the federal budget through the partial sales of assets compared with the long-term revenues of these companies and the possibility for making sue of them for industrial policy objectives. The unhappy experience of the sale of *Volksaktien* in the years between 1959 and 1965 make them sceptical about the possibilities for diluting ownership concentration through strategies of popular capitalism. They argue, rather, that all that happens through these campaigns is that parts of profitable enterprises are sold to the élite. The CDU is also aware of the fact that popular capitalism in the form of *Volksaktien* is not popular with the public at large and does not attract votes. The CDU, therefore, does not actively promote the sales.

Privatisation is rather more useful as a means by which to legitimise the real objective: the consolidation of the budget. The reduction of the State debt was promised in 1983. Since it was impossible politically to enforce the necessary cuts in the subsidies, the sales of assets had to fill the gap, but only in so far as the sales did not affect industrial policy objectives. Apart from the object of reducing State indebtedness the CDU/CSU has to take into consideration its partner in government, the FDP, and some of its own voters, who call for privatisation for the sake of their own portfolios. In this respect the current privatisation strategies also perform a symbolic function: the purpose of the sales which are taking place as well as the regular promises to sell, which are subsequently not kept, are also destined to appease their voters and to show that their concerns are not being forgotten.

A final word: in calling for privatisation, the neo-liberal economists have clearly not sufficiently taken account of the peculiar economic, social and political interests prevailing in West Germany. Their analysis and their specific demands rest, therefore, on shaky foundations.

NOTES

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Privatisation in Belgium: The National and International Context

Anne Drumaux

Budgetary decisions taken in August 1987 by the sixth government of Martens, which subsequently resigned, envisaged a number of privatisations valued at 7 billion Belgian francs. This privatisation programme was placed on the political agenda as the result of pressure from the Parti Liberal Flamand (PVV) during budget negotiations. Apart from fiscal reforms, the government's programme also established the level of public debt for 1988 and the timing of its repayment.

This programme was not, however, the first step in the privatisation process: since 1982, various decisions relative to the corporate structures of certain public enterprises, especially in the transport sector, had been taken in order to facilitate the process of partial privatisation. But it was the so-called government programme of Val-Duchesse of December 1985 that was to inspire a number of measures which will be analysed later. After Val-Duchesse, a study group on privatisation was created, on the initiative of Guy Verhofstadt, the PVV Vice-Premier and Budget Minister. His Report was published in January 1987,[1] and it was on the basis of this report that the Budget Minister obtained from the budget discussions the series of new privatisation measures, valued at B.fr. 7 billion. These concerned the Caisse Générale d'Epargne et de Retraite (CGER), the Office Central du Credit Hypothécaire (OCCH), the Société Nationale d'Investissement (SNI), the Société Nationale de Credit a l'Industrie (SNCI), and Distrigaz.

Clearly, the fall of the government in October 1987 has somewhat altered the situation, at least with respect to the latest decisions. According to the Law of 1977, in the event of a parliamentary dissolution, private members bills are invalidated. But government bills can be brought back and, if necessary, amended by the following government. The issue is thus linked to the composition of the new government.

In the first part of this study of the Belgian case, an analysis is made of the arguments used to support the government's case. This is followed by an account of the reactions, as well as the issues at stake in the formation of a new government. The third section presents the status of the privatisation programme in the sector of public utilities and the public industrial sector. The study concludes by examining some of the implications for privatisation in Belgium of developments taking place at the European Community level.

THE ARGUMENTS FOR PRIVATISATION

The arguments used in the United Kingdom, and analysed by Heald and Steel,[2] bear little relationship to those employed in Belgium. The argument about weakening trade union power is relatively insignificant in Belgium because of the nature of the political system. As a model of a consensual democracy,[3] Belgium has a decision-making system which is highly polarised between

'pillars' constituted by three major political tendencies (Social-Christian, Socialist, Liberal) within which are defined the conflicts and compromises of Belgian society. Each of these 'worlds' organises services, ranging from education groups to unions. Presented theoretically under the Dutch term *verzuiling*,[4] this system involves the practices of consensus at the level of the political leadership of these 'pillars', and the unions are a basic element of the latter: certain union leaders, depending on the nature of the government coalition, are associated with decision-making. In this respect, the consistent and not inconsiderable power of the Social-Christian (CSC and ACV) unions should be noted: certain observers of Belgian politics have described them as the 'third partner' in the Social-Christian and Liberal coalition of the sixth Martens government (1985–1987). Even during a socially difficult period, the movement of Christian unions has retained influential allies within its political 'family' and especially within the CVP, the dominant party of the government coalition.

The second argument relates to efficiency. In the Belgian industrial sector, public intervention has taken place in large measure within the context of an economy characterised by public-private partnership. Compared with the United Kingdom, the debate on efficiency is thus structured somewhat differently. It is not so much the status of shareholders that matters but the methods of management which are used in practice. In the area of public utilities, the same question is significant, since the means of privatisation envisaged involve the introduction of private capital into public enterprises.

The third argument used in the United Kingdom concerns freedom and popular capitalism. This argument has been used mainly by the PVV, and to a large extent has been imported. The relatively small size of the Belgian financial market and the traditions of public-private partnership help to explain this situation. Another reason is linked to the values of Belgian society, which have been greatly influenced by Social-Christian thinking. The socio-political consensus has been based in Belgium on the ideology of the general interest,[5] and focused on the values of solidarity. Calling these bases into question has not been achieved as a result of the political dominance of the CVP in the Flemish region and, more particularly, at the level of the central State apparatus.

A fourth argument sees privatisation as a means of reducing the public debt. In Belgium, it is worth emphasising that the total of B.fr. 7 billion was reached not by an assessment of the financial value of the shares to be privatised but as the result of calculations about the State budget. These calculations were based on the desire to reduce the deficit to B.fr. 405 billion–7.4 per cent of GNP in 1988. It is also worth underlining that part of the B.fr. 7 billion to be raised through privatisation corresponded not to outright sales but to selling shares as the result of recapitalisation, and another part to the sale of some of the shares held by the state. It is clear that the impact on the public deficit varies according to the method used. Yet, whichever method is employed, the projected sum of B.fr. 7 billion is negligible compared with total State debt or with the estimated deficit (B.fr. 405 billion) for 1988. Thus, although the budgetary argument for privatisation may have been crucial, its overall impact does not appear to be significant.

REACTIONS TO THE GOVERNMENT'S PROPOSALS

As mentioned earlier, the roots of the privatisation proposals are to be found in the December 1985 governmental programme of Val-Duchesse. This programme is strictly in line with budgetary policies pursued since 1982. Its central and explicit objective is to reduce the public deficit to 8 per cent of GNP. Apart from restrictions in the area of health and social security cover (for unemployment benefits and early retirement pensions), the programme envisaged economies in the field of

education, and in the public enterprises, by enabling the latter to raise private capital. The programme was to trigger off a wave of protest which, from May to July 1986, was to affect the public transport sector, the postal and telephone services, radio and television and education.[6] At the outset this movement was led by a united trade union front: in other words, by the French-speaking and Dutch-speaking Socialist unions (FGTB and ABVV) and the Social Christian Unions (CSC and ACV). The transport and educational sectors were the most affected. However, trade-union solidarity broke down when the government presented its final programme of economies. The unions disagreed in their reactions. The Socialist unions agreed that negotiations had to be conducted outside the budgetary restraint corset imposed by the government, while the Christian unions expressed their opposition to specific proposals, arguing that the saving of B.fr. 185 billion envisaged by the programme was a political not a trade union decision.[7] Discussions were later to become highly polarised when negotiations opened with the employers.

The events of 1986 clearly revealed the problems for the trade union movement in attempting to bring pressure to bear on the issue of economies in the public sector and, consequently, on the question of introducing private capital into the public sector. It is not our intention to analyse the dynamics of inter-union relations as the reason for this situation. This factor is explanatory only in so far as it reflects profound changes in the structuring of values relating to the general interest: efficiency, performance and flexibility are becoming positive reference points in the context of budgetary constraints which have to be accepted by everyone *(qui s'imposent a tous)*. Political traditions (negotiations between élites) and the respective role of Socialist and Christian unions according to the nature of the government coalition are factors which influence the political definition of the general interest.

More generally, the major cleavages of Belgian society (Flemish/French-speaking, secular/Catholic, workers/employers) also influence the culturally acceptable nature of the ideology of the general interest. According to the type of conflict currently being enacted, the push towards privatisation may be facilitated or slowed down. The absence of union agreement on the strategy to be adopted enabled the implementation of the Val-Duchesse programme and the later government agreement of August 1987. In other situations, however, the result may be quite the opposite. It is impossible to study the lengthy history of the various privatisation plans for television in Flanders[8] without taking into consideration the differences of opinion between the Liberal and Social Christian Parties at the level of the regional government. Thus, the veto on the plan of the Luxembourg company CLT to develop a television channel in Dutch was due in large measure to the change in strategy of the Flemish Liberals.[9] In this respect, it is worth underlining the reticence of Flemish politicians (including Liberals) to any imported cultural or television programme. The initial discussions over the privatisation of the second channel of Flemish television (BRT2) and the subsequent agreement on the principle of a private channel in which the Flemish press would have a holding bear witness to the fact that privatisation proposals have to conform to dominant cultural values.

A fuller understanding of the reactions to the privatisation programme also requires a brief analysis of the post-December 1987 negotiations concerning the formation of a new government. It is clear that privatisation is far from being a central theme of those negotiations. The result of the December 1987 elections may be analysed as a reflection of the government's economic and social policies in the south and as an act of approval in the north. The success of the Socialist Party in Wallonia and of the PVV in Flanders seems to suggest this. Nevertheless, the regional factor seems to have been

more important for the Socialist victory than for that of the Liberals. Consequently, it will be essential to look at the negotiated compromises should the Socialists enter-government.

PRIVATISATION IN PRACTICE

An analysis of the political context reveals that privatisation is far from being a central issue in Belgian political debates. But this does not mean that privatisation does not exist. As previously mentioned, certain decisions relating to privatisation were taken or implemented well before the proposals of August 1987. Before looking at these decisions, it is worth exploring the principal characteristics of State intervention in Belgium in order fully to understand the limits of privatisation in that country: the type of State intervention which precedes a privatisation programme has significant effects on such a programme.[10]

In the Belgian case, two important elements must be kept in mind. In the first place, State intervention has led to the emergence of a mixed economy in which both public and private initiatives are involved. Even in the sector of public utilities, which constituted from the nineteenth century one of the first areas of public intervention, the tradition of mixed public-private initiative was evident during certain periods. Since 1960, pure State interventionism has been reinforced in this sector but this has not completely wiped out the mixed public-private tradition. Hence, the Belgian railways, the SNCB, were owned in part by private capital until 1978 when they were taken over completely by the State. The distribution of gas and the transmission of electricity at the intercommunal level provide other examples of the development of the mixed status: some 50 per cent of the groupings of communes have such a status. Since the 1970s in the industrial sector the economic crisis has given rise to new State interventions. From 1973–74 the means for supporting capital accumulation (as a result of the Laws of 1959, 1966 and 1970) were to reach the limits of their effectiveness.[11] The industrial sectors which were most affected were the traditional branches and their restructuring and modernisation involved costs which necessitated new forms of State intervention, in particular through the purchase of stock by the public holding companies. These developments were to give birth to a new mixed sector which was quite distinct from the traditional one by virtue of its production activities. With these two types of State intervention in mind we may now turn to the privatisation of each.

PUBLIC UTILITY PRIVATISATION

In order to analyse the major developments in this area, the general typology of Thiemeyer will be employed.[12] Four types of privatisation may be seen in this area in Belgium:

- *hybridisation*[13]—the transformation of a public enterprise (or its subsidiaries) into a mixed public-private enterprise, or the enhancing of the 'mixed' status where it already exists.
- *liberalisation-the* modification of the rules governing the status of public monopolies, generally by opening up certain activities to the private sector.
- *concession*—which normally takes the form of sub-contracting an enterprise's activities previously carried out by its own employers. In the case of sub-contracting no legal act of concession is required. But it is required for any activity explicitly defined as a 'public service activity'.

TABLE 1 IMPLEMENTATION OF PRIVATISATION IN BELGIUM

TYPE	Status	Enterprise institution	Description
direct hybridisation	Realisation	Sabena	Royal Ordinance 177 (1983) authorised Sabena to proceed to a increase of capital reserved to the private sector. The State's share has decreased from 98% to 54.4%
	Project	Régie des télégraphes et téléphones (RTT)	Governmental agreement on the possibility of extending-capital to the private sector.
	Legal principle	Caisse générale d'Epargne et de Retraite (CGER)	Royal Ordinance 427 (August 1986) permits reinforcement of capital stocks by private sector. The budget agreement for 1988 forecast implementation until the government fell in October 1987
	Legal principle	Office central du crédit hypothécaire (OCCH)	Ibidem RO 427
	Legal principle	Crédit Communal de Belgique (CCB)	Ibidem RO 427
	Legal principle	Société nationale d'investissement (SNI)	Ibidem RO 427
	Legal principle	Société nationale de crédit à l'industrie (SNCI)	Ibidem RO 427
	Project	Distrigaz	Budget agreement for 1988 forecast the sale of State shares (15%). The capital is already mixed : 50% private enterprises (SHELL, Intercom, 35% SNI (public holding), 15% State.
hybridisation by subsidiary	Realisation	Sabena	Royal Ordinance 177 (1983) authorised the setting up of mixed subsidiaries : Aviafin, Belgian Fuelling Services has been created.
	Realisation	Régie des voies aériennes (RVA)	Royal Ordinance 426 (1986) allowed the creation of a mixed subsidiary in order to finance the transformation of Brussel Airport.

• *the abandonment or the limitation of certain activities.* This type of privatisation is indirect, since it involves no change in the status of the owner-ship of the institution.

Table 1 gives the details of the various types of privatisation in the public utility sector.

One of the most striking features of the Table is the limited number of privatisations carried out. Furthermore, with respect to the proposals defined in August 1987, the new government may abandon some or even all of them. The same applies to these proposals whose *principle* has been

TYPE	Status	Enterprise institution	Description
	Legal principle	Société nationale des chemins de fer belge (SNCB)	Royal Ordinances 451 and 452 forecast the limitation of participation.
	Discussion		International report on TGV north considers creation of a international mixed subsidiary an interesting hypothesis.
	Project	Compagnie intercommunale bruxelloise des eaux (CIBE)	Project of association with the private firm Aquinter in a mixed institution.
Liberalisation	Realisation	Régie des télégraphes et téléphones (RTT)	Regulation of monopoly introduced by the law of 7 December 1984. State monopoly only maintained for the basic network (vocal service).
Concession	Legal principle	Régie des voies aériennes (RVA)	Royal Ordinance 425 (August 1986) allows concession of regional airports.
	Partial realisation	Société de transports intercommunaux (STI)	Royal Ordinance 140 (December 1982) allows leasing of regular services. The transport company of Antwerp is the only one to use this legal opportunity.
	Legal principle	Radio-Télévision-Belge (RTBF/BRT)	In 1985, a regional executive order allowed the concession of activities.
	Project	Société nationale des chemins de fer belge (SNCB)	Audit analysis made in 1984 recommended the concession of parcel delivery.
Surrender-limitation	Realisation	Assurance for industrial accidents.	Cover of risks has been transferred from the general social security system to the private sector of insurance.
	Realisation	Hospitals	Royal Ordinance 407 (April 1986) organises the reduction of hospital capacity by limitations of State subsidies.
	Realisation	Schools	Royal Ordinance 411 (April 1986) limits State subsidies for construction and renewal.

legally approved by Royal *arrêtés* but for which the necessary implementing *arrêtés* have not been passed.

The first three kinds of privatisation (hybridisation, liberalisation, concession) are taking place within the existing context of the mixed public-private economy. This means that privatisation is negotiated between the existing public-private actors (the State, private holding companies, insurance companies, banks), and there is no need to have recourse to the stock exchange. It may be contended that not only the limited size of the Belgian stock exchange but also the traditional

relationship between public and private actors (the consequence of the system of public-private economy) explains this feature of the Belgian case.

The process of privatisation carried out under the first three categories does not, therefore, constitute a break with the past. Indeed, the degree of public-private interpenetration has been strengthened in recent years by both political and institutional means. Thus, what certain authors have described as 'consultative administration'[14] has facilitated the close collaboration of public and private interests in the committees and councils which prepare most decisions relating to infrastructure. Hence, the Comité de Contrôle du Gaz et de l'Electricité and the Commission Nationale pour la Programmation Portuaire bring together representatives of the unions, the State and/or the regions and the relevant industries. It is not surprising, therefore, that in a certain number of cases, the existing pattern of relationships enables negotiations to proceed on the modification of the relevant weight of the public or private element of a sector or enterprise. In practice, the process of privatisation carried out in accordance with these various forms merely reinforces the public-private economy. This is necessarily true for all forms of hybridisation, since they all involve a joint strategy in the management of the enterprise concerned. Liberalisation leads to a similar interpenetration of the two sectors, since the opening of the market generally involves only a limited series of activities. In telecommunications, for instance, only the highly profitable parts are involved, and not the basic network. *Concession* and abandonment or limitation of activities concern only certain activities, which presupposes the maintenance of State intervention for the remainder.

PRIVATISATION OF INDUSTRY

As noted above, the mixed public-private industrial sector grew as the result of the economic crisis of the 1970s.

With reference to the typologies of industrial policy proposed by de Bandt[15] and Jacquemin,[16] Belgian industrial policy until the early 1980s may be categorised as follows:

- *a sectoral policy* focused on certain sectors, with a view to reducing the inter-industrial differences between branches: this was the case with the so-called 'national' sectors of steel, coal, textiles, glass and shipbuilding. From 1973 to 1980 State aid to these sectors amounted to B.fr. 170.6 billion:[17] this figure may be compared with the B.fr. 18 billion which the public holding companies spent on other operations.[18]
- *a structural policy* which aimed to restructuring up-stream and down-stream production activities: an example was the buying of stock by the State in the wood-paper industry in Wallonia. It should be noted, however, that these kinds of intervention remained limited compared with the total number of tasks undertaken by the public holding companies at the behest of the State or regional authorities. They were also relatively insignificant in terms of the aid allocated.
- *a macro-economic policy* which did not discriminate between firms or sectors, but which sought to create a financial environment favorable to all. The 'economic expansion laws' of 1956, 1966 and 1970 were the main expressions of this policy.
- *a micro-industrial policy* which aimed at reducing intra-industrial differences. This kind of intervention was carried out by the public holding companies themselves, and was not the result

of State policy. Of the B. fr. 18 billion mentioned above, some 7 billion was employed for this policy.

From the beginning of the 1980s there has been a change in certain aspects of these industrial policies. State presence in the 'national' sectors remains, and it is difficult to see how it could be otherwise, since the prospects of these industries have not basically changed. A limited exception concerns the purchase of stock by the private sector in several firms having benefited from the textile programme. On the other hand, the arsenal of macro-economic instruments was to be increased by the introduction, in the early 1980s, of incentives for investment and for venture capital. It is to be noted that this change helped to provide greater freedom for the private sector. Nevertheless, it is possible to talk about privatisation in industrial policy only with respect to the operations carried out by the public holding companies themselves. In fact, since the beginning of the 1980s a strengthening of micro-economic policies may be discerned. This emerges from an analysis of the data presented in Table 2 which gives a breakdown of the portfolios of the public holding companies.

Created in 1962, the Société Nationale d'Investissement (SNI) more or less represents the norm, with about 50 per cent minority holding and only 30 per cent majority holdings. Since 1980, there has been a tendency for the two regional holding companies to approach these figures, thus increasing the degree of publicprivate mix. This increased resort to minority holdings or to various forms of loans may be placed among the types of privatisation by hybridisation, and tends to give greater weight to the private partner. This type of operation involves interventions with limited objectives, of a short-term nature, and based exclusively on the financial requirements of the firm concerned. It enables the public holding companies to carry out specific and advantageous interventions. The reason lies largely in the limited financial resources of the public holding companies since they have to increase these resources by, if need be, capital gains on shares.

THE EUROPEAN CONTEXT

To complete this analysis of the context of Belgian privatisation it might be useful to widen the debate to take in developments within the European Community: 1992 may well change the nature of the problem with respect to privatisation.

The proposals of the European Commission are interesting to study in that they suggest new forms of supra-State procedures of intervention. In the first place, it is important to mention the December 1986 communication of the Commission to the Council on the financing of major European infrastructural projects.[20] In essence, the proposals aim at raising new forms of finance for such projects in the context of budgetary restriction in each of the member States. The role of supra-State intervention which results from this situation would be essentially threefold:[21]

- *a function of initiator or catalyser*
- *a function of multiplier of private investment*
- *a function of co-ordination and of support for national policies.*

The first function would involve a more active role for the Commission in order to ensure the conditions necessary for the emergence and initiation of major projects. It involves essentially three elements:

TABLE 2 PORTFOLIO OF PUBLIC HOLDINGS (SNI, SRIW, GIMV)

types of participation	1980 millions	%	1981 millions	%	1982 millions	%	1983 millions	%	1984 millions	%	1985 millions	%	1986 millions	%
S > 50 %	2187	0.30	2761	0.35	2705	0.34	2983	0.31	3486.4	0.32	3420	0.31	3520.9	0.31
N < 50 %	3367	0.46	3675	0.47	3675	0.47	5002	0.52	5777.1	0.53	5726	0.52	5931.4	0.52
I others (2)	1731	0.24	1438	0.18	1473	0.19	1690	0.17	1662.5	0.15	1862	0.17	1972.8	0.17
	7285		7875		7853		9675		10926		11008		11425.1	
S> 50 %	20	0.43	395	0.69	959	0.42	921	0.36	1273.8	0.38	1136.8	0.34	2616.9	0.31
R														
I < 50 %	27	0.57	179	0.31	1248	0.55	1395	0.54	1450.3	0.43	1362.1	0.41	3064.8	0.37
W others (2)	-	-	-	-	63	0.03	254	0.10	625.7	0.19	774.6	0.27	2633.3	0.32
	47		574		2260		2570		3350.8		3273.5		8315	
G > 50 %	50	0.59	-	-	34	0.09	259	0.19	239.2	0.12	228	0.08	988	0.22
I < 50 %	35	0.41	182	0.82	290	0.75	1064	0.78	1569.5	0.81	2469.9	0.83	2815.2	0.62
M														
V others (2)	-	-	40	0.18	65	0.16	42	0.03	125.2	0.07	281.2	0.09	740.6	0.16
	85		222		389		1365		1933.9		2979.1		4543.8	

Source: Annual reports of Public Holdings (SNI, SRIW, GIMV). Regions are excluded.
Notes (1) : only operations on own account : all the operations realised in the name of State or
(2) : others : various types of loan (bonds, convertible bonds, etc.)

- *a direct contribution to the preparatory phase.* Before raising the issue of the method of financing, it would be necessary to assess the technical risks involved, the costs, the profitability according to certain criteria. The limited financial intervention of the Community would take the form of financing the studies required: reimbursement might take place if the studies were followed by the implementation of the project.
- *a declaration of European utility.* This declaration would have the object not only of ensuring the financial participation of the Community at the preparatory phase of a project, but would also have an impact on other financial involvements, especially that of the European Investment Bank. Such a declaration would benefit any infrastructural project thought to be of European interest. In order to become the object of a declaration of European interest, projects would have to have major private funding. It is to be noted that the declaration of a Community interest is both a quasi-financial guarantee for certain phases of the project and a form of legitimation and recognition at the socio-political level.
- *a financial contribution to theJirst stages of a project.* The Community, from its own resources, would aid viable projects which were declared of Community interest. This aid would take the form of an advance, reimbursable at three possible stages: the early practical implementation of the project; at the end of a project; at some agreed date during the project. This last possibility enables the Community to become involved in a project for a period which can be defined according to the case. It is not totally unreasonable to imagine that this method might lead to the participation of the Community in the financing of a project with a view to a publicprivate mix.

The second basic function, linked with that of initiator, is that of multiplier. This function is conceived as a series of means for providing a favourable environment for the private financing of a project and for mobilising Community guarantees and resources. The means include the giving of 'the most favoured status' to an enterprise, tax exemptions, Community guarantees for loans from the European Investment Bank, loans raised by the Commission.

The third, and final, basic function of supra-State intervention would be to ensure the co-ordination of national policies, through the creation of a European Infrastructural Agency. This body might be both an institution for joint decisionmaking at the level of the member States and for bringing together Community and private actors involved in a project.

These changes in the area of infrastructural projects of a European interest lead to an emphasis on the following points:

- *the role of public utilities and of infrastructural projects is confirmed* as a new means of rendering Europe more homogeneous, with a view to the single market of 1992. Their recognition as of Community interest involves their economic and social legitimation (in terms, for instance, of the future budgetary priority they may be accorded). The declaration of Community interest is not only of strictly financial consequence: it is a process of consensus at the European political level and with respect to the private sector, with a view to according some priority to the development of these projects. It is worth pointing out that the resolution contained in the supplement to the December 1986 communication was adopted, without serious disagreement, by the European Parliament, in September 1987.[22]
- *the role of the public sector would change somewhat,* compared with current practices (certainly compared with the period 1956–82). Does this involve the disappearance of a State

role? If direct financial involvement is in decline, the same cannot be said for indirect financial participation or for creating favourable conditions for financing. Changes taking place at European level, dictated by the prospects of 1992, involve a shift from direct intervention to creating the right conditions for financing, and from the national to the supra-national. The institutionalisation of this shift, with the European Infrastructural Agency, is nothing less than the creation of new area of public-private interactions.

• *the possibility of major indirect financing is not excluded by the proposals*. The mechanisms which are envisaged for encouraging private investment ('most favoured status', tax exemptions) are not without cost. Furthermore, the possibility of reimbursable contributions and the use of Community loans and guarantees may lead to considerable financial involvements and transfers, depending on the scale of the infrastructural projects.

It is clear, as Commissioner Matutes emphasised during the European Parliament debate on the proposals, that what was being currently discussed were the various methods rather than the projects themselves.[23] We are still at the point of proposals and not implementation. The cost of infrastructural projects of Community interest is put at 20 to 30 billion Ecus.[24] It is clear that even the limited financial involvement of the Community represents in terms of its budget, not inconsiderable commitments and guarantees, and thus creates a new supra-State interventionism. Moreover, the resort to measures of incentive for private capital does not necessarily abolish the possibility of major transfers. In fact, two developments are possible: the first would be the reduction of direct State interventions, with the cost falling on the Community budget; the second would be increased direct State interventionism for national strategic reasons, or in collaboration with the Community, because of the lack of private initiative.

LESS STATE?

In Belgium, infrastructural and industrial policies are profoundly influenced by traditional factors, in spite of the changes which are taking place. Generally speaking, the public-private system is being preserved, with some shift in the internal balance. To this national picture must, however, be added a supra-national one. If the means of State intervention are being reformulated at the national level, the same is no less true at the level of the European Community where a new context of interventionism, both direct and indirect, is being defined.

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Privatisation in Italy: Aims and Constraints

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The recent Italian experience of privatisation offers a number of significant differences with respect to those carried out in Britain and France. The Italian case presents interesting features in terms of the dimensions, the procedures, the agents, and beneficiaries of denationalisation. What is so striking is the extent to which privatisation in Italy has not been the result of a political programme or a government programme. Rather, as will be seen, the process has been driven by the public enterprises and agencies in an attempt to reorganise and regain a degree of autonomy.

The Italian industrial system is characterised by a scale and variety of public enterprise that has no parallel in any other European country.[1] There are not only a large number of administrative bodies and independent public bodies and public boards similar to the nationalised companies in the British system, where State companies operate in sectors supplying public services,[2] but, in addition to this, there is a large sector of State-holding enterprises; that is, limited companies owned by public boards. This discussion will concentrate on denationalisation efforts within this last sector, the so-called "IRI formula' public agencies and their broad attempts at reorganising the public sector. However, it should be kept in mind that public intervention in Italy extends far beyond the limits of the State-holdings agencies.

It will be argued that although there has been a recent acceleration of the denationalisation trend in Italy—and, with the sales of Alfa Romeo and Lanerossi, acceptance that large industrial concerns can be transferred from the public sector—that there are certain limits on how far these efforts can go. These stem from a number of factors ranging from the complexity and accretion of goals of the public sector, the nature of financial and capital markets, and the political and institutional framework.

The examination will begin with a brief look at some of the distinctive features of the Italian experience of privatisation. This will be followed by a more detailed discussion of the nature of public intervention in Italy, tracing the development of private and public goals for public firms and illustrating some attempts at denationalisation, as well as the broader discussion of the reorganisation of and within the public sector.

THE ITALIAN ROAD TO DENATIONALISATION

Recent Acceleration of Privatisation

While the denationalisation efforts in the 1959 — 82 period dealt largely with small companies and did not reduce the total number of public firms, the period which began In 1983 has been characterised by the privatisation of four to five major companies per year.[3] As a result of these

sales, 3,764 billion lira flowed into the IRI coffers between 1983 and 1985. The Report Illustrating Ministerial Guidelines and Directives presented to Parliament by the Minister for State-Financed Enterprise forecast that denationalisations during 1986 would bring in a further 1,625 billion lira. This amounts to 22 per cent of the income realised by the French State following the nine denationalisations between mid-1986 and June 1987 (34.5 billion francs).

A further element for comparison is employment figures. The sales carried out by IRI alone during the 1980–86 period affected 25 companies with a total number of employees of 50,968; in Britain, the denationalisations carried out between 1979 and February 1985 involved a total of 400,000 employees.

It can be said that beginning in 1983, the process of denationalisation in Italy was accelerated. However, the actual rate varies from a fifth to a quarter of the equivalent efforts on France and the United Kingdom. More specific to the Italian case, the sale of Alfa Romeo to Fiat in 1986 set a precedent in terms of establishing the fact that a major industrial firm could be transferred from the public to the private sector.[4]

Choosing the Companies to be Sold

The French law of 2 July 1986 names individually the companies to be denationalised; while in the United Kingdom, specially designed laws such as the Oil and Gas Act have identified the firms to be sold. On the other hand, in Italy, it is the agencies assigned to managing the State-financed enterprises (the IRI, the ENI and the EFIM) that select the companies that are to be denationalised. The power to make these decisions is recognised by Parliament. In a document dealing with The Make-up of the System of State-Financed Enterprises' issued by the Senate's Budget, Economic Planning and State-Enterprise Committee (17 February 1987), it was stated that the government was to issue directives establishing the goals of the State-financed enterprises, as well as their 'field of action'. However, decisions concerning which companies to relinquish must be left to the jurisdiction of the individual managing agencies.

In France and the United Kingdom it is the government itself which performs the sale, pending parliamentary authorisation. The Italian situation differs in that it is the central or managing agency which makes decisions concerning the sale. This agency owns the stock of the company up for sale, either directly or indirectly through other companies. It is the managing agency which decides when to sell, to whom, at what price and under what conditions.

The Procedures for Denationalisation

In France and Great Britain, meticulously structured procedures have been established for denationalisation. In the French case, these are regulated by the law of 6 August 1986. In the United Kingdom, each case is regulated individually, but the resulting regulations are no less complex.

In Italy, there is no fixed set of procedures for privatisation: even the power of the Minister for State-Financed Enterprise to authorise sales is very much a matter for discussion. It needs to be pointed out that the situation differs from one agency to the next. For example, the IRI needs no authorisation when it wants to sell an interest. The ENI, on the other hand, requires an authorisation only if it involves the loss of control of the company; the EFIM must obtain permis sion no matter what the conditions of the sale.

However, if the sale of a firm leaves the central agency (or the entire system-the point is not clear) completely disengaged from a sector, then that denationalisation must be part of the prospective programmes for the State-financed enterprises. These programmes are prepared by the enterprises and approved by the Interministerial Committee for the Coordination of Industrial Policy (CIPI).

The sale of Alfa Romeo was important in that it helped to establish the mode for sales of public enterprises to be carried out. It was agreed that the sector effectively owning the enterprise (in the Alfa case, it was Finmeccanica) should hold an auction in which all the interested groups participate; the public board should be asked to give its approval, bearing in mind the overall public enterprise strategies; and that, finally, the government should be asked to give its final approval in relation to the wider context of the political interests of the country. The procedure thus spreads responsibility for the final decision, avoiding the possibility of the options being reduced to political choices alone. However, as the case of the failed denationalisation of the SME demonstrated, relations within the governing coalition remain an important constraint on decisions concerning privatisation,

Beneficiaries of Denationalisation

The refrain of the French Minister of the Economy, Finance and Privatisation is 'l'argent des privatisations doit servir en priorité à désendetter l' Etat'. A recurrent theme in all the declarations and studies dealing with the British privatisations holds that one of the reasons for the sales is the need to replenish the coffers of a State operating at a deficit.

However, this relationship does not hold in Italy. The funds earned through denationalisation are not recorded in the State budget, rather, they are deposited in the State's coffers. The State receives merely an indirect benefit in that any improvement in the budgets of the large public groups (in past years they operated at a loss, today they are once again breaking even) means that these agencies will not turn to the State treasury for help.

The various benefits differ not only in relation to the seller, but also to the buyer. In the United Kingdom, denationalisations have created seven to eight million new shareholders, while the number of investors in France underwriting the Saint Gobain was 1.5 million, and Paribas attracted 3.8 million investors: in both countries privatisations have spurred strong growth in the area of investment by private citizens. The precautionary measures enacted in France and the United Kingdom on behalf of small shareholders might almost suggest a desire on the part of the respective governments to sell the holdings of the public enterprises, but without allowing other large concerns to gain control [although Michel Bauer expresses some scepticism about the French case in his study above],

The Italian situation differs in this area. The issuing of stock and the quotations of prices on the stock exchange have added to the number of participant stockholders. However, the sale of entire companies has led only to the transfer of holdings from the large public groups to the equally large private ones. This is illustrated by the sale of Alfa Romeo to Fiat, as well as the attempted purchase by Olivetti of the SME, and the case of Lanerossi which the ENI sold to Marzotto. It should be pointed out that the fact that capital markets in Italy do not seem to be characterised by a large number of small investors means that there is no political capital to be gained by promoting massive subscriptions or programmes of 'popular capitalism'.

UNDERSTANDING STATE INTERVENTION IN ITALY

The Complexity of the Public Sector

An understanding of the particularities of the Italian experience must begin with a discussion of the size, scope and performance of the public sector. What will become apparent is that the complexity and accretion of objectives of the public sector has had a significant impact on its restructuring. It should be added that although the bulk of this discussion focuses on the IRI and the other public-holding agencies, public intervention in Italy has taken many other forms.

The system of State holdings was formally launched in January 1933 with the creation of the IRI (Institute for Industrial Reconstruction). In reality, the State had intervened repeatedly ever since the unification of the country in 1861. The late political unification of the country prevented the development of a domestic market which was sufficiently big to enable the growth of large industrial firms and financial institutions.[5]

The State intervened several times in the years following 1880 to support financial groups in difficulty. These rescue operations became increasingly frequent from 1923 onwards, as the situation became impossible to sustain. The banks and financial institutions were the major shareholders of Italian industrial firms, and by 1932, some major banks, such as the Commerciale, were declared insolvent. The IRI was set with the task, on 23 January 1933, of financing industrial concerns in difficulty, and then, either putting them into liquidation or selling them to private parties able to purchase them.[6]

The IRI was created, therefore, as a sort of temporary public body for managing the collapse of the banking system. However, in doing so, it gained possession not only of a majority share in three major banks, but also of their shares in industrial, agricultural and service concerns. The IRI held a considerable number of enterprises in almost every sector of industry and finance; and it was predominant in sectors such as steel and iron production, boat building, maritime transport and heavy engineering. There were over 200,000 employees working for IRI enterprises.[7]

A denationalisation policy (that is, to sell off the assets of the newly created State enterprises) was launched immediately; but it soon became apparent that there was not enough capital in the country to repurchase the industrial and finan-cial groups from the public sector (see Table 1). By 1936, the denationalisation period underwent a radical change, in that there was a sharp drop in the rate of sales of public firms. This was recognised by the Royal Decree No. 195 on 24 June 1937 when the IRI became a permanent body able to acquire new shares.

The justification for this change in the IRI's role has its roots, on the one hand, in the impossibility of privatising the enterprises taken over during the financial crisis because of the lack of strong domestic capital markets (this is a recurring theme in any discussion about denationalisation in Italy). On the other hand, the change can be understood by the desire to give the IRI an independent role in the defence of the Italian economy, by strengthening State control of the economy. The public body which had been created, initially as a temporary measure to manage the reorganisation of the banks and transfer industrial enterprises back into private hands, was given a permanent status, and set strategic goals for the country.[8] This, as noted, was a result of the impossibility of privatising firms that had been rescued because of a lack of large domestic capital markets.[9] It was not to be until the 1980s that this trend began to be reversed, that is, it was not until the sale of Alfa Romeo that a major industrial firm was able to be transferred to the private sector.

TABLE 1 IRI DENATIONALISATIONS BETWEEN 1933 AND 1951

YEAR	MILLIONS OF LIRE CURRENT	MILLIONS OF LIRE 1951	THOUSANDS OF DOLLARS 1951
1933	51	4,286	6,858
1934	942	80,952	129,523
1935	1,812	141,558	226,493
1936	756	52,728	81,365
1937	682	40,778	65,245
1938	397	22,193	35,509
1939	1,046	56,052	89,683
1940	668	30,676	49,082
1941	585	24,081	38,530
1942	826	30,264	48,422
1943	181	4,421	7,074
1944	92	599	958
1945	14	38	61
1946	196	380	608
1947	105	114	182
1948	182	187	299
1949	3,808	4,118	6,589
1950	378	431	690
1951	1,030	1,030	1,648
Total	13,751	494,886	791,647

Source: E. Rossi (1953), p. 68.

The Goals of the Public Firms

Any suggestion during the post-war years of abolishing the IRI was challenged by the fact that there was no national group large enough to take over the banks or enterprises in public hands; and by the intention to give public enterprise a role in supporting the national economy.[10] The IRI was given the role of intervening (when private capital was unable to do so) in those sectors considered crucial for the development of private enterprises which were central to the transformation of the economy. For example, the public control of the steel industry was supported by Fiat in order to help develop its mass production of automobiles.[11]

A new goal for State holdings was defined in parliamentary debates and in the 'Sinigaglia Plan'. The aim of the public agencies was no longer simply to protect employment in firms in crisis, or take on functions as a means of import substitution; rather, it was to support the development of the national system of production by means of the direct management of the basic sectors necessary for the economy's development.

Another objective emerged with the creation of the ENI (the National Hydrocarbons Agency) in 1953. This involved the attempt to enter sectors such as the oil and chemical industries which had been dominated previously by foreign enterprises or monopolistic producers. The aim was to move towards controlling competition.

Furthermore, during the 1950s the State holdings assumed a new goal, as they were required to take an active role in the development of the country. In particular, they were seen as the instruments to effect the rapid industrialisation of the southern regions. The government, under pressure from all social groups, assumed that the only valid approach towards industrialisation was

TABLE 2 SALES OF ENTERPRISES BY THE IRI GROUP 1950–1985

	1951/1960	1961/1970	1971/1980	1981/1982	1983/1985
Purchases of Enterprises	15	23	55	9	1
Sales of Enterprises	9	17	18	7	20
Balance	6	6	37	2	-19
Employees Acquired	22,503	21,114	71,162	9,520	740
Lost	5,362	9,601	13,323	4,259	7,113
Balance	17,141	11,513	57,839	5,261	-6,373

Source: IRI, Research and Strategies Department

to repeat the model which was already under way in the north. The government pressured the public holdings into setting up large mass-production manufacturing complexes.[12] The most striking example of this was Alfa Romeo which was required to build an industrial centre near Naples in the early 1970s. Alfa Romeo which had been successful as a high performance car producer was called upon to become a mass producer. However, Alfasud, the sister company created in the south, was entering the market at a time of serious contraction. The important point is that the decision to restructure Alfa Romeo was motivated primarily by the 'public' objective of creating an industrial heartland in the south.

Throughout the post-war period, then, the complexity of the public agencies grew in relation to the number of goals that they had come to assume. For instance, the ENI rescued the Lanerossi textile group in a diversification that was uncoordinated in relation to its previous interests; and the ENI, in the following years, was charged with rescuing firms in the textile-clothing sector. The goal of the ENI, then, which had been clear in the 1950s, consequently became increasingly complex, involving responsibility for the same form of rescue operations as those undertaken by other public agencies.

From the 1970s onward, State holdings had become restricted in the formulation of their own strategies by the excessive and continuous diversification required in maintaining the industrial status quo, and by the increasing number of goals imposed by the government and by political pressure. IRI employment figures, and the analysis of takeovers and sales by period (see Table 2) show how the situation exploded in the 1970s. During the oil crisis, public enterprise played once again the role of a 'social buffer', taking in firms in crisis in order to reorganise them and launch them onto the market again. However, as in the past, once firms were taken into the public sector, it was difficult to transfer them back into private hands.

Assessing the performance of the public sector

In evaluating the performance of the Italian State-holding enterprises, one should bear in mind the accumulation and stratification of numerous goals that public agencies were charged with; and the ways in which these operations were financed, which cannot be compared with the management of a firm operating in the market. Those enterprises in which the State had a holding had to pursue different goals that were not always mutually compatible in practice.

The losses of the 1970s, which meant regular recourse to Treasury funds to remain solvent, were caused most certainly by management errors. However, equally important were operational decisions by governments, ranging from rescue attempts of firms in difficulty, to contracyclical investments, to extraordinary interventions, which were not supported by capital transfers from the private sector, in less developed areas of the country. The resulting deficit was sustained largely by recourse to short-term loans on financial markets at the current interest rate; and by recourse to Treasury funds.

The dual nature of the 'IRI formula' (referring to all public State-holding agencies) continued to be the frequent source of misunderstanding between interested parties: each interest could, from one occasion to the next, emphasise the public or private nature of the State-holding enterprise. For instance, in the 'Planning Report of State-holding Enterprises for 1987' presented to the Senate in September 1986, the following goals were established: the development of the south; the defence of, and contribution to, an increase in employment levels; decreasing dependence on foreign nations; and technological innovation.[13] While defining the 'public' goals that State enterprises had come to assume, the Report also stated that the operating conditions of a public enterprise must not differ from those of a firm operating under market conditions.

In addition, the Report also defines the operating sectors for public enterprises. These include both innovative sectors considered crucial for the development of the country, and traditional sectors where the complexity of reorganisation problems precludes the possibility of there being any private operators. Finally, operations for setting up and running service networks were emphasised.

In many ways, there is a re-emergence of traditional views of State intervention in Italy. This refers to the assessment that the situation is characterised by a weakness of human and financial resources, such that the State needs to intervene directly in order to launch productive operations that no single operator would be able to effect on an appropriate scale. These matters, however, were seen in the light of important national problems such as the underdevelopment of the south, and international problems such as the need for the internationalisation of firms.

The Report, then, called for the acceleration of the reorganisation of the public agencies, to promote growth by an emphasis on the internationalisation of firms, to develop innovative sectors, 'to polarise the organisational and planning capacities tackling the problems of the south'. The extensive list of sectors included in the parliamentary recommendations creates the possibility of immediately ruling out those enterprises without an interest in the areas shown. Nevertheless, the evident conflict between these areas emerges as soon as one proposes to privatise enterprises which historically belong to State holdings and whose continued presence in the public sector may not be justified in terms of the goals of maintaining a presence in innovative sectors, but which are, according to some, justifiable public enterprises in terms of the goal of defending employment in the south.

Recent attempts at reorganisation

Before turning to discuss recent privatisations, it is useful to note that these have taken place within a broader framework of the reorganisation of the public sector: they are to be seen as only one part of this broader strategy. In 1982, the change of the directors of the IRI and the ENI signalled a shift in the strategy of these two bodies. The reorganisation strategies which were launched were based on a refusal to take on the burden of new rescue operations, and on an

attempt to bring the groups back towards a core business of sufficient strategic importance to justify a public presence.

The ENI thus applied itself to reorganising its responsibilities around the energy and chemical industry sectors. The IRI's strategic choice was more difficult, as it was directed towards those concerns having the role of 'technological locomotive' for the entire national economy. In addition to the onerous task of running sectors such as the steel and ship-building sectors, the IRI operates in areas such as telecommunications, electronics, public works, precision engineering and aeronautics: the development of these sectors is crucial for the development of the country. Since its presence as a national size firm having an insufficient domestic home market (in the same way as for the ENI concerning the chemical industry), the innovation and internationalisation strategy adopted took the form of finding domestic and international partners for the development of projects, as well as seeking an operating size that would make for a competitive position at an international level.[14]

In addition to the total sale of enterprises, there has been the sale of minority shares on the stock market. Between 1983 and 1986, thirteen companies in the IRI group sold a considerable part of their assets on the market. For example, IRI's share of the Banca Commerciale dropped from 88.4 per cent in December 1983 to 61.1 per cent; in the same period, IRI's stake in Alitalia decreased from 99.1 per cent to 73.8 per cent. This sale of assets was possible, in part, because the enterprises were profitable or became so in the last few years. The funds that were generated constituted 10 per cent of IRI's financial resources. The sale demonstrates the pursuit of the recent objective of recovering funds for the rescheduling of debts accumulated in the past.

The sale of public enterprise assets on the market represents a substantial increase in the size of the Italian market, which traditionally has been small but has been more active during the last five years. This mode of privatisation ensures that the companies maintain a profit without interfering in the management structure of the companies themselves. However, the absorption capacity of the Italian Stock Exchange remains a serious limitation; although it can be reduced by recourse to the sale of shares on foreign stock markets.

Another approach to privatisation is to sell off minority shares to private companies. The IRI began these operations in the steel sector by selling specific activites separated from the capital of larger enterprises. A good illustration is the trade agreed for Dalmine shares by the Finsider group (IRI) with Arvedi, a private steelworks and pipe-manufacturing company in the same sector. In this case, the privatisation operation did not involve the total reorganisation of the management structure of the enterprise, notwithstanding the fact that the entry of a private partner involved a change in the board of directors. This case, together with the attempt in the electronics-telecommunications sector to enter into agreements with private firms, may be defined as the sale of an activity to set up an equally mixed company, following a negotiated redefinition of management roles.

Before going on to examine some examples of privatisation attempts, it should be pointed out that the buying and selling of public enterprises has taken place within the larger context of a process of readjustment that is proceeding within the Italian industrial system. This process took the form initially of an essentially internal process of reorganisation of certain industrial groups and enterprises in order to return to a competitive position.

A second phase, from 1983 onwards, was characterised by a process of reorganisation that was based mainly on outside growth: founded on the strategy of taking over other enterprises operating in sectors close and complementary to the core business that had been redefined during the preceding years. This process may be defined as one of oriented diversification, or rather

TABLE 3 TAKE-OVERS AND SALES OF PUBLIC ENTERPRISES IN ITALY BETWEEN 1983–1986

	IRI	(-b)	ENI	EFIM	IRI Banks	Banks	Min. of Ind. GEPI + REL + RIBS	Others	Total
Take Overs		5	15	8	4	17	3	3	56
Sales		9	7	8	5	4	4	2	39
		-4	+8	0	-1	+13	-1	+1	+16

Source: Nomisma, Laboratorio di Politica Industriale.

redefinition, of the growth strategies of traditionally very sector-specific enterprises in a multiproduct/multimarket context.

Only a limited number, 56, of the 664 major shareholding takeovers in the 1983–86 period concerned public enterprises. These operations have varied in terms of those who effected them, namely the State holdings (excluding the IRI banks), the public banking sector, the Ministry of Industry, connected public bodies and others such as local public bodies and the like (see Table 3).

The public banking sector grew during this period by taking over other companies, while the ENI also grew by taking over enterprises connected with its own specific activity. On the whole, however, public enterprises are pursuing take-over or outside agreement strategies connected with growth that is more accurately planned, and are selling diversified enterprises which were taken over during different periods characterised by what were essentially rescue goals and attempts to create social buffers.

Some examples of attempts at privatisation

The privatisation attempts launched by the public agencies have formed part of a campaign to restore the efficiency of public holdings. The IRI has considerably improved its financial situation, notwithstanding the burden of sectors which are still going through a severe crisis, such as steel and shipbuilding. This was achieved partly by refusing to take over companies in difficulty, as had been the case in the earlier periods (especially between 1971 and 1980 when IRI took over 55 companies and sold only 18-see Table 2). During the 1983–85 period, 20 enterprises were sold and one taken over, to which should be added the sale of the entire Alfa Romeo group in 1986.

Along these same lines, an analysis of the profitability of a group of minor enterprises sold by the IRI demonstrates that a large number of these firms were heavily in debt. This suggests that a further goal must have been to make the system more efficient by selling firms that could not have broken even in the public sector. A further examination reveals that most of the enterprises that were denationalised were small firms that were marginal to the main interests of the public group (see Table 4).

Three examples of major enterprises that were part of denationalisation plans may be considered, which are important both for the obstacles encountered and the procedures adopted. These are the unsuccessful attempts to sell Maccarese and the SME, and the sale of Alfa Romeo. The small number of denationalisation operations realised during the 1937–83 period meant that there were numerous problems with the procedures and the method of selling an entire public shareholding.

The IRI attempted first to sell the agricultural firm, Maccarese, and then the entire SME group producing foodstuffs (such as cakes and biscuits, tomatoes, pasta, etc.) and enjoying a large-scale distribution network on the domestic market. The two companies played no part in the IRI strategy of operating in innovative sectors essential to the productive development of the country. Nor could the presence of these enterprises in the system of State holdings be justified plausibly in terms of the pursuit of macro-economic goals, such as protecting employment, especially in the South. The two attempts were unsuccessful because of political and union opposition, on the grounds that they went against the public goals which State enterprises had been set.

The IRI put Alfa Romeo up for sale in 1986, and it drew serious offers from Ford and Fiat.[16] The Alfa Romeo case illustrates a number of problems faced by attempts at denationalisation in Italy. First, the complex set of procedures mentioned earlier meant that a number of political and social groups had an opportunity to have a say in the decision. The final decision regarding the sale had to be approved by the Interministerial Committee for the Co-ordination of Industrial Policy. This meant the sale could have faced difficulties if one of the political parties in the governing coalition had had serious objections.[17]

Secondly, even when there is no serious objection to the issue of selling a public enterprise, there are other questions which may emerge, given the nature of finan-cial markets in Italy and international markets in specific sectors. In the case of Alfa Romeo, there was no major opposition to the sale because, in part, there was widespread acceptance that keeping the motor vehicle manufacturing enterprise in the public sector would have prevented it from reaching the production capacity necessary to achieve production efficiency.

This did not mean that the sale of Alfa Romeo was uncontested. The central question was whether to sell the public firm to Fiat and, for all intents and purposes, ensure its domination of the domestic car market; or whether to sell a firm that had become a national symbol to a feared international competitor. It should be noted that an important issue in the discussion was the question of competitiveness in the European market, and indirectly, the question of competition policy in Italy. Fiat was looking to secure growth in the future by developing a large-size, luxury automobile line to compete with firms such as BMW and Volvo. Ford sought to establish a base from which to expand its European operations.

It was not surprising, then, that the question of who the buyer of Alfa Romeo would be was linked with the question of having to choose the 'national' solution. One of the points that emerges is that because solutions such as the 'popular capitalism' alternative are not viable, privatisations in Italy, more often than not, result in strengthening a large private, domestic industrial concern, or allowing an international firm to establish a base in Italy. This means that denationalisations may require some sort of competition policy, something which is singularly lacking in Italy.

CONCLUSION

It is apparent that the financial needs of the public industrial holdings have been a driving force for privatisation efforts in Italy. Towards the end of the 1960s, their financial power was such that many were led to believe that they were capable of anything. Successive governments assigned them impossible tasks. At the first sign of trouble, the phenomenon of 'private investor flight' was witnessed, as individual investors became dissatisfied with the low rates of return. The public groups were forced to turn to the Treasury for assistance, complaining that they were short of capital. But Treasury funds were accompanied by new requests for doomed interventions, along

TABLE 4 IRI SALES BETWEEN 1983 AND 1986

Firm	Year	Sector	employees
Maccarese (liquidat.) O	1982	agriculture	546
FAG	1983	mechanical industry	666
Umbra Cuscinetti	1983	mechanical industry	185
CBF	1983	mechanical industry	76
Italsnack	1983	food industry	124
Sweet Mark	1983	food industry	131
Elettr. S. Giorgio	1984	mechanical industry	768
Safog	1984	mechanical industry	224
Idrisag	1984	mechanical industry	20
Star	1984	food industry	2,770
Ducati Mecc.	1985	mechanical industry	411
Ansaldo Motori	1985	mechanical industry	784
Cirio Ø	1985	SME group	1,087
Alivar Ø	1985	SME group	3,230
Italgel Ø	1985	SME group	1,318
Sidalm Ø	1985	SME group	4,143
Autogrill Ø	1985	SME group	512
Sico Ø	1985	SME group	4,761
Supermercato G.S. Ø	1985	SME group	1,130
Other S.M.E. comps. Ø	1985	SME group	
Rivoire	1985	chemical industry	673
Rivoire Sud *	1985	chemical industry	23
Pantox *	1985	chemical industry	32
Italdata	1986	electronics industry	382
Continentalmare	1985	maritime transport	11
Sovitalmare	1985	maritime transport	6
Sartelec	1986	telephone trenching	
Sidalm Perù	1986	food industry	
OMG	1985	mechanical industry	189
Fimit Sud	1985	car accessories	95
Gallino Sud	1985	car accessories	309
Isai International	1985	finance	10
Itrigas	1985	gas production	50
Italso	1985	food industry	105
Circum Vesuviana	1986	transport	2,658
Alfa Romeo (group)	1986	motor vehicles	36,000
(of which only A.R. cars)			(28,832)

Source: IRI
O opposed sales
* sold to other public enterprises
Ø Uncompleted sales

with further restraints and controls on the part of the State. The agencies began to realise that they had placed themselves in a vicious circle: the larger they became and the more State funds they obtained, the less autonomy they enjoyed.

The only way for the agencies to break out of this vicious circle, which condemned them to being slaves of the government, was to regain the financial autonomy which for 30 years represented the shield behind which they could freely go about their business. Privatisation offered them a means of breaking out of this circle. Thus, Italian privatisation efforts do not appear to be a government policy, but rather a series of initiatives aimed towards establishing the autonomy of the public enterprises with respect to the government.

The main goal of privatisation remains that of redefining the core business, of returning to an activity in which the State holding enterprises intend to continue operating. This involves an assertion that there are tasks which only public enter prise can achieve within the Italian historical and institutional context. Here lies the centre of the ambiguity characterising the existing privatisation process. Italian public enterprise was not the result of ideological choices rooted in a desire to ensure that the government had control of those concerns which were strategic for the development of the country, or that natural monopolies were managed efficiently. Italian public enterprise was largely the result of historical events which led the public authorities, in a country historically poor in national capital, to protect a large part of the Italian system by creating an intermediate body between the State and enterprise.

With the passing of time, this body was invested with conflicting objectives, from passive goals such as acting as a social buffer to active ones of economic development. The privatisation process might proceed more quickly if Parliament and the government redefined the tasks of public enterprises, enabling what are considered non-essential concerns to be sold in different ways, and concerns that are to be considered essential to be managed differently. The possibility of this happening is problematic, given the complexity of public administration and the continued perception among political and social actors that State enterprises must still achieve a vast range of objectives that have been assigned to them over time. State intervention in Italy has developed within the context of intertwining relationships (and objectives), and the attempt to understand the disengagement of the public sector must be rooted in an examination of the network of these changing relationships.

NOTES

1. See S. Cassese, *I l sistema amministrativo italiano* (Bologna: II Mulino, 1983).
2. S.L.Reid and K.Allen, *Nationalized Industries* (Harmondsworth: Penguin, 1971).
3. The term 'denationalisation' will be used to describe a specific type of privatisation; that is, where public enterprises are sold to private investors.
4. Patrizio Bianchi, The Privatisation of Industry: The Case of Alfa Romeo' in Robert Leonardi and Raffaella Nanetti (eds.), *Politics in Italy,* Volume II (London: Frances Pinter, 1988).
5. The period of expansion following the unification of Italy was supported largely by the entry of foreign capital, mainly from Germany, such that the organisation of the Italian economic system was marked by the lack of national capital and a dangerous double link between the banking system and large enterprise. The mixed banks collected savings and invested them directly into industry: the financial lever effect enabled vigorous expansion, but a liquidity crisis affecting an industrial enterprise during a recession could precipitate rapidly the insolvency of a credit institution and escalate into a collapse of the banking system.
6. For a useful discussion of the origins and development of the IRI-formula see: Patrizio Bianchi, The IRI in Italy: Strategic Role and Political Constraints', *West European Politics,* Vol.10, No.2 (April 1986), pp. 269–90.
7. See: E.Rossi, *Lo stato industriale* (Bari: Laterza, 1953).
8. For a study of industrial growth in Italy, see: R.Romeo, *Breve storia della grande industria* (Bologna: Cappelli, 1961).
9. For a discussion of financial structures in Italy, see: P.Grifone, Il *capitale finanziario in Italia* (Torino: Einaudi, 1971).

10. Ministero della Costituente. *Rapporto della Commissione Economica, II: Industria, Appendici alla relazione* (Rome: Istituto Poligrafico dello Stato, 1946;.
11. V.Castronovo, *L'industria italiana dall'ottocento a oggi* (Milan: Mondadori, 1980).
12. G.Stefani, 'Privatizing public enterprise in Italy', *Annales de l'économie publique, sociale et cooperative,* Vol.74, No.2 (April-June, 1984), pp.95–115.
13. Ministero delle Partecipazioni Statali, *Relazione Programmatica sulle Partecipazioni Statali* (Rome: Senato della Repubblica, 1987).
14. The chairman of the IRI, Romano Prodi, spelled out the agency's strategy in an interview in: *La Repubblica—Affari e Finanza,* 17 July 1987, pp.2–3.
16. A useful comparison of the two bids can be found in: *La Repubblica,* 19–20 October 1986.
17. Massimo Riva, 'Il Duello Fiat-Ford', *La Repubblica,* 21 October 1986.

Privatising in a Corporatist Economy: The Politics of Privatisation in Austria

Wolfgang C. Müller

In 1987 the newly established grand coalition government subscribed to a comprehensive privatisation programme and began its implementation. In doing so, Austria, as usual, belatedly followed the international trend. What, at first sight is puzzling, however, is that privatisation in Austria is not being put into practice by a conservative, but by a coalition government, led by the Social Democrats. Moreover, privatisation emerged not as a compromise in coalition negotiations, but was proposed by both parties during the election campaign, although with differences on the details and the emphasis given to the issue. In this study of the Austrian case it is argued that this policy convergence is a function of political competition in the electoral arena.

The analysis first looks back at the nationalisation process and at earlier attempts at privatisation. Then it singles out three central and inter-related factors that have made privatisation an issue in the 1980s: it is argued that waning economic success, increasing doubts about 'Austro-Keynesian' macro-economic policy and, above all, the poor performance of nationalised industries were relevant. In a third section it examines the development of the programmes and policy proposals of the two big parties, showing that privatisation was not demanded by the People's Party before 1985 and by the Social Democrats before 1986. Then the 'practice of privatisation', that is, the agreed government plans, is described and an interim report of its progress until the beginning of 1988 is given. Finally, the study deals with the impact of privatisation on the distribution of social power in Austria.

NATIONALISATION AND PRIVATISATION UNTIL THE 1980s

After the Second World War a comprehensive programme of nationalisation was carried out in Austria. It was prepared by a national government, which included the Austrian People's Party (ÖVP) with an absolute majority, the Socialist Party of Austria (SPÖ) (actually Social Democrats) and the Communists (KPÖ), and was passed unanimously. Nationalisation in Austria was the result of three essential factors, namely the need for reconstruction, 'Austrification' as well as for ideological and political reasons.[1]

Reconstruction'. most of the industries which were nationalised were heavily damaged by the war. No Austrian private entrepreneur would have had the finan-cial resources for their reconstruction.

Austrification: according to the Potsdam Agreement, German assets in Austria should fall to the Allied Powers as war indemnity. Nationalisation should therefore create Austrian property, and thus prevent a substantial part of the economy falling into foreign control. (The term 'German

assets' was not precisely defined and a Soviet interpretation covered also those ex-Austrian firms which had been confiscated by the Nazis after the German occupation in 1938.)

Ideological and political reasons: Social Democrats had already demanded the socialisation of the commanding heights of the economy after the First World War. This claim seemed even more legitimate in 1945 because of the support for Fascism in the inter-war period by some of the firms involved. The SPÖ also aimed to support the political division of power as established in the coalition regime, by a kind of distribution of economic power.

Within the Ö VP during the immediate post-war period an element of reformist Catholic social doctrine was relatively strong. This element was in favour of a broad distribution of property for which nationalisation could function as a first step (see below). The Business League, one of the three semi-autonomous organisational units of the party, had to accept the economic reasons for nationalisation. Moreover, it was interested in a bargain: its leaders wanted State recognition for their emerging interest organisation, the Chamber of Commerce. The parties finally compromised about the scale of nationalisation: while the Socialists initially had demanded the nationalisation of 235 firms, the final number was 70, which excluded Austrian and Western private firms. Nationalisation did not affect the companies but their shares, leaving them joint stock companies as before. Nationalisation was carried out in 1946 (followed by the nationalisation of the electric power industry in 1947). Although the scale of nationalisation was the result of a compromise, it covered a very substantial part of Austrian industry as well as the two most important banks which held their own industrial concerns.

However, nationalisation was not accepted by the Soviets. All German assets in their occupied sector remained under Soviet control until 1955, whether nationalised or not. When Austria regained its sovereignty in 1955 these firms were returned to Austria, substantially increasing the size of the nationalised sector. In the election campaign of 1956 the issue of the nationalised industries and of privatisation gained momentum for the first time. The ÖVP, which argued for a containment or even privatisation of nationalised firms, increased its share of the vote. As a consequence, the Ministry of Nationalised Industries and Public Transport, which had been headed by a Socialist, was reduced to the Ministry of Electricity and Public Transport. The nationalised industries were organised in a holding company, headed by two directors from the ÖVP and one from the SPÖ, with decisions being made unanimously.

However, privatisation turned out to be moderate. Within the holding company it was vetoed by the Socialist director. Thus, only some of the former Soviet firms and 40 per cent of the shares of the two big banks, were privatised. However, three-quarters of these shares were preferred stock *(Vorzugsaktien),* which do not grant voting power to their owners. Privatisation was carried out by banks, each of which was affiliated with one of the parties in government (60 per cent ÖVP: 40 per cent SPÖ). The ten per cent of shares which gave their holders the right to vote remained in the hands of the political allies of the two parties. The returns of privatisation were used to overcome short-term budgetary problems (namely to finance the increase of salaries for public employees).[2] The ideological goal of creating property on a large scale, in particular in the hands of employees, as announced by the Austrian People's Party, was not met. This policy was not continued because of the resistance of the Business League of the ÖVP as well as from the SPÖ, which increased its vote in the 1959 election.[3]

During the following years the organisation of the nationalised sector was altered several times. However, no privatisation occurred, not even in the period of one-party government by the ÖVP (1966–70). Although this government prepared the privatisation of Siemens-Austria, the actual

selling of a majority of the shares to Siemens Germany was carried out by a one-party government of the SPÖ in 1972.[4]

Questions of industrial ownership lost their importance in the political debates of the 1970s. Having a substantial nationalised sector within the economy was accepted as one of the basic elements of the socio-economic consensus, underlying Austrian corporatist arrangements. Symptomatic of this consensus is a statement made in 1982 by W. Schüssel, the General Secretary of the ÖVP's Business League and the most active promotor of privatisation in recent years. He said that, despite some qualifications, his party accepted the nationalised industries and recognised their necessity for the Austrian economy.[5]

This section concludes with a brief look at the size of the nationalised sector at the beginning of the recent debate about privatisation. Three main parts may be distinguished: the ÖIAG, a holding company of industrial shares; the two banks, the Creditanstalt and the Länderbank, which have their own industrial concerns; and the electric power industry.

Before the beginning of privatisation in 1987 the ÖIAG comprised firms within the iron and steel industry (VOEST, VEW), the chemical industry (Chemie Linz), the electrical industry (Elin, 42.6 per cent of Siemens Austria), the aluminium industry (Austria Metall), the oil industry (ÖMV), the vehicle and machinery industry (SGP) and the mining industries. Some of these firms cover a wide variety of products, from raw materials to sophisticated manufactured goods. In 1984 the ÖIAG employed about 18 per cent of the total industrial work-force. It was responsible for 22 per cent of industrial production and 14 per cent of industrial investments (having decreased from about 30 per cent between 1970 and 1980).

The Creditanstalt, of which 60 per cent of the shares are nationalised (85.7 per cent of the shares with voting power), is the second largest owner of industrial assets, held as a rule in the form of majorities of shares rather than total owner-ship. Until the privatisation of the tyre producer Semperit in 1985, it included the two largest industrial firms outside the ÖIAG group: Steyr (motor industry) and Semperit. Other important industrial firms are located in the machinery (Andritz, Heid), glass, paper and textile industries, etc.

In addition to these manufacturing industries most of the electric power industry belongs to the public sector: about 60 per cent is State-owned, the rest is owned by the nine Austrian provinces.[6]

The preceding paragraphs have already shown that the nationalised sector is a very substantial one in Austria. This becomes even more evident in international perspective: the nationalised sector's share of Austrian production is greater than that of the nationalised sector in any other West European country.[7] The Austrian case should thus be of great interest in the privatisation debate.

MAKING PRIVATISATION AN ISSUE IN THE 1980s

The recent debate about privatisation began in the second half of the 1970s. At first, the discussion did not focus on the privatisation of nationalised industries but on municipal firms, e.g. funeral services, flower-sellers, abattoirs and refuse collection and disposal.[8] Two reasons for this concentration on municipal firms should be mentioned. First, in addition to the poor economic performance of some, several had been involved in corruption scandals. The most prominent example was that of Bauring, a Viennese municipal firm which had lost billions of AS in the Arab world instead of concentrating on building houses in Vienna. Second, one has to take into account the interests of those who promoted the discussion, in particular the Business League of the ÖVP,

which is primarily made up of small and medium-sized businesses. Some of these have to face the competition of municipalised firms and are likely to benefit from their privatisation.[9] This is particularly true for contracting out, which was not clearly distinguished from privatisation in a narrow sense in the party publications and intra-party discussions.

The demand for privatising nationalised industries was introduced by the same political organisations and individuals, but it is more than the logical extension of municipal privatisation, and it has to be dealt with in a wider context. Three aspects seem particularly relevant: Austria's economic performance; the debate about the appropriate macro-economic policy; the micro-economic performance of nationlised industries both in reality and in the public's perception. While developments in the first two improved the general climate for privatisation, the third was particularly decisive. The performance of nationalised industries also functioned as a prominent example of the effects of State intervention in general within the debate about *macro-economic* policy and enforced the tendency towards neo-liberalism.

Economic performance and macro-economic policy

The 'Austro-Keynesian' economic-policy[10] practised by the Social Democrats in the 1970s was rather successful in both relative and absolute terms: unemployment remained low (below three per cent until 1981), economic growth was relatively satisfactory (1970–80: four per cent), while inflation increased only moderately (1970–80:6.1 per cent) and the Austrian Schilling remained among the strongest currencies in the world, while the costs of 'Austro-Keynesianism' (national debt, structural problems) were still hidden.[11] During this time, the main opposition party, the ÖVP, did not articulate *fundamental* policy alternatives but promised to implement a quite similar economic policy with greater skill. This strategy did not result in electoral success, and the SPÖ was able to retain its absolute majority of 1971 in both 1975 and 1979. At the beginning of the 1980s macro-economic performance deteriorated, and the costs of the former strategy became visible (in particular public debt and taxation). While the SPÖ still argued for a continuation of its 'Austro-Keynesian' economic policy, the ÖVP from 1982 began to articulate a fundamentally neo-liberal alternative for economic policy, consisting of cuts, shifts in budgetary priorities, a comprehensive tax reform including a substantial tax relief, flexibility, deregulation, and, of course, privatisation. In introducing these demands, the ÖVP relied on electorally successful models from foreign sister parties in Britain, West Germany and the United States.[12] In the context of macro-economic performance this policy alternative increasingly constituted a challenge to the incumbent Social Democrats.

Economic performance of nationalised industries and the public perception

During the 1970s some of the nationalised firms made profits, some covered their losses by reserve funds, while the losses of others were covered by profits from other firms within the framework of the ÖIAG. Since 1979, however, the state has had to contribute substantially to the nationalised industries. Government expenditure on the ÖIAG up to 1990 will amount to 63 billion AS. And an additional 14 billion AS were required for the industrial concern of the Creditanstalt and to solve problems of industrial debtors of the Länderbank. In sum, since 1979 the State has spent about 77 billion AS on the nationalised industries, which is more than the planned net budget deficit of 1987.[13]

TABLE 1 ATTITUDES TOWARDS FINANCIAL HELP FOR THE NATIONALISED INDUSTRIES OUT OF THE FEDERAL BUDGET (1981–86)

% of Population	1981	1982	1983/7	1983/10	1986
In favour of financial aid	75	69	60	44	40
Against financial aid	17	31	34	52	56

Source: W.C.Müller, 'Mikroökonomische Steuerung und Parteien-Konkurrenz in Österreich', in H.Abromeit, G.Himmelmann and U.Jürgens *(eds.), Steuerungsinstrument öffentliche Wirtschaft?,* IIVG/discussion paper 86–214 (Berlin: Wissenschaftszentrum, 1986), p.181.

The losses were not continous and the state's financial contributions occurred in tranches: in 1981, 6 billions were given in two parts; 3.5 billions followed in 1982 and 16.6 billions more in 1983. After the dramatic losses in the largest ÖIAG firm and flag ship of Austrian industry, the VOEST steel company, of 11.8 billion AS in 1985 and 8.7 billion in 1986, a further 34 billion AS was granted to the nationalised industries.

Besides the size of government contributions, it is relevant to examine the circumstances that led to the losses. One obvious reason is the international steel crisis. This, however, can explain only part of the losses, though it partly constitutes the unpleasant framework under which the most important nationalised firm, the VOEST (as well as the VEW) had to work. The more specific reasons for the huge losses were oil speculations, mismanagement in the construction of industries in foreign countries and the attempt to get into new industrial sectors, often without having sufficient specialised knowledge. Instead of helping the VOEST to become profitable again these projects more often than not led to additional losses[14] and did little to maintain Austrian jobs. In any case, they did not strengthen public confidence in the nationalised industries. The same holds true for the forecasts of expected losses which have recently undergone substantial upward revisions in very short periods of time.

The public debate about nationalised firms also raises the issues of wages and salaries, extra welfare benefits and relative job security. State employees are seen as privileged in these three aspects and, despite the losses of their firms, unwilling to accept a reduction in their benefits. In addition, the nationalised industries, which are partly smoke-stack industries, have gained the image of being significant pollutors. Recently, some nationalised firms have also been accused of exporting arms illegally and thus violating Austrian permanent neutrality. Thus, in the press the image of nationalised industries is characterised by losses and mismanagement, by unjustified employee privileges, as well as by their negative effects within the non-economic realm.

Public opinion about the government's policy *vis-à-vis* the nationalised sector displays a clear-cut trend, in which the importance of losses and public financial contributions can easily be detected. In 1981, a majority of three-quarters was in favour of financing the nationalised industries out of the budget. Within all social and political groups clear majorities for such a (non-permanent) financial contribution existed. However, by 1986 the acceptability of the policy was reduced to 40 per cent (see Table 1). Of the major social and political groups only Social Democratic supporters and blue-collar workers were in favour of State contributions to the nationalised firms. In those population groups with the highest proportion of floating voters the number of supporters of financial aid declined from 68 per cent (1981) to 39 per cent (1986).

The development of attitudes concerning privatisation displays a complementary trend. Privatisation in 1986 was more than three times more acceptable than seven years previously and

constituted the preferred policy response towards the crisis in the nationalised industries (Table 2). Two other surveys carried out in 1985 and 1986 demonstrated that a policy of privatisation had gained 10 per cent support within one year (66 per cent instead of 56 per cent in favour).[15]

TABLE 2 ATTITUDES TOWARDS PRIVATISATION (1979–86)

% of Population	1979	1986
Some nationalised firms should be privatised	17	63
The number of nationalised firms should remain the same	67	29
New firms should be nationalised	11	3

Source: P.A.Ulram, Hegemonie und Erosion. Politischer Wandel in Österreich (Vienna: unpublished manuscript, 1987).

In sum, it may be said that for a majority of voters, privatisation became an adequate policy response to the crisis of the nationalised industries even before their most severe problems at the turn of 1985/86. The change of attitudes did, of course, influence the political debate about privatisation, which will be described in some detail in the following section.

THE PRIVATISATION DEBATE

During the early 1980s the ÖVP's economic policy programmes still did not contain a demand for privatisation or at most restricted it to municipal services.[16] In January 1985, the party leader's state of the nation speech contained a short and non-committal passage about privatisation. He noted that it should be discussed in a relevant and non-emotional manner. The proceeds of privatisation could be used to finance social security and environmental protection.

Privatisation was later covered in more detail in the ÖVP's economic programme (1985/86) and in a privatisation proposal (1985):[17] these papers still constituted the official standpoint of the party at the beginning of 1988. It is interesting to note that these ÖVP proposals, when published, were in complete harmony with the proposals of the General Secretary of its Business League, which had appeared as a book in the same year.[18] The arguments for privatisation are related to: the State; the performance of the economy; the performance of privatised firms; and ideological goals.

- *the State:* only a diminution of State activities would allow it to become engaged in *new* activities such as the promotion of new technologies and environmental policy. Privatisation would enlarge the financial room for manoeuvre for a policy of economic growth, employment and tax relief.
- *the performance of the economy:* privatisation would intensify competition and allow the development of entrepreneurs. Economic adjustment would be eased.
- *the performance of privatised firms:* the productivity and efficiency of firms would improve with privatisation.
- *ideological goals:* privatisation would distinguish political from economic power. It would lead to a broad expansion of ownership, which would allow people to take care of themselves instead of relying on the State.

In sum, the expectations concerning privatisation are very high. This contrasts with the limited scope and dimension of privatisation as suggested in the ÖVP-proposals. Both economic

programmes distinguish three kinds of firms: those of which a majority of shares should remain in the hands of the State; those which should be privatised up to 25 per cent, sufficient to leave veto-power on major decisions in public hands; those which should be totally privatised.

The first group of firms comprises:

- the national airline (AUA), 75 per cent of which is to remain in the hands of the State;
- the ÖIAG, of which at least 60 per cent has to remain nationalised;
- the two banks (where 51 per cent should remain in public ownership, not, however, of their industrial concerns);
- the electric power companies, shipping on the river Danube, the tobacco and salt monopolies.

The second group comprises a telex firm, airports and firms in the sector of tourism.

The third group covers all firms with a State share below 25 per cent as well as non-strategical firms or shares of firms: that is, firms which do not really fit into the nationalised industrial concerns, because they are not related in any way to the 'national interest'.

The proposals about implementing this privatisation programme were not very detailed. As most of the firms are already joint stock companies it was proposed that their shares be sold via the stock exchange. One precondition, however, which was discussed in some length, was making risky investments more attractive to investors than loan subscription or bank savings. In particular, double taxation, covering the profits of the firms as well as the dividends, was to be abolished.

All these programmes were published before the dramatic downturn of some nationalised firms at the turn of 1985/86. At this time the General Secretary of the Business League, the most ambitious promoter of privatisation, demanded a more sweeping proposal. In an international conference about the 'success story' of privatisation, which took place during the election campaign, he demanded the reduction of the State's share of important nationalised firms (the banks, the ÖMV and the national airline) to below 50 per cent.[19]

The developments described above, in particular privatisation becoming a desirable policy for the majority of the voters (which are also rejecting further financial contributions to the nationalised industries), led to a reorientation of the SPÖ. Let us take the basic party programme of 1978—still a valid document!—as a point of departure. Although this programme, as opposed to previous ones, does not see nationalised industries in the context of economic planning,[20] the party was still very positive about them. They should serve the purpose, *inter alia,* of:

- ensuring exemplary relations between management and the work-force;
- preparing and exploring social experiments;
- guaranteeing the supply of energy, being active in environmental protection and promoting efforts in research and development.

In this SPÖ programme, the danger of privatisation was perceived only for municipal services, and consequently only this kind of privatisation was explicitly rejected.

The 1981 economic programme of the SPÖ dealt only briefly with the nationalised industries. It demanded an increase of capital by the State to allow an offensive policy of investment and restructuring.

The draft for a programme named *Perspective '90'*, which is intended to make the principles of the 1978 basic programme more concrete, argued in 1986 that nationalised firms are 'no ideological spearhead'. However, they should not be used as an 'ideological scapegoat' either. Micro-economic goals (i.e. profits) are given priority *vis-à-vis* macro-economic or regional goals. The latter tasks have to be defined explicitly by the State, which has to bear the responsibility and the financial burden. Besides stating these principles the programme also demanded that the State increase the nationalised industries' capital.

The most radical break with the party's basic programme of 1978 came with the 1986 electoral platform of the SPÖ and of its leadership candidate, Franz Vranitzky. Here, it is stated that the problems of the iron and steel industry could not be solved *primarily* (emphasis added) by privatisation. This part of the public sector is to receive *a final* (emphasis added) financial aid package by the State. All other nationalised industries have to cover their financial needs by themselves (by selling parts of the firms or by their partial privatisation).

We have already pointed out that the driving force towards privatisation within the ÖVP was the Business League. Within the SPÖ privatisation was pushed through by its cabinet members, in particular the Chancellor, the Minister of Public Economy and the Minister of Finance. In the following paragraphs we will try more fully to explore the driving and inhibiting forces in the privatisation debate as well as the respective interests involved.

The ÖVP is made up of three semi-autonomous Leagues (business; farmers; workers and employees) and nine provincial party organisations, which also enjoy a high degree of autonomy *vis-à-vis* the central party. The Leagues, the individual party organisations of the provinces and central party have their own rationale with respect to privatisation. The central party is primarily oriented towards the electorate. It accepted privatisation, when it turned out that it might become an electoral issue, which would improve the party's chances. The party strategy, however, had to take into account that some significant intra-party units have reservations about privatisation, in particular members of the Workers and Employees League (AAB), which consist mainly of civil servants and public sector employees. Since privatisation is alleged to increase the efficiency of the firms by introducing market conditions, the employees of over-staffed and over-paid (though profitable) companies, such as the nationalised oil producer firm ÖMV, would suffer from it. Thus, for instance, the AAB shop-stewards of the ÖMV campaigned for their re-election with the slogan that only a strong representation of the AAB in the shop-steward council could prevent privatisation. Similar examples for other firms destined for privatisation could be mentioned. In so far as the AAB displays a positive attitude towards privatisation, this is connected with the idea of expanding employee share ownership. However, representatives of the Workers and Employees League regularly demand a privileged treatment for the work-force in the purchasing shares of the firm which is going to become privatised. It is doubtful whether the actual privatisation package will grant such privileges, which might strengthen the inhibiting forces within the AAB.

The Farmers League is not directly affected by privatisation and is not therefore greatly involved in the current debate. However, this League generally reflects a strong *Etatiste* orientation. Pragmatic reasons, in any case, lead to the rejection of neo-liberal policies in the field of agriculture. In the province of Tyrol, where the head of the executive *(Landeshauptmann)* used to belong to the Farmers League, the agrarian conception of ownership *(bäuerliches Besitzstandsdenken)* led for a while to an explicit rejection of privatisation proposals for the firms owned by the province. A policy change occurred only in 1987 after a new, technocratically-oriented politician became head of the executive.[21]

The Business League promotes privatisation. However, it should be mentioned that there are other features of contemporary economic neo-liberalism, which do not find unanimous acceptance within this League (e.g. cuts in subsidies and deregulation).

The provinces in which most of the nationalised industries are located constitute a special case. All three are governed by coalitions, as constitutionally required, and led by the ÖVP. In particular, the province of Styria, where most of the weak firms are located, is not interested in introducing market conditions, which might accompany the privatisation of the profitable firms.

Within the SPÖ, privatisation came to be accepted in principle, as the party struggled to recover from a crisis of electoral support, following the financial collapse of some of the major nationalised firms in 1985. The electoral campaign was particularly important in pushing through this issue within the party by silencing most critics of this policy change. Apart from the party's left, which is not strong, the trade unionists and the *Arbeitsgemeinschaft der Gemeinwirtschaft* (Association of Public Economy) are the main advocates of nationalised industries within the SPÖ. The latter since the late 1970s has tried to counter-balance the efforts of the Business League to make privatisation an issue in Austrian politics.[22] The most important advocates of nationalised industries within the SPÖ are, however, the trade unionists. They are as a rule very influential in the making of the party's economic policy.[23] Moreover, any development within the nationalised sector affects the trade union movement in particular, because it has its strongest positions within this sector (organisational density, etc.).

These political actors were involved in the political process during which the privatisation proposals had to be made more concrete and authoritative. The rest of this section will be devoted to this process.

Despite a substantial reduction in their vote the Social Democrats remained the strongest party in the general election of November 1986. One reason for again outpacing the ÖVP was the policy convergence described above.[24] According to the electoral platform and to statements made during the campaign, the SPÖ had promised to execute *a pragmatic* policy of privatisation, defining it as a means (for consolidating the public sector) rather than an end in itself. The question of privatisation was an important one during the negotiations for the formation of the new SPÖ-ÖVP grand coalition. The parties finally agreed to keep the budgetary burden for the financial reconstruction of the ÖIAG as small as possible. The firms themselves and their work-force, it was stated, would have to bear their part, too. All nationalised firms were to be examined to see whether their shares could be introduced on to the capital market.[25] The coalition agreement granted *a final* financial contribution for nationalised industries demanding, however, wage restraint by the work-force. The debate about privatisation did not come to an end with the coalition agreement. First, the latter needed further concretisation before it could be implemented: the coalition agreement does not contain a list of firms or the degree of privatisation. It did, however, fix the amount of money which would constitute *the final* contribution of the State for the finan-cial reconstruction of the nationalised industries. Since the amount was by no means sufficient for this aim substantial privatisation could not be avoided and would even be increased if the economic situation of the nationalised firms did not improve as much as expected by the managers of the ÖIAG. Second, the new situation led some political actors to alter, actually to extend, their demand for privatisation.

The Austrian Trade Union Federation (ÖGB) representatives, who had already criticised the privatisation proposals of their own party, the SPÖ, at the beginning of the 1986 election campaign,[26] did not want to accept substantial privatisation as a result of the coalition negotiations. In letters addressed to the Chancellor (SPÖ) and the Vice-Chancellor (ÖVP) as well as in a decision of its

highest body, the ÖGB demanded that privatisations should not take place within the core sector of the nationalised industries.[27] The ÖGB also demanded that selling shares to foreign investors should be avoided. The subsequent negotiations between the government and the Trade Union Federation resulted in what was called a compromise, which, however, from a trade union perspective turned out to be a euphemism. It was agreed that privatisation would be restricted at first to a maximum of 49 per cent of the shares. Moreover, the ÖGB would be informed about each privatisation in advance.[28] The ÖVP made clear recently in statements by its General Secretary, Graff, the leader of the party in Parliament, König, and the Minister of Economic Affairs, Graf, that it would not be satisfied with 49 per. cent privatisation.[29] This position is given considerable support by the press.[30]

Finally, one might consider two inter-related aspects which could potentially hinder or limit privatisation: the size of the financial market and, given the already high degree of foreign capital in Austria,[31] the national interest in maintaining Austrian control over privatised firms. Since the stock market crash of 1873 Austrians have been rather cautious in financial matters and have generally avoided investing their money in shares, preferring loan subscriptions and bank savings. Ironically, the State reinforced this tendency by, on the one hand, actively promoting the riskless forms of investment and, on the other, by taxing both the profits of firms and the dividends. However, recently, some attempts have been made to reduce the discrimination against shares. Moreover, the financial promotion of other forms of investment has been reduced. Both tendencies are expected to continue and the Vienna stock exchange has undergone a remarkable upswing since 1985. From a very low baseline, its turnover increased sixfold in 1985 and by 51 per cent in 1986.[32] The international stock market crash of October 1987 also affected Vienna, but did not lead to a reversal of the trend to make the stock exchange more viable than in previous years. Nevertheless, the experts agreed that the Austrian stock market should not be overstrained by privatisation. The latter, therefore, had to be carried out piecemeal and, having in mind the urgent financial requirements of the firms remaining fully in the hands of the State, cannot be restricted to the Austrian capital market. The majorities of strategically important companies would remain Austrian in any case because of the maintenance of a majority of shares by the State. It was not yet clear if attempts would be made to ensure a high degree of Austrian shareholding besides simply choosing a domestic or a foreign stock exchange. However, there were also some nationalised firms, in particular Elin, which were intended to be sold partly to foreign capital to ensure the transfer of technology.

THE PRACTICE OF PRIVATISATION

The negotiations between the parties represented in the coalition finally resulted in a programme of privatisation, which included the reduction of the State's share of the ÖMV, the most profitable ÖIAG-firm, to 51 per cent. Additionally, the State's minority of Siemens Austria was to be further reduced, and a number of smaller companies as well as parts of non-profit-making firms would be sold off totally. The national airline would also be partly privatised, leaving the State with a majority stake: it was planned to privatise 25 per cent in the first half of 1988 and further to reduce the State's share during the next years by issuing new shares.[33] The two nationalised banks were to be privatised up to a 51 per cent share of the State, while remaining free to decide over their industrial assets. Finally, 49 per cent of the State-owned electric power industry was to be privatised. As pointed out above, it may be necessary to enlarge this list to raise the money for the financial reconstruction of those firms which remain nationalised.

The money raised by privatisation would be used for three purposes: as far as privatisation affected assets from the ÖIAG, the money would remain within this concern and would be used for the financial reconstruction of other companies; the profits from the privatisation of the banks and the airline would go directly to the budget; the sum raised by privatisation within the electric power industry would constitute funds for the promotion of technology and innovation. These funds would grant subsidies and loans to private as well as nationalised firms on a one-to-one basis. The shares would be sold mainly in Austria (60 per cent at least) as well as on a number of important European stock exchanges.

Only a small proportion of these plans could be realised by the beginning of 1988. The State's minority share in Siemens Austria was sold partly to Siemens Germany for AS 1.4 billion, leaving the State a 26 per cent share in this company. Some smaller companies were sold totally, and the State's share of the two banks was reduced by not participating in new share issue. The October 1987 stock market crash, of course, had an impact. It was decided to reduce the first step of privatising the nationalised oil firm ÖMV, which took place shortly after the crash, from 25 per cent to 15 per cent. To make the shares more attractive their price was reduced from about AS 5,000 to AS 4,400 each. Moreover, the dividend for 1987 for private investors, as opposed to the ÖIAG-holding company, was raised by one per cent to 16 per cent. To the surprise of most observers the shares were sold within two days and were bought overwhelmingly by small Austrian investors. The first stock exchange quotation of the ÖMV displayed a small upward tendency. The second tranche of the ÖMV was to be issued in the second half of 1988.[34] Thus, despite widespread scepticism about the size of the Austrian stock market and the willingness of investors to take a risk, the start of privatisation via the stock exchange was successful.

This privatisation policy was preceded by attempts on the part of the nationalised banks, in particular the Creditanstalt, to sell off their industrial assets. This strategy was the result of the poor performance of some of these firms which turned out to be rather costly, both for the bank and for the State which had to bear part of the burden. Thus, the Creditanstalt during the last few years has sold the tyreproducer Semperit, the moped branch of Steyr and the machinery firm Andritz. (The latter firm was financially reconstructed by the State with AS 2.8 billion a few years ago. It was sold for a few hundred million AS.) Leaving the banks free to decide over their industrial assets, as the government did, would, in practice, mean the continuation of selling them off.

However, there is another side to 'privatisation': a tendency to redistribute shares within the public sector. Thus, the State's monopolistic tobacco firm, which is highly profitable, became the partner of Chemie Linz AG in the latter's pharmaceutical sector (which was organised as an independent firm). The same occurred with the Chemic Linz AG's plastic branch and the ÖMV.[35] As a first step to selling off the electric power industry the State's shares of the companies with mixed ownership of the State (majorities) and the provinces (minorities) were sold. However, these shares were not sold via the stock exchange or to the provinces, which showed a keen interest, but to the main nationalised company within this industry, the *Verbundgesellschaft*. Although this company was to be privatised by 49 per cent, too, public control over the whole sector was maintained. Moreover, the provinces have at least some interest in the shares of the *Verbundgesellschaft* and, by law, will be offered one third of its shares. Thus, in spite of reducing the State's share to 51 per cent of the *Verbundgesellschaft*, privatisation will be restricted to 15 2/3 per cent if the provinces accept the offer.[36]

CONCLUSION

Since the early 1980s privatisation has became an important issue in Austrian politics. While the debate in the late 1970s entirely focused on municipal services, in the 1980s it has concentrated on the State's industrial assets. Most of the relevant political actors since 1986 have accepted privatisation, but for different reasons. From the beginning of 1987 a comprehensive programme of privatisation was programmed for implementation over the next few years, which would substantially reduce the size of the public sector.

Several conditions may be singled out which were of particular relevance for privatisation gaining momentum in Austrian politics: macro-economic performance, the debate about the appropriate macro-economic policy, the microeconomic performance of nationalised industries as well as the public image of the latter. Waning macro-economic success led to a fundamentally neo-liberal alternative for economic policy, which was proposed by the ÖVP, gaining momentum. The poor micro-economic performance of nationalised industries was used to demonstrate the failure of State intervention, and therefore enforced this trend.[37] This was exacerbated as (at least in public opinion) mismanagement was accompanied by unjustified employee privileges as well as by negative effects within the non-economic realm.

Privatisation in Austria is both an ideological goal in itself as well as a pragmatic response to the problems within the public sector and, even more so, to their consequences within the electoral arena. While the first approach is restricted to elements within the Austrian People's Party, the Social Democrats are in favour of privatisation entirely for pragmatic reasons, namely to reduce the short-term budgetary burden of nationalised industries and to remain electorally competitive, since a majority for privatisation exists.

Although this privatisation causes tensions within the ranks of the Social Democrats, from a party perspective it has to be assessed in comparison with the effective alternatives. If the party stuck to its previous policy it is very likely that it would have suffered electoral defeat and not be included in a government coalition. However, participating in government and in particular being the leading force there and occupying the economically most relevant departments, gives the Social Democrats the chance to influence a process which cannot be held up totally. Thus, for instance, the core sector of the nationalised sector will remain State-owned by 51 per cent at least. This argument may be complemented with a longerterm one. Subsidising the nationalised industries had caused increasing tensions within the labour movement and the trade unions in particular. It had tended to alienate an increasing number of employees for whom the policy of the unions led to the creation of two classes of employees and union members, one which has to confront the full risk of the labour market and one which is all but tenured. In the long run it would not have been possible to bridge this gap. Thus, the weakening of the unions by the current policy may be interpreted as the alternative which, in the long run, is the less unfavourable.[38]

While privatisation in the UK may have been initiated with the intention of weakening the unions, this motivation in Austria was mostly absent. Nevertheless, the question of whether privatisation will have an impact on the distribution of social power is relevant. In answering this question a broader perspective should be applied. One may distinguish privatisation and its immediate consequences on the one hand and the general policy change within the nationalised sector, introduced together with privatisation, on the other hand. As far as privatisation affects the profitable firms, and even those firms the majority of whose shares remain in the hands of the State, the trade unions will be able to maintain the strongholds they have established there. However, since even some of these firms are over-staffed, these strongholds may be reduced in their relative

importance for the trade union organisation. From this organisational perspective the forceful attempts to reorganise and close down the non-profitable firms, which remain totally nationalised, is more important. Without doubt it will lead to a substantial weakening of these union strongholds in terms of union members, etc. However, some of these firms were economically too weak to grant their work-force real economic power (strikes would have lost less money than production). Thus, in this respect real union power may even be increased by the reforms in the long run.

Nevertheless, the main argument for a substantial overall reduction of trade union power is the acceptance of the primacy of the economy for both the partly privatised firms and those which remain fully in the hands of the State. The latter, due to the narrow financial framework for their financial reconstruction, cannot afford to deviate substantially from the course a private enterprise would follow in this situation. The relevant politicians have guaranteed autonomy to the (mainly new) managers some of whom have declared that they will reject political intervention or resign their posts. In rejecting political intervention the managers might also rely on the support of the press. In the case of the profitable and partly privatised firms the strict legal protection of the shareholders alone[39] will make it nearly impossible for the State to direct them along a macro-economic instead of a micro-economic course. That means that these firms will behave according to the rules of the market. For the political actors this means that their policy potential is reduced and, as their potential in the 1970s and early 1980s was used on the employees' side, this also means a weakening of labour *vis-à-vis* capital. However, this, like other developments in the past,[40] means a shift of power within the framework of corporatism, rather than calling into question corporatism as such.

NOTES

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1. See S. Koren, 'Sozialisierungsideologie und Verstaatlichungsrealität in Österreich', in W.Weber (ed.), *Die Verstaatlichung in Österreich* (Berlin: Duncker & Humblot, 1964), pp. 9–339; E.Langer, *Die Verstaatlichung in Österreich* (Vienna: Verlag der Wiener Volksbuchhandlung, 1966); E.März/F.Weber, 'Verstaatlichung und Sozialisierung nach dem Ersten und dem Zweiten Weltkrieg-eine vergleichende Studie', *Austriaca,* 1979, numéro special, pp. 85–120.
2. Langer, pp. 173–97.
3. G.L.Gartler, 'Die Volksaktie in Österreich-Idee und Wirklichkeit', in G.Schöpfer (ed.), *Phänomen Sozialpartnerschaft* (Vienna: Böhlau, 1980), pp. 217–33; H.Hemetsberger-Koller, 'Verstaatlichung und Reprivatisierung in Österreich im ersten Nachkriegsjahrzehnt', *Christliche Demokratie* 4 (1986), No.4, pp.251–8.
4. See O.Grünwald, 'Die verstaatlichte Industrie', in *Die österreichische Gemeinwirtschaft* (Vienna: Jugend & Volk, 1982), pp. 223–39, here p.234.
5. W.Schüssel, 'Zu den wirtschaftspolitischen Positionen der Österreichischen Volkspartei', in H.Abele, E.Nowotny, S.Schleicher and G.Winckler (eds.), *Handbuch der österreichischen Wirtschaftspolitik* (Vienna: Manz, 1982), pp. 143–50, here pp. 146 ff.
6. See *Die österreichische Gemeinwirtschaft* (Vienna: Jugend & Volk, 1982).
7. See H.Parris, P.Pestieau and P.Saynor, *Public Enterprise in Western Europe* (London: Croom Helm, 1987), p. 27.

8. Österreichischer Wirtschaftsbund (ed.), *Privatisierung -Reprivatisierung* (Vienna: ÖWB, 1977); österreichischer Wirtschaftsbund, *Privat oder Staat?* (1981); J.Hawlik/W.Schüssel, *Mehr privat—weniger Staat* (Vienna: Signum, 1983).
9. A. Van der Bellen, 'Privatisierung und Gesellschaftspolitik', in L.Fröhlich and E.Kubin (eds.), *Privatisierung öffentlicher Aufgaben* (Linz: Institut für Kommunalwissenschaften und Umweltschutz, 1979): R.Platzer, 'Zur Privatisierungsdiskussion in Österreich', *WISO* 1985, pp.117–36.
10. The accuracy of the term 'Austro-Keynesianism' is, however, heavily desputed among Austrian economists. See E. Streissler, 'Die Fiktion des Austrokeynesianismus', *Wirtschaftspolitische Blätter* 34 (1987), pp. 714–25.
11. See P.Gerlich and W.C.Müller, 'Austria: A Crisis Resolved or a Crisis Postponed?', in E.Damgaard, P.Gerlich and J.J.Richardson (eds.), *Western Europe in Crisis: Political and Policy Responses* (Aldershot: Gower, 1988).
12. See W.C.Müller, 'Conservatism and the Transformation of the Austrian People's Party', in B.Girvin (ed.), *The Transformation of Contemporary Conservatism* (London : Sage, 1988).
13. A. Van der Bellen, 'Gewinne in der verstaatlichten Industrie. Betrachtungen zur aktuellen Situation', *Wirtschaft und Gesellschaft,* 13 (1987), pp. 337–52.
14. These projects, however, indirectly resulted out of the politically defined room for maneuvre of the nationalised enterprises. See W.C.Müller, 'Zur Genese des Verhältnisses von Politik und verstaatlicher Industrie in Österreich (1946–1981)', *Österreichische Zeitschrift für Politikwissenschaft* 10 (1981), pp. 393–408; W.C.Müller, 'Mikro-ökonomische Steuerung und ParteienKonkurrenz in Österreich', in H.Abromeit, G.Himmelmann and U.Jürgens (eds.), *Steuerungsinstrument öffentliche Wirtschaft?* IIVG/ discussion paper 86 — 214 (Berlin: Wissenschaftszentrum, 1986), pp. 160–208.
15. Similar public opinion survey results were reported by *Die Zukunft,* 1986, No.9, p.20; Austria Presse Agentur, 22 Aug. 1986; *Die Presse,* 24 April 1987 and 27/28 May 1987; *Die Furche,* No.38, 18 September 1987.
16. ÖVP, *Eine starke Wirtschaft für alle* (1982); A.Mock, *Erklärung zur Lage der Nation* (January 1983); ÖVP, *Wirtschaftspolitische Leitlinien* (October 1983); A.Mock, *Erklärung zur Lage der Nation* (January 1984); ÖVP, Statement about public economy, *Gemeinwirtschaft* 1983, No. 1, pp.94–7.
17. ÖVP, *Mehr Chancen-mehr Fairness* (October 1985 and 1986); ÖVP, *Mehr Privat-weniger Staat* (November 1985).
18. J.Hawlik/W.Schüssel, *Staat laB nach. Vorschläge zur Begrenzung und Privatisierung öffentlicher Aufgaben* (Vienna: Herold, 1985).
19. *Die Presse,* 8 October 1987; see W.Schüssel, 'Die Diskussion um Privatisierung und Eigentumsbildung in Österreich', in *Privatisierung—eine internationale Erfolgsstory* (Forschungsbericht 41/1987, Politische Akademie der ÖVP), pp.29–42. Note that the published version of Schüssel's conference contribution is more reserved in demanding further privatisation than his oral one. This might reflect the change of his party from opposition to government.
20. See H. Ostleitner, 'Die österreichische Sozialdemokratie und die "Privatisierung"', Wirts*chaftspolitische Blätter* 34 (1987), pp. 600–9.
21. See *Die Presse,* 10 December 1987.
22. See Arbeitsgemeinschaft der österreichischen Gemeinwirtschaft (ed.), *Privatisierung—der Griff nach den Rosinen* (Vienna: Jugend & Volk 1978); H.Tieber and H.Svoboda (eds.), *Privatisierung. Die falsche Alternative* (Vienna: Jugend & Volk, 1984); H.Tieber (ed.), *Zurück in die Zukunft. Die öffentliche Winschaft in Österreich* (Vienna: Jugend & Volk, 1987); *Gemeinwirtschaft hat Zukunft,* special issue *Gemeinwirtschaft* 1986, No.4; ***Die** Post. Privatisierung ist keine Alternative* (Vienna: Jugend & Volk, 1985); *Gemeinwirtschaft aktuell* (various issues).
23. See W.C.Müller, 'Die Rolle der Parteien bei Entstehung und Entwicklung der Sozialpartnerschaft', in P.Gerlich, E.Grande and W.C.Müller (eds.), *Sozialpartnerschaft in der Krise* (Vienna: Böhlau, 1985), pp. 135–225).

24. See K.R.Luther, 'Austria's Future and Waldheim's Past: The Significance of the 1986 Elections', *West European Politics,* Vol.10, No. 3 (1987), pp. 176–399 and Müller, 'Conservatism'.
25. See *Arbeitsübereinkommen zwischen der Sozialistischen Partei Österreichs und der Österreichischen Volkspartei über die Bildung einer gemeinsamen Bundesregierung für die Dauer der XVII. Gesetzgebungsperiode des Nationalrates* (Vienna: Bundespressedienst, 1987), pp. 56 — 7. *Erklärung der Bundesregierung vor dem Nationalrat* by Federal Chancellor Dr. Franz Vranitzky, 28 January 1987 (Vienna: Bundespressedienst, 1987), p.17.
26. Cf. *AZ,* 27/28 September 1986.
27. See AZ, 7 May 1987 and 8 May 1987; *Die Presse,* 14 May 1987; *AZ* 14 May 1987 and 12 June 1987.
28. See *Die Presse* 13/14 June 1987; *AZ* 26 June 1987.
29. See *AZ* 15 June 1987; 9 July 1987; 2 September 1987.
30. The most prominent example was a series of articles about privatisation in the *Kurier,* which has the second largest distribution of all daily newspapers in Austria (and is linked to business and agragian interest groups), entitled: 'Privatisation-as the others have done it' *('Privatisierung—so machen's die anderen').*
31. See B. Ederer *et al.,* 'Eigentumsverhältnisse in der österreichischen Wirtschaft', special issue, *Wirtschaft und Gesellschaft* 11 (1985).
32. See W. Feuchtmüller, 'Der österreichische Kapitalmarkt und die Privatisierung', *Wirtschaftspolitische Blätter* 34 (1987), pp. 564–74.
33. See *Die Presse,* 8 October 1987.
34. See *Die Presse,* 13 November 1987, 18 November 1987 and 4 December 1987.
35. See *Die Presse,* 25 May 1987. Cf.P.Gerlich, 'Deregulation in Austria', *European Journal of Political Research* 16 (1988) (forthcoming).
36. See *Bundesgesetzblatt* No. 321/1987.
37. Cf. A. Van der Bellen, *Öffentliche Unternehmen zwischen Markt und Staat* (Cologne: Kiepenheuer & Witsch, 1977), p.96.
38. Cf. Ostleitner, pp. 605f.
39. See J. Aicher, 'Die verstaatlichte Industrie zwischen Eigenverantwortung und Staatlicher Lenkung' (Vienna: mimeo, 1987); W. Kastner, 'Rechtsfragen der Privatisierung', *Wirtschaftspolitische Blätter* 34 (1987), pp.658–64.
40. See P.Gerlich, E.Grande and W.C.Müller, 'Corporatism in Crisis: Stability and Change of Social Partnership in Austria', *Political Studies* 36 (1988), pp. 209–23.

Less Than Nothing? Hidden Privatisation of the Pseudo-Private Sector: The Dutch Case

Rudy B.Andeweg

> Take some more tea,' the March Hare said to Alice, very earnestly. 'I've had nothing yet,' Alice replied in an offended tone, 'so I can't take more,'
>
> 'You mean you can't take *less,'* said the Hatter: 'it's very easy to take *more* than nothing.'
>
> *Alice's Adventures in Wonderland*

THE PRIVATISATION PROGRAMME

If you have nothing, you cannot take less. Translated from Lewis Carroll's tea party to the politics of privatisation, the Mad Hatter's message is appealingly simple: if you have no public sector, you cannot privatise. This truism may not seem to be of immediate relevance to the Dutch case. After all, the Dutch take second place only to Sweden when it comes to the share of GNP claimed for government outlays. In this respect, the Dutch public sector is some 15 per cent ahead of countries such as the UK and Germany, and even double that percentage of the US, Switzerland, and Japan. Indeed, the size of the public sector comes under regular indigenous criticism. These criticisms have long been part and parcel of right-wing election manifestos, but in the late 1970s and early 1980s they became more widespread. Even the Dutch Social Democrats became infected by fear of Big Brother: the party's research centre published a book with the telling title 'The Illusion of the Democratic State'.[1] In 1982 the retreat of the State became official government policy in the form of six so-called 'major operations': Reconsideration, Reorganisation, Decentralisation, Deregulation, Debureaucratisation (i.e. an annual 2 per cent reduction in the size of the civil service), and Privatisation.[2] Privatisation has always been regarded as the obvious antidote against a growing public sector. The intellectual godfather of privatisation in the Netherlands, Twente University's Professor of Public Finance P.B.Boorsma, sees it as the answer to the 'Faustian State'.[3] Likewise, the senior civil servant in charge of the government's policy on privatisation started an article on that topic with a lamentation on the extraordinarily large public sector in the Netherlands.[4]

Within this general motive for privatisation, three distinct arguments can be detected. In 1980 a Royal Commission on Administrative Reform recommended 'decentralization to the private sector' (the term privatisation was not yet *en vogue* then) as a means to reduce overload, and increase administrative efficiency.[5] In 1981 a Civil Service committee set up to reconsider some government programmes recommended privatisation as a means to reduce government spending.[6] Mean-while the Wagner Commission (a tripartite commission advising the government on economic recovery, led by the former chairman of Royal Dutch Shell) recom mended privatisation as a means of

strengthening the market economy. These three recommendations-administrative, budgetary and macro-economic-can be found as the official motivation for the government's privatisation programme, launched in 1982.[7] The budgetary motive dominates, however, and it is the Treasury that forms the driving force behind privatisation. An interdepartmental committee of civil servants was set up to locate the government service that could be privatised. On the basis of this committee's reports, the Cabinet has decided to (partly) privatise:[8]

- the technical support services of the police
- accountancy
- the Government Printing Office
- maintenance of buildings, etc.
- the department of Weights and Measures
- the Pilotage Service
- government management consultants
- the Government Car Service
- the Assay Office
- the Land Registry
- the Flevoland Water Authority
- the Limburg Computer Centre
- the government exhibition service
- IJmuiden harbour

and a few other services. A further study has been commissioned into the potential for privatisation of various other services such as the Army's Central Film Bureau, the State Lottery, the Foreign Office translation bureau, the Forestry Commission, and midwife training. Many of these proposals are of the 'contracting out' variety of privatisation. Of the actual decisions taken so far, only the privatisation of the Assay Office results in the complete termination of government intervention. Implementation of the decisions would probably involve about 10,000 out of 729,000 government employees and 380,000 so-called trend-followers.[9]

Following the recommendations of yet another commission, the PTT (Mail and Telecommunication) is to become a company with limited liability.[10] And in 1986, after 10 years of deliberation, a Post Bank has been created as a company with limited liability. These two decisions involve over 100,000 postal employees. No wonder these two projects are the flagships of the government's otherwise flagging privatisation programme. However, it is dubious whether they can be classified as privatisation proper. First, the motivation is different. The Post Bank was a Social-Democratic initiative to introduce some healthy competition into an oligopolistic banking world. It is therefore a form of State intervention, and perceived as such by the commercial banks. The transformation of Mail and Telecommunications is intended to protect these government services form increasing competition by freeing them from some financial and accountancy constraints. It is therefore a form of State protection, and perceived as such by commentators.[11] Moreover, both the Post Bank and Mail and Telecommunications are but the transformation of one State enterprise[12] into three State-owned companies, as the government remains the sole share-holder in the new companies.

If we dismiss the Post Bank and the plans for Mail and Telecommunications as pseudo-privatisation, the Dutch government's record on privatisation is not particularly impressive. Most of

the few actual privatisations that have been decided upon will be accompanied by new regulation. One author argues that, far from being a retreat of the state, 'In this light, privatisation is a learning process towards a different form of government intervention'.[13] Questioned in Parliament, the Prime Minister tried to cut his losses by de-emphasising the importance of privatisation: 'I do not want to give rise to the expectation that Privatisation can possibly become as important as Reconsideration or Deregulation. This project will be of a more modest character.'[14] The employers' organisations have complained about the low volume and slow progress of the privatisation programme and even about actual deprivatisation.[15] By deprivatisation they mean that some government services, primarily utilities, invade the private sector in order to make up for budget cutbacks in the public sector. One Dutch study sums up the general conclusion: The political momentum that is given to the issue of privatisation is not very great. The charge that privatisation will result in a fundamental change of the balance between the private and the public sector in society has become very small indeed'.[16] The lack of success of privatisation in the Netherlands has also been noted in comparative studies: 'Overall, concrete results of privatisation of government services in the first round have been especially meager, certainly in comparison with developments abroad'.[17] In view of the large public sector, it would seem that the government's privatisation programme is only rearranging the deck chairs on the *Titanic*.

THE PRIVATISATION PARADOX

We are left with a puzzle: if the public sector is so large, why has the government failed to privatise more? One obvious answer would be that the government met with formidable and effective opposition to privatisation. However, that does not seem to be the case. On the political front only the Communist Party and the Pacifist Socialists devoted part of their 1986 election manifestos to a denunciation of privatisation, but these parties hardly form a force to be reckoned with: the Communists are no longer even represented in Parliament. The opposition centre-left D66 is cautiously in favour of privatisation. The main opposition party, the Social-Democratic PvdA, does not mention privatisation in its manifesto. Although the party is often critical of the government's privatisation proposals, it is not opposed to privatisation in principle. Nationalisation has never been prominent in post-war Social-Democratic ideology, with the possible exception of land ownership. Already before the war, the Social Democrats had converted to plan—socialism as their answer to the economic depression. After the war, the Social Democratic Party was reconstituted as a broad church, including progressive Catholics and Protestants, as well as Liberals. A call for nationalisation would hardly attract these new constituencies. Perhaps as important as the Social Democrats' lack of enthusiasm for nationalisation is the fact that the government's privatisation programme has no overt ideological motivation. In the UK, for example, the minister in charge of privatisation declared that 'Our aim is to build upon our property-owning democracy and to establish a people's capital market, to bring capitalism to the place of work, to the High street and even to the home'.[18] In the Netherlands such trumpets of 'popular capitalism' have never been sounded. As we have seen, privatisation is defended as a pragmatic policy to increase administrative efficiency, to reduce the budget deficit, or to revive the economy. It is difficult to oppose such pragmatic policies on ideological grounds.

One might expect the civil service unions to oppose privatisation, and they do. Although the unionisation of the Dutch labour force is less than 30 per cent, it is twice as high in the public sector. However, union resistance to privatisation is not very effective. First, the biggest civil service unions

are part of two trade union federations: the FNV (a merger of Socialist and Catholic trade unions), and the smaller Protestant CNV. These federations are much more centralised than, for example, the British TUC, and the peak organisations do exercise some restraint over their member unions. As both federations have member-unions in the public as well as in the private sector, they are not making a big issue out of their opposition to privatisation by throwing their full weight behind their civil service member-unions. The opposition of the civil service unions is further weakened by the fact that they also oppose the government's lowering of civil service salaries. Their main argument is that pay and work conditions in the public sector are now lagging behind those in the private sector. It places them in a somewhat hypocritical position to oppose—at the same time-a transfer of members from the public to the private sector. Their opposition to privatisation is therefore couched more in terms of the general interest (the role of the State, government services being more efficient than they are given credit for, other available strategies for increasing effectiveness and efficiency etc.) than in terms of their members' self—interest.[19] Furthermore, in the case of the Post Bank, the government has largely pre-empted union resistance by stipulating that the pension scheme for employees in the newly 'privatised' company must be equivalent to that of civil servants.[20]

The most likely source of opposition to privatisation is the bureaucracy itself. The employers' organisations have complained to the Minister of Finance about the lack of enthusiasm for privatisation within the departments. They have recommended that representatives from the private sector are invited to participate in the preparation of privatisation proposals.[21] It is probably true that many civil servants prefer greater autonomy within the administration to outright privatisation. However, the Dutch civil service is not monolithic, but characterised by a considerable degree of fragmentation. There can be no gainsaying that certain sections of the bureaucracy oppose privatisation, but other sections (notably in the Treasury and in the department of General Affairs) are very much in favour. Some sections, not affected themselves, may secretly hope that privatisation elsewhere will reduce pressure to cut back on their own budgets. Even some of the affected sections may see advantages in privatisation: no Court of Accounts, no Freedom of Information Act, etc. Interestingly, the one department that has been most eager to privatise-the Department of Transport and Waterworks—is a department that has a reputation for rather autonomous civil servants in some sections ('a State within a State'). No, if privatisation is unsuccessful, it is not because the government has been unable to overcome resistance to it.

As a footnote to this overview of support and resistance to privatisation, it is remarkable that the largest employers' organisation (VNO) is relatively moderate in its support for privatisation. It is certainly in favour of privatising or contrac ting out numerous government services, but it supports the selling of government shares in State-owned companies only 'in principle'. In an internal memo, it is argued that it is economically unnecessary, that a large-scale sale of government shares could upset the market, and that such a sale can only be justified if the revenue raised is not used for government spending, and if there has been prior consultation of the companies involved.[22]

Next to resistance, legal and constitutional problems are sometimes mentioned. The government programme asserts that taxation is one of the impediments to privatisation.[23] If a department runs its own printing division, or its own maintenance unit, it does not pay VAT on the services it provides to itself. As soon as such services are privatised, the department has to pay VAT for printing, maintenance, etc. to the private sector companies providing these services. The services are thus more expensive after privatisation, which takes away the budgetary incentive. This problem may explain non-privatisation at the local level (where privatisation has actually been *more* successful), but it can hardly explain the lack of privatisation at the national level. After all, the

privatised firms hand the VAT over to Inland Revenue. For the national government as a whole, it is no more than a shifting of funds. A more likely obstacle to privatisation is decentralisation. Admittedly, the Dutch political system is one of the most highly centralised in Europe, but municipal governments, regional combinations of municipal governments, and provincial governments play a large role in economic activities such as public transport, gas, water, and electricity: there are more than 200 public enterprises at the sub-national level. Especially the utilities often provide the local authorities with a source of income that they are unwilling to dispose of. However, apart from the economic activities mentioned, decentralisation cannot explain the unimpressive volume of privatisation.

It the solution for the paradox of large public sector and little privatisation is not to be found on the privatisation side of the equation, perhaps we have to look at the public sector itself. The growth of the public sector has been particularly rapid in the Netherlands, doubling from 35 per cent of the National Income in 1960 to a peak of 70.3 per cent in 1983 (it has declined somewhat since then). However, this increase is largely due to interest on government debts, and to income transfers, such as Social Security. Programme spending by the government, and in particular by the national government, has not increased much.[24] Moreover, when we have subtracted interest payments and income transfers, relatively little remains in terms of State participation in companies.[25] There are only four State enterprises: Mail and Telecommunications, the Mint, the Government Printing Office, and IJmuiden harbour. In addition, the government is sole shareholder of 13 companies, the most important ones being the chemicals giant DSM (formerly the State Mines, transformed from a State Enterprise into a State-owned company in 1966), the recently created Post Bank, and Dutch Rail. The government has at least 50 per cent shareholdings in another 17 companies (including most airports), and minority shares in an additional 14 companies (ranging from just under 50 per cent of KLM Royal Dutch Airlines, to 29 per cent in the steel company Hoogovens, to a mere 1 per cent in the military electronics firm Hollandse Signaal). All in all, the non-financial public enterprises accounted for 3.6 per cent of total economic output in 1971–3 (and it is unlikely to be higher now) and 12.6 per cent of investment in 1978.[26] Today, approx imately 230,000 people, or some 5 per cent of the labour force, are employed in companies of which the government owns more than 25 per cent of the shares.[27] The conclusion that There are fewer public enterprises in the Netherlands than in the other countries and their share of the national economy is relatively small'[28] is shared by study after study. That means that the potential for privatisation is small. As the Mad Hatter implied: if you have nothing, you cannot take less.

There are both political and economic explanations for the small State share of Dutch business. One political reason has already been mentioned: when the Social Democrats were still in favour of nationalisation they were out of power, and when they entered government coalitions, they had dropped nationalisation in favour of planning. A second political explanation refers to the segmentation *(verzuiling)* of Dutch society until the late 1960s. To maintain some form of stable government in such a divided society, great care had to be taken not to overload the centre of political decision-making. As Van Schendelen points out:

> In the pillarised society the cleavages between the four main social groupings were such that 'the common government' could handle only a few issues and usually only in a procedural way, leaving as much substantial decisionmaking as possible to the pillars themselves. These pillars organised their own interference in socio-economic and private life. They created their

> own welfare organisations (for income, health, housing, education), industrial corporations, trade unions, services, banks and so on.[29]

The need for consensual government is sometimes mentioned as an impediment to privatisation in other countries. In the Netherlands this is also true, but in an indirect way: consociational democracy was one factor in preventing nationalisation in the past, thus limiting today's potential for privatisation.

In addition to these political factors, there is the fact that the Dutch economy is an extremely open one, with exports and imports each equivalent to about 60 per cent of GDP. In general, public enterprises tend to represent types of economic activity that are more or less confined to the domestic market.[30] That economic sector is relatively unimportant in the Netherlands. This exposure to international competition has also made it almost impossible for the Dutch government to use the few existing public enterprises for macro, rather than micro-economic purposes.

COUNTER-ARGUMENTS

Three objections can be raised against the analysis so far. First, it can be argued that the transformation of State enterprises into State-owned companies is more than window-dressing. Through ministerial responsibility a State enterprise is subject to parliamentary control, extending to the smallest details.[31] There have been extensive parliamentary debates on the size of outdoor letter boxes and interior decoration in Post Offices. State-owned companies do not have to submit to such detailed political scrutiny, partly because Parliament no longer has access to the necessary information. When Parliament nevertheless attempts to influence the management of a State-owned company, the minister can refuse to comply. When Parliament passed a motion calling on the Minister of Transport to cancel a contract between Dutch Mail and Telecommunications (a State enterprise), and the South African government, as a protest against Apartheid, the minister did so. However, the minister refused to implement a similar motion when the KLM (then 78 per cent owned by the government) was concerned, because of the company's independent status. On the other hand, the government often continues to exercise considerable influence over State-owned companies. The government has in the past intervened in the pricing policy of both the PTT (a State enterprise) and Dutch Rail (a State-owned company). Especially State-owned companies receiving government aid normally require ministerial approval of their investment decisions. Not only State enterprises, but also companies of which 50 per cent or more of the shares are owned by the government, are subject to control by the Court of Accounts.

A second counter-argument is that actual government divestment of shares has taken place, although it is listed under 'investment policy', rather than under 'privatisation'. The most important example concerns KLM Royal Dutch Airlines.[32] In 1984 the government sold some of its KLM shares. More significant has been a simultaneous new share issue in KLM, which had the effect of lowering the government's proportion of shares in the airline. As the combined result of privatisation and 'silent' privatisation, the government's holding decreased from 78 to 55.4 per cent. A second share issue in 1986 led to a further decrease to under 50 per cent. Future sales of shares in DSM are planned, and divestment of shares in the Post Bank has not been ruled out. In 1985 an interdepartmental committee studied the possibilities for further privatisation. However, its report singled out only 18 companies from which the government should withdraw, and attached a whole list of conditions to such sales, including the provisos that the income from a privatisation should

more or less compensate for the loss of revenue from the company concerned, and that control over the company should not fall into 'undesirable hands'.[33]

Thirdly, we have confined ourselves to the national level, whereas privatisation has been more extensive at the local level. This is primarily the result of 'decentralization' by the national government, effectively placing responsibility for the implementation of many budget cutbacks on the shoulders of local authorities. Although exact figures about local privatisation are not available, the literature rarely mentions projects beyond the familiar refuse collection and municipal abattoirs. The fact that local governments are holding on to utilities such as gas and electricity has already been mentioned. It is unlikely that an abundance of local privatisations makes up for the poor privatisation results at the national level.

Undoubtedly there is some truth in all these three counter-arguments, and they provide a valuable correction to the analysis so far, but they do not alter the general conclusion: privatisation failed because there was not much to privatise.

HIDDEN PRIVATISATION

However, it would be misleading to end with that conclusion. It is based on a sharp and rather legalistic distinction between the public and the private sector. The borderline between public and private sector is often blurred in the Netherlands, which makes it difficult to define and measure privatisation accurately. The socialisation of the state, and the statisation of society' is a phrase often used in this respect. There is an exceptionally large grey area, or mixed sector, between the public and private sector proper. This mixed sector takes many forms. In some areas of economic activity the government sets up competing services to keep private sector companies 'honest'. As we saw, this is the purpose of the new Post Bank. A similar situation exists, albeit unintentionally, in the field of pensions and life insurance.[34] This phenomenon does not pose many problems from our point of view, as we can still classify individual companies as belonging to the public or private sector. A second form of mixed sector occurs when public and private sectors join forces. Here we enter the quagmire of neo-corporatism. In the Netherlands there exists a plethora of bi- and tripartite institutions in which representatives from the government and from private sector organisations co-operate. There is some debate on whether these institutions are a means of government intervention in the private sector, or of interest group colonisation of the public sector, but that debate only serves to illustrate the difficulty of disentangling public and private sector in the Netherlands.[35] Although corporatist institutions do distribute some public sector money, their main tasks are to advise and to regulate. This aspect of the mixed sector is probably more relevant for a paper on deregulation, than for our discussion of privatisation.

In a third form of the mixed sector, the government and the private sector organisations remain legally distinct, but are intertwined in reality. One article on Dutch public enterprise speaks of a 'tradition of privatisation' going back to 1918.[36] That is correct in the sense that since then the government preferred private-law to public-law constructions. Especially the 'foundation' has become a prominent vehicle for government intervention. Many a local swimming pool is owned by a foundation, but this foundation is 100 per cent subsidised by the local authority, and the governing body of the foundation is largely made up of local councillors, aldermen and civil servants. Legally, our swimming pool is in the private sector, but in reality it is not. These foundations are widespread, and they provided a way to decentralise policy-making to the various social groupings ('pillars'), as we argued in our explanation of the relative absence of

nationalisation. Nowadays, the pillars have largely lost their power, but the foundations still exist, and they still rely on government subsidies. When the government reduces, or even stops, the subsidy, either the foundation is liquidated, or it has to look elsewhere for funds. This is of the order of the day, but it is not called privatisation, because the foundation was never out of the private sector: it is hidden privatisation of a pseudo-private sector.

Foundations are not so much used to disguise government intervention in the economy, but the same phenomenon can be observed. In 1976–77 the government acquired shares in nine ailing industries in order to prevent massive unemployment. However, this is the exception rather than the rule, and most of these shares have been sold again. More often, the government participates indirectly in such industries through State-owned companies such as the National Investment Bank, or the Industrial Guarantee Fund.[37] If we look at the economically crucial exploitation of Dutch natural gas, the government itself has only a 10 per cent share of the Dutch Gas Union, but the State-owned DSM owns a further 40 per cent.[38] It was DSM, not the government, that bailed out the foundering automobile industry DAF.[39] Dutch Rail also acts as a holding company for eleven unprofitable regional transport companies. Companies that are (partially) taken over by State-owned companies, are not themselves listed as State-owned companies. Hence, the sale of such shares is not recorded as privatisation.

Even more important than indirect participation in equity holdings has been the supply of loans and guarantees to moribund businesses. Normally the government has attached conditions to such support, and has appointed a 'government observer' to keep an eye on the management of the company concerned. One of these 'rescue operations', that of the Dutch shipbuilding industry, has achieved such notoriety that it deserves special attention. The story starts in 1965/6 when a tripartite commission investigated the problems of the (private sector) Dutch shipbuilding industry and recommended rationalisation and modernisation as the only routes to recovery. The government assumed that such an operation required a concentration of the shipbuilding industry, which was then in the hands of seven independent companies. As a first step, the government established an interestsubsidy system on condition that individual beneficiaries would agree to co-operate with each other. This set in motion a gradual amalgamation of most of the shipyards. One company, led by a maverick and expansionist entrepreneur, Verolme, was later shown to be the most healthy and viable of the seven. Verolme tried to go it alone, but when he needed a government guarantee on a commercial loan to build a new dock, the government forced him into a merger with one of the ailing shipyards. This worsened Verolme's financial position, and soon he needed a government loan to tide him over. The government then forced him to merge his company with the others into a new conglomerate, RSV, and to step down himself! The resulting new company was in fact a shotgun marriage, an artificial creation of the government. It remained a loose combination of shipyards in different parts of the country, and never became a viable entity. Again and again the government had to step in to rescue the company with loans and guarantees. With some 30,000 employees, 'Seriously considering to let RSV go bankrupt was thinking the unthinkable'.[40] The government observer in the company was the senior civil servant in charge of the Department of Economic Affairs' industrial policy. He became a double agent: it was never clear whether he represented the government in the company, or the company in the government. As the government was drawn in deeper and deeper, The Minister and his officials began to meddle in what were basically corporate decisions: the acceptance of orders (at any price), cost calculations, capacity plans and investments. The borderline between government and corporate responsibility became blurred'.[41] The company eventually collapsed in 1983. The importance of this episode can be

gauged from the fact that the government had spent 2.2 billion Dutch guilders (± £0.67 billion) on this company alone. A Parliamentary Inquiry into the debacle brought to light the degree of government interference in what was a private sector company.[42] As a result the amount of government money spent on firms in difficulty declined sharply from half a billion guilders in 1982, to around 14 million guilders in 1984.[43] According to another report such subsidies dropped from 3 per cent of the net national income in 1982 to 1 per cent of net national income in 1987.[44] Whatever the correct figures may be, government loans and guarantees to private sector companies have declined dramatically, It is safe to assume that this decline is accompanied by a decrease in government interference in the operation of these companies. In other words: the government has retreated. But as these companies were never out of the private sector, this retreat is never classified as privatisation. As in the case of the foundations, it amounts to a hidden privatisation of pseudo-private companies.

The next phase of hidden privatisation will probably concern housing. The selling of council houses is one of the mainstays of British privatisation. In the Netherlands council houses are rare. Yet, 43 per cent of the Dutch population lives in housing that is subsidised by the government.[45] In the past each pillar had its own 'housing corporation' in almost every community. These corporations still exist, and they own the houses, but they are subsidised by the government. Apparently many a book-keeping trick has been performed to increase the amount of government subsidy for new housing projects. In the wake of the Parliamentary Inquiry into the government's involvement in the shipbuilding industry, there is now a Parliamentary Inquiry into the government's housing policy. Although this investigation is not yet completed, there are already signs of a retreat by the government from this 'mixed sector'.[46] Again, such a retreat will not involve a sale of houses, but the net result will be similar.

CONCLUSION

'You can't take less than nothing'. The Dutch government has found a way out of this truism through the hidden privatisation of a pseudo-private sector. Perhaps not surprisingly for a Dutch government, its privatisation policy resembles not so much the Mad Hatter's teacup, but rather the Widow of Zarephath's cruse.[47] Despite its idiosyncrasies, the Dutch experience with privatisation has many characteristics in common with other countries. It shares with Sweden the paradox of a large public sector and a small nationalised industry. It shares with many European countries a large grey area of various hybrid forms of economic activity between the public and the private sector. In that respect, the Dutch case highlights one of the difficulties in the comparative study of the politics of privatisation: the definition of the public sector. At first sight it seems that, despite a huge public sector, there is not much privatisation in the Netherlands. There cannot be much privatisation, because the actual potential for privatisation is small, given the nature of the Dutch public sector. But when we cast our net wider, in order to include the 'mixed sector' where government and private sector organisations are intertwined, we find many of the same developments that have taken place elsewhere. The politics of hidden privatisation are much more difficult to study. There are no government documents laying down its objectives and strategies. Hidden privatisation is probably not part of a coherent and conscious policy. Opposition or resistance to this type of government withdrawal takes the form of individual court actions against the discontinuation of a subsidy, or isolated occupations of liquidated factories by laid-off workers. One Dutch study of

privatisation lists the mutual entanglement of public and private sector as an obstacle to privatisation.[48] One might wonder whether the opposite is not nearer the truth.

NOTES

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1. P.Kalma, *De Illusie van de Democratische Staat* (Deventer, 1982).
2. For a short overview of these 'major operations' in English, see: I.Th.M. Snellen (ed.), *Limits of Government; Dutch Experiences* (Amsterdam: Kobra, 1985), pp. 12–18.
3. P.B.Boorsma and N.P.Mol, *Privatisering* (Scheveningen: Stichting Maatschappij en Onderneming, 1983).
4. H.J.Hamer, 'Privatisering en Zelfbeheer', *Beleid en Maatschappij,* vol. 9 (1985), pp. 227–35.
5. The Vonhoff Commission, *Elk Kent de Laan die Derwaart Gaat* (Den Haag: Staatsuitgeverij, 1980), pp. 56–8.
6. Heroverweging Collectieve Uitgaven, *Deelrapport 32: Privatisering*, Second Chamber of Parliament 1981–1982, 16625 n.40.
7. Letter from the Minister of Finance to the Second Chamber of Parliament, 25 May 1983, 17938 n. 1.
8. Regeerakkoord (Government Programme), Lubbers II Cabinet (Den Haag: Staatsuitgeverij, 1986), pp. 49–50; For an overview of privatisation decisions taken and planned, also see J.L.M. Hakvoort, *Withdrawal of Government: privatisation in the Netherlands,* paper presented to the European Group for Public Administration Conference on Current Trends within Public Administration, Copenhagen, 24–7 August 1986.
9. C.A.Kent (ed.), *Entrepreneurship and the Privatizing of Government* (New York: Quorum, 1987), p. 171. Trend followers are employees whose salaries and conditions are linked to those of civil servants. See for the numbers involved in privatisation also H.J. De Ru, 'Privatisering, Ontwikkelingen en Perspectieven', esp. pp. 28 — 31, in H.J. De Ru (ed.), *Privatisering in de Praktijk: juridische aspecten* (Zwolle: Tjeenk Willink, 1987).
10. The Steenbergen Commission, *Signalen voor Straks; een nieuwe richting voor de* PTT (Den Haag, 1985).
11. De Ru, op.cit., p.16.
12. By 'State Enterprise' we mean a company, run by the government, set up by a special Act, and governed by public (i.e, administrative) law.
13. H.J. De Ru, 'Privatisering en het Probleem van de Meespelende Scheidsrechter', *Beleid en Maatschappij*, v.10 (1986), p.64.
14. Remarks by the Prime Minister in the Standing Committee for Internal Affairs of the Second Chamber of Parliament, 10 September 1984.
15. Letter of the Council of Dutch Employers' Organisations VNO and NCW to the Minister of Finance, 16 April 1985.
16. Snellen, op.cit., p.16.
17. Kent, loc.cit.
18. John Moore MP, quoted in *The Economist,* 21 December 1985, p.83.
19. See for example the following report, commissioned by ABVA-KABO, the largest civil-service union: F. Soeterbroek and A. Walravens, *Privatisering in Nederland: analyse, kritiek en alternatieven* (ABVA-KABO, 1985).
20. Art. 3.1 Personeelswet Postbank NV.
21. Letter of the Council of Dutch Employers Organisations VNO and NCW to the Minister of Finance, 16 April 1985.

22. *Punten voor Privatisering/Deprivatisering,* internal memo VNO, 24 June 1985, p.2.
23. *Regeerakkoord,* op.cit., p.39.
24. Hamer, *op.cit.,* pp. 227–28.
25. The following overview of State participation in companies is based on H.J. De Ru, *Staatsbedrijven en Staatsdeelnemingen, Juridische Aspecten en de Gevolgen daarvan voor het Economisch Beleid* (Nijmegen: Ars Aequi, 1981), Appendices I-II, pp. 336–40 (this book has a summary in English: pp. 330–35), updated in H.J. de Ru, 'Public Enterprises in The Netherlands; a tradition in privatisation', *Annals of Public and Cooperative Economy,* 1985, pp. 313 — 41, Appendices 1 and 2. For an earlier overview in English, see H. Van Der Kar, *Public Enterprise in the EEC: the Netherlands* (Alphen aan den Rijn: Sijthoff, 1978).
26. H.Parris, P.Pestieau, and P. Saynor, *Public Enterprise in Western Europe* (London: Croom Helm, 1987), p.27.
27. De Ru, 1985, op.cit., p.342.
28. Parris *et al.,* op.cit., p.186.
29. M.P.C.M. Van Schendelen, The Netherlands: from low to high politicisation', in M.P.C.M. Van Schendelen and R.J.Jackson (eds.), *The Politicisation of Business in Western Europe* (London: Croom Helm, 1987) p.65.
30. See D.Heald's contribution above.
31. The following examples are taken from De Ru, 1985, op.cit., p.321.
32. Kent, op.cit., pp. 171–3.
33. *Heroverwegingsrapport Verkoop Staatsdeelnemingen,* Second Chamber of Parliament 16625 n.73, 1985.
34. M.Rein and H.Van Gunsteren, 'The Dialectic of Public and Private Pensions', *Journal of Social Policy,* vol.14 (1985), pp. 129–49.
35. R.B.Andeweg, 'Van Corporatisme naar Etatisme?', *SEW, Tijdschrift voor Europees en Economisch Recht,* vol.34 (1986), pp.388–401.
36. H.J.De Ru, 1985, op.cit.
37. Kent, op.cit., p.171.
38. Ibid, p.172, fn.3.
39. *The Economist,* 12 September 1987, p.18.
40. *Verslag van de Enquetecommissie Rijn-Schelde-Verolme (RSV),* Second Chamber of Parliament 1984–1985, 17817 n.16, p.509.
41. Ibid, p.504.
42. For a well-written and entertaining summary in English of the findings, see ibid., pp.497–510.
43. Van Schendelen, op.cit., p.77.
44. *The Economist,* 12 September 1987, p.18.
45. Ibid, p.21.
46. *NRC-Handelsblad; weekeditie voor het buitenland,* 3 November 1987, p.2.
47. I Kings 17:9–16.
48. De Ru, 1987, op.cit., pp. 19–20.

The Triumph of Pragmatism: Nationalisation and Privatisation in Sweden*

Jonas Pontusson

At least as far as Western Europe is concerned, conventional wisdom associates the nationalisation of industry with left-wing government and privatisation with right-wing government. From this perspective, Sweden represents something of a paradox. In no other West European country has a reformist working-class party (or any other type of left party) held government office for so long; yet public ownership of industrial/commercial enterprise is quite limited by comparative standards. While public expenditures increased greatly as a proportion of Sweden's Gross Domestic Product, State enterprise barely kept up with the expansion of the economy as a whole during the Social Democratic government tenure of 1932–76. The paradox here becomes particularly pronounced when we turn to the period since 1976. For the so-called 'bourgeois parties'—Liberals, Centre, and Conservatives—nationalised more industry during their first three years in office than the Social Democrats had done in the previous 44 years. And since they returned to office in 1982, the Social Democrats have undertaken several privatisation measures.

Why have the Swedish Social Democrats engaged in privatisation? And how do their privatisation measures differ from those of Conservative governments in, say, Britain or France? The following analysis seeks to address these questions as well as to unravel the apparent paradox of political left-wing dominance and limited public ownership. It will be argued that the interaction of political constraints and strategic choices explains the small size of the State enterprise sector in Sweden. On the one hand, the Social Democrats have not been as dominant as commonly supposed, and have never been in a position to impose large-scale nationalisation measures. On the other hand, their approach to managing the economy and reforming society has played down public ownership.

In the course of the inter-war period, the Swedish Social Democrats came to adopt an essentially pragmatic attitude to nationalisation, treating it as one of many means to promote full employment and industrial efficiency. In a similar vein, the Social Democrats have adopted a pragmatic attitude to privatisation in the 1980s. As will be seen, Swedish-style privatisation has little to do with the idea of 'popular capitalism'. In a couple of instances, the government has sold its holdings to private corporations. The other cases of privatisation have involved new share issues by State-owned corporations. In these cases, a large portion of newly issued shares was reserved for institutional investors expected to assume a long-term ownership role, and the government retains a controlling interest. Another striking feature of privatisation in Sweden is the lack of publicity and political controversy.

Tracing the politics of State enterprise since the 1930s, most of the following presentation follows a chronological order. But it begins with some preliminary remarks about the organisation and scope of State enterprise in Sweden.

PRELIMINARY OVERVIEW

There are three types of public enterprise in Sweden: so-called commercial State agencies *(affärsverk),* corporations owned by the State, and corporations owned by local authorities.[1] The following analysis is restricted to 'State enterprise'. In other words, it disregards corporations owned by local authorities: such corporations numbered roughly 1,200 in 1983, and were primarily engaged in activities such as housing, transport, energy, water supply, and refuse disposal. They are typically quite small, and their overall significance for employment and output is limited.

There are seven commercial State agencies: the Post Office, the Board of Telecommunications, the State Railways, the Board of Civil Aviation, the Hydro-electric Power Board (which accounts for 45 per cent of electricity generation), the Forest Service (which maintains State-owned forests), and the National Industries Board (which produces matériel for the armed forces). Many of the activities of these agencies are carried out by corporations that they own. Indeed, the National Industries Board is nothing but the co-ordinator and supervisor of a series of State-owned corporations. Like the other commercial State agencies, it controls subsidiary corporations through a holding company.

Corporations owned by the State (or by local authorities) are governed by the same corporate law as corporations owned by private individuals or institutions. By contrast, commercial State agencies fall within the legal framework of public administration. This means, among other things, that the public has right of access to their paperwork, and that their decisions are subject to appeal in administrative courts (with the Cabinet being the final court of appeal). The commercial State agencies differ from other State agencies in that the fees that they charge are supposed to, and typically do, cover their expenditures. They also enjoy greater autonomy *vis-à-vis* the government (Cabinet and ministries). Whereas the government budget itemises the expenditures of other State agencies, it specifies only the aggregate balance of revenues and expenditures for commercial State agencies.

There is no clear and consistent distinction between the activities of commercial State agencies and State-owned corporations. Commercial State agencies enjoy legally sanctioned monopoly status with respect to the provision of certain services, but in many areas they operate under competitive conditions, and some State-owned corporations also enjoy monopoly status (e.g., the Liquor Board Corporation and the National Lottery Corporation). Since 1947, all new State enterprise has been organised according to the corporate principle.

In 1985, the central government directly held equity shares in 8 joint-stock credit institutions, and 164 non-financial corporations.[2] The government held a controlling interest in roughly 100 non-financial corporations of some size, and was the sole owner in the vast majority of these cases. State-owned corporations and commercial State agencies in turn held equity shares in a total of 746 corporations. (Of the latter figure, 332 were subsidiaries of commercial State agencies, and 192 of these were actively engaged in the production of goods or services).

According to an IMF estimate, non-financial State enterprise accounted for 6 per cent of Sweden's Gross Domestic Product in 1978–80, compared with 14.5 per cent for Austria (1978–79), 11.9 per cent for France (1974), 10.9 per cent for Britain (1978–81), 10.2 per cent for West Germany (1978–79), 7.8 per cent for Italy (1978), and 3.6 per cent for the Netherlands (1971–73). In 1983, the total turnover of Swedish State enterprise was 150 billion Skr. and total employ-ment stood at 317,000. The commercial State agencies and their subsidiaries accounted for 32.5 per cent of turnover and 49 per cent of employment. Including subsidiaries of the Forest Service and the National Industries Board, State-owned corporations engaged in mining and industrial production had a combined turnover of 45 billion Skr. with 80,583 employees in 1983, representing 9.6 per cent of the turnover of Swedish industry and 9.5 per cent of industrial employment.[3]

THE POLITICS OF COMPROMISE

Clearly, the Swedish case does not bear out the conventional association of public ownership with left-wing government. With its long experience of left-wing government, Sweden has a smaller State enterprise sector than many countries in which the left has been much weaker. As suggested at the outset, two sets of considerations are crucial in unravelling this apparent paradox: on the one hand, the Swedish Social Democrats have not been as dominant as commonly supposed; and, on the other, their approach to managing the economy and reforming society has played down public ownership.

The Social Democrats have actually held a parliamentary majority of their own on only two occasions (1940–44 and 1968–70). Though Communist support has typically sufficed to get government legislation through Parliament, the Social Democrats have been wary of 'going it alone' with the Communists, and have preferred to strike deals with the parties of the centre (the Liberals and the Centre Party, known as the Agrarian Party before 1957).

In the inter-war period, the Social Democrats effectively abandoned their 'doctrinaire' commitment to nationalisation (or 'socialisation,' as they preferred to call it), and adopted a 'pragmatic' approach to the question of ownership.[4] Having previously treated public ownership as an end in itself, they now came to conceive it as a means, indeed, as only one of many means to other ends—full employment, real-wage increases and, more vaguely, democratic control of the economy. Whether or not public ownership was the most appropriate means to these other ends would have to be decided in each particular instance.

The Commission of Inquiry appointed by the first Social Democratic minority government in 1920 to look into the socialisation of industry marks the beginning of this ideological reorientation, and in 1944 the new party programme adopted its completion. The so-called 'Socialisation Commission' deliberated at great length on the ways in which ownership might be transferred to public hands, and how public ownership might be organised, but it made no apparent progress towards legislative recommendations, and ultimately ceased to meet altogether. When the Social Democrats consolidated control of the government in the 1930s, they opted to dismantle rather than reactivate the Socialisation Commission. In any case, the Social Democrats' reliance on the support of the Agrarian Party effectively precluded nationalisation measures.

The only significant extension of public ownership in the 1930s involved the take-over of what remained of the private rail network, and this clearly had nothing to do with the reformist ambitions of Social Democracy. The same applies to the State enterprises created during the war, when the NJA steel mill was set up to process the iron ore of the already State-owned LKAB mines, and a forest-products firm, ASSI, was created to carry out some of the industrial activities of the Forest Service.[5]

The new programme adopted by the Social Democratic Party in 1944 codified the pragmatic approach to the question of ownership. At the same time, however, the labour movement's immediate ambitions became more radical in 1944–45. Advocating a general extension of planning and State intervention, the Post-war Programme adopted by the Social Democratic Party and the confederation of blue-collar unions (LO) in 1944 called for the nationalisation of the insurance industry, and for the appointment of commissions of inquiry to investigate the problems of other sectors, with the possibility of nationalisation in mind. Several commissions of this kind were indeed appointed, but only one (petrol distribution) recommended nationalisation. This recommendation was never implemented.

Organised business and the bourgeois parties engaged in a massive campaign against planning and nationalisation in the immediate post-war period. While the Social Democrats held their own in the 1948 election, the Communists lost badly, and the left's combined share of the popular vote fell for the first time since 1928. In this context, the Social Democrats abandoned their planning offensive, and again came to rely on Agrarian support to stay in power. As far as public owner-ship is concerned, the only consequence of labour's Postwar Programme was the creation of a State-owned bank.[6]

EXPANSION IN THE 1970s

The retreat of the late 1940s proved quite acceptable to the labour movement, for the combination of macro-economic demand management and selective State intervention in the labour market, the hallmark of the 'Swedish model', sufficed to secure full employment and real-wage increases in the 1950s and 1960s. However, economic circumstances became less favourable in the second half of the 1960s. While the decline of declining sectors accelerated, the advanced sectors of industry responded to the intensification of international competition by rationalising production, substituting capital for labour, and investing abroad. Initially, these developments manifested themselves as problems at the regional level.

The Social Democrats responded to such problems, and the political pressures associated with them, by launching an 'active industrial policy' in 1967–68. They thus sought to extend the principles of tripartite labour market policy to the sphere of corporate investment decisions, but, in practice, labour's industrial policy offensive largely came to be identified with the expansion of State enterprise.[7]

Already in 1963, the government acquired a half stake to prevent the shut-down of the Uddevalla shipyards. Several similar rescue operations occurred in the 1967–76 period. At the same time, the government looked to State enterprise as the spearhead of industrial innovation. In this spirit, it acquired a researchintensive pharmaceutical firm, Kabi, and engaged in two joint ventures with private business in the field of nuclear energy, Uddcomb Sweden and ASEA-Atom. A State-owned investment bank was also established. But the most significant additions to State enterprise in this period-the nationalisation of the retail distribution of pharmaceutical products and the acquisition of a 50 per cent interest in Pripps Breweries—were motivated by social rather than industrial policy purposes.

Labour's industrial policy offensive also ushered in the creation of a holding company for non-financial State-owned corporations, As constituted in 1970, the State Enterprise Corporation *(Statsföretag AB)* consisted of 22 subsidiaries, with combined sales of 3.6 billion Skr. and with a work-force of 34,000, and ranked as the eighth largest corporation in Sweden by either of these criteria.[8] The government assigned three basic objectives to the State Enterprise Corporation: (a) to promote the expansion of its subsidiaries by facilitating their access to external capital; (b) to co-ordinate their activities, especially in the field of research and development; and (c) to serve as the link between State-owned corporations and the Department of Industry.

While State-owned corporations had a 'special responsibility to consider the interests of society', the legislation creating the State Enterprise Corporation declared that this responsibility should not entail constraints that would place them at a disadvantage relative to private firms. Insofar as the government burdened the State Enterprise Corporation with policy tasks that could not be justified by commercial criteria, it should compensate the company for this. The legislation deliberately

defined the goals of the State Enterprise Corporation in vague and very general terms, leaving the problem of prioritising among partly conflicting goals ('profitability,' 'expansion', and 'societal considerations') to be settled by the executive management of the State Enterprise Corporation, its board of directors, and the Department of Industry. In practice, investment decisions were, by and large and with one major exception (the disastrous 'Steel Plant 80' project), left for management to make, and management from the very beginning assigned priority to profitability, defined in conventional terms.[9]

The expansion of State enterprise that began under the auspices of labour's industrial policy offensive continued after the bourgeois parties' election victory in 1976. As noted at the outset, the bourgeois parties nationalised more industry in their first three years in power than the Social Democrats had done in the previous 44 years. They did so in response to the sudden crises of major industrial sectors. Wary of the electoral as well as the economic consequences of a confrontation with the labour movement, the new government felt it necessary to cushion the employment impact of sectoral crises. It also believed that the existing owners and their creditors had to be bailed out to avoid a financial collapse. Again, pragmatic politics prevailed over ideological commitments.[10]

The two most significant nationalisation measures of the bourgeois tenure in government involved shipbuilding and basic steel. In both cases, the State already had an ownership role, and each industry was reorganised under the auspices of a single corporation, fully owned by the State in the case of Swedyard Ltd., and 50 per cent State-owned in the case of Swedish Steel (SSAB). In the latter case, the government persuaded the two private steel firms that were being bailed out (Granges and Stora) to take 25 per cent stakes in the new corporation by promising that it would subsequently buy them out if they so desired.

Under the bourgeois parties, the government also bailed out two forest-product firms owned by producer co-operatives, assuming a 75 per cent ownership stake in *Norra Skogsägarnas Cellulosa AB* (NCB) and a 40 per cent stake in *Södra Skogsägama AB*. The take-over of Eiser, a textile firm in which the State had acquired a stake in 1973, was completed, several smaller textile firms in competitive troubles were bought out, and the State-owned textile mills were consolidated under the auspices of a single corporation (accounting for 15 per cent of total employment in the textile and apparels industry). Finally, the government took over Luxor, a family-owned consumer electronics firm on the verge of bankruptcy, in 1979.

In 1971–77, iron mining, steel, shipbuilding and forest products accounted for some 80 per cent of total investment by subsidiaries of the State Enterprise Corporation.[11] Swedyard and Luxor, both expected to run up major losses in the foreseeable future, were left out of the State Enterprise Corporation, and so were the State's newly acquired assets in forest products, which the government intended to sell back to the original owners. As Swedyard included shipyards previously owned by the State Enterprise Corporation, its creation reduced the latter's dependence on heavy industry. But from the point of view of the State enterprise sector as a whole, the nationalisation measures of 1977–79 strongly reinforced its concentration in heavy industry. Given the nature of this expansion of State enterprise, it should come as no surprise that government subsidies to State enterprise increased sharply during the bourgeois tenure in government.

RESTRUCTURING AND PRIVATISATION IN THE 1980s

The Social Democrats inherited a massive government deficit (13.4 per cent of GDP) when they returned to power in 1982. Their budget for 1988/89 projects a deficit of less than one per cent of

GDP. Remarkably, the Social Democrats have eliminated the government deficit without any significant cuts in welfare benefits. Leaving minor tax increases aside, their deficit-reduction strategy might be characterised as twofold. On the one hand, the government has promoted business expansion through a combination of devaluation, wage restraint, and public support for research and development. On the other, it has curtailed the growth of public expenditure by cutting subsidies to unprofitable business, increasing public-sector efficiency, and keeping the lid on public-sector wage increases.[12]

Within the context of this general strategy, the new government moved quickly to undertake a major restructuring of State enterprise, designed to improve its commercial viability, and gradually put an end to the flow of government money into the State enterprise sector. The Social Democratic leadership viewed the restructuring of State enterprise as politically important, symbolising the new government's commitment to competitive adjustment to world market forces. Significantly, the only trade-union leader in the 1982 Cabinet, Roine Carlsson, was assigned the newly created portfolio of Minister for State Enterprise. When he was promoted to Minister of Defence following the 1985 election, Carlsson was not replaced as Minister for State Enterprise. Evidently, the government considered the restructuring of State enterprise to have been successfully accomplished, at least as far as its political dimension was concerned.

The programme for State enterprise implemented by the Social Democrats in 1982–84 amounted to an 'internal' reorganisation of the State enterprise sector, and did not involve any privatisation. As the centrepiece of this programme, the government reconstructed the State Enterprise Corporation by taking over the assets of its principal loss-making subsidiaries, LKAB (iron mining), ASSI (forest products), and SSAB (basic steel) in 1982–83. The State Enterprise Corporation was thus scaled down: its turnover dropped from 15.4 billion Skr. in 1981 to 11.5 billion Skr. in 1983, and its work-force dropped from 46,080 to 25,719. At the same time, the government explicitly specified efficiency and profitability as the criteria whereby the performance of the State Enterprise Corporation would be judged. Whereas the initial legislation setting up the State Enterprise Corporation defined its overarching purpose in terms of achieving 'the greatest possible expansion while maintaining profitability,' the new legislation charged it with the task of 'increasing the efficiency and competitiveness of State enterprise, and thereby enhance its capacity to expand'.[13]

The reorganisation of 1982–83 was designed to distinguish more clearly between, on the one hand, commercially viable firms that would no longer be expected to assume any responsibility for regional employment or other public policy purposes and, on the other, firms that would continue to carry some degree of responsibility in this respect (and hence would not be judged simply in terms of efficiency and profitability). But it was also informed by the idea that it would be more rational to group State-owned firms within a number of concerns, defined by common industrial and commercial activities, rather than a single holding company.[14] At the same time as it relieved the State Enterprise Corporation of LKAB, ASSI and SSAB, the government restructured these firms financially, enabling them to embark on new investment programmes to rationalise production.

The State Enterprise Corporation decided to rename itself Procordia in 1984. According to the company's executive director, the purpose of this change was to emphasise 'the competitive conditions that are decisive for our operations,' and to 'avoid any confusion with other State-owned or societally run corporations'.[15] To raise cash and/or to strengthen its internal coherence, Procordia has sold off several lesser subsidiaries since 1984. Also, it sold the loss-making Eiser Corporation (textiles) to a consortium of Eiser executives for a token sum in 1986. At the same time, Procordia has

acquired new subsidiaries. Most notably, it took over the government's 50 per cent stake in Pripps Breweries and bought out Volvo, the remaining private owner, in 1986.

As indicated above, the terms of the agreement whereby SSAB was created obliged the government to buy out its private partners if the latter so desired. One of the two firms involved chose to pull out in .1986. Having increased its interest in SSAB from 50 per cent to 75 per cent, the government subsequently sold one-third of its shares to a consortium consisting of one private insurance company, four private pension funds, and a public pension fund, the so-called 'Fourth AP-fund'. As part of the latter deal, the government agreed that privatelyheld shares in SSAB would at some future point be registered at the Stock Exchange.

In addition to the sale of subsidiaries by Procordia, four major privatisation measures have been undertaken since 1984. (Since its net effect was to increase the government's stake, the 1986 ownership change at SSAB does not qualify as 'privatisation'). First, the original owners of *Södra Skogsägarna AB,* one of the co-operatively-owned forest-products firms that was bailed out in 1979, repurchased the government's 40 per cent stake for 750 million Skr. in 1984. The government can hardly be said to have opted for privatisation in this instance, however. As with the increase of its holdings in SSAB, it simply complied with the terms of the initial bail-out.

Secondly, the State-owned Postal and Credit Bank *(PK-Banken)* issued new shares to the public corresponding to 15 per cent of its equity capital in 1984. It is today owned by some 21,000 individuals and institutions, and the new shares were sold for a total of 512 million Skr. Thirdly, the government sold 70 per cent of its holdings in Luxor, the consumer electronics firm acquired in 1979, to Salora Oy of Finland for 185 million Skr. in 1984–85, and has subsequently agreed to sell its remaining shares to another Finnish corporation, Nokia Oy.

Finally, and most importantly, the government went public with Procordia in late 1987 by issuing new shares corresponding to 19 per cent of its equity capital, sold for a total of one billion Skr. Only 38 per cent of the new shares were issued to the general public, however. 20 per cent were reserved for Procordia employees, and 42 per cent for four institutional investors (a private insurance company, two private pension funds, and the Fourth AP-fund).[16]

The Procordia flotation is the most important privatisation measure to date, in the sense that it involved the most money. Because of the role of Procordia's predecessor as the flagship of State enterprise, it was also symbolically important. Though the government does not appear to be planning any new privatisation measures, it has clearly indicated its openness to further privatisation along the lines of the Procordia flotation.[17] The main constraint on this type of privatisation is the fact that most other State-owned corporations are not sufficiently profitable.

The restructuring programme implemented in 1982 — 84 prepared the ground for subsequent privatisation measures—in particular, the flotation of Procordia shares-by enhancing the commercial viability of State-owned corporations in general, and by separating the more profitable corporations from the less profitable ones. But there is no evidence to suggest that the government actually conceived its restructuring programme as a step towards privatisation. At least in the case of Procordia, it was management rather than the government that initiated the discussions that led to privatisation.

Before the 1985 election, the idea of privatisation was very much identified with the opposition parties and in particular with the Conservative Party, which had become the largest bourgeois party in 1979. The Conservatives gained votes in each successive election from 1970 (11.5 per cent) to 1982 (23.6 per cent), and became increasingly outspoken in their criticism of the Welfare State after 1979. Their rhetoric linked the idea of privatising State enterprise to that of promoting private

alternatives to the public provision of social services. Indeed, the public debate about privatisation focused almost entirely on private health clinics and daycare facilities in the early 1980s.[18]

Emboldened by polls that suggested that they might get 27–30 per cent of the vote, the Conservatives organised their 1985 campaign around the need for a 'change of system'. This offensive backfired, however, and the Conservatives' share of the vote dropped to 21.3 per cent. Since 1985, the bourgeois parties have played down the idea of privatising social services, and have advocated the sale of public assets on essentially pragmatic grounds—as sound corporate and budgetary management.

The Conservative defeat in 1985 and the subsequent change in the terms of public debate might be seen as necessary preconditions for the Social Democrats to consider privatisation as a policy option (in other than exceptional cases). Also, one might well argue that the privatisation measures implemented by the Social Democrats have served to 'defuse' privatisation as a potential issue of political realignment.

THE LIMITED NATURE OF PRIVATISATION

The limited extent and pragmatic character of the privatisation measures described above must be emphasised. In no sense does privatisation form part of the current government's 'ideological agenda'. The following five points bring out the contrast between the privatisation measures of Sweden's Social Democratic government and those of Britain's Conservative government:

- While the Swedish Social Democrats have sold assets in industrial/commercial enterprises operating in competitive circumstances, they have eschewed the privatisation option as far as social services and public utilities are concerned. They have *not* taken on board the bourgeois parties' suggestions that the commercial State agencies should be broken up, so as to make it possible to privatise their non-regulatory operations.
- Even within the field of State-owned corporations operating in competitive circumstances, the government's privatisation measures have been restricted to a relatively small number of firms. To keep things in perspective, it should be noted that Procordia accounted for 7.9 per cent of the total sales and 7.4 per cent of the total employment of the State enterprise sector in 1986 (13.1 per cent and 16.3 per cent respectively if we exclude commercial State agencies and their subsidiaries).[19]
- With two exceptions *(Södra Skogsägarna* and Luxor), privatisation has also been limited in the sense of being partial. The government has stated clearly that it intends to retain a controlling interest in both Procordia and SSAB, and has suggested that this principle should apply in future cases of privatisation as well.
- Privatisation has primarily involved the transfer of public assets (or new share issues) to private corporations or institutional investors. The government has sought new owners/partners likely to look upon their investment as a long-term commitment. Related to this point, the government's nationalisation measures have not been widely publicised.
- Privatisation has been considered on a case-by-case basis, typically in response to the need of specific firms to raise new risk capital. While the government may be said to have a 'privatisation policy' (i.e., a policy on how privatisation should be done), it does *not* have a 'privatisation programme'.

Two future-oriented caveats should be added to this characterisation of the current Swedish government's policy with respect to privatisation. It should be noted that the government has recently begun to implement a far-reaching programme of telecommunications deregulation, allowing private networks to compete with the Telecommunications Board. Though not itself a privatisation measure, this new initiative does raise questions about public monopolies and the future of the commercial State agencies.

The second caveat concerns the current restructuring of the public sector, which has involved a process of 'corporatisation' in the sense that public-sector activities have been transferred from government bodies to corporations owned by government bodies.[20] This process has occurred at two levels: first, commercial State agencies have reorganised their activities under the auspices of subsidiary corporations (two-thirds of which date from the period since 1974); and, secondly, local government authorities have set up corporations to which they contract out for various municipal services. To some extent, the practice of contracting out to private corporations has also increased among local authorities.

Driven by two basic motives, to cut costs and to increase responsiveness to consumer demand, these developments began under the bourgeois tenure in government, but they have accelerated under the Social Democrats. Though the current government has firmly held the line against the privatisation of publicsector services, its efforts to promote public-sector rationalisation have opened up possibilities for privatisation in the future.

WHY PRIVATISATION?

However limited in extent and pragmatic in character, recent privatisation measures represent a new departure for Swedish Social Democracy, and as such warrant an explanation. It is noteworthy that the budget deficit was brought under control before the government seriously began to consider privatisation as a policy option. What has arguably been the major pragmatic motive for privatisation in other countries—to raise revenues without raising taxes-does not seem to explain recent privatisation measures in Sweden.

As indicated above, the government conceives privatisation primarily as a means to raise new capital for State-owned corporations. The Procordia flotation (again, the principal privatisation measure to date) yielded no revenue for the government. Leaving aside the specifics of each case, two general considerations have attracted the government to the privatisation option. On the one hand, the imperatives of fiscal management have made the government reluctant to finance capital infusions through the budget. On the other, buoyant equity markets have made share issues a relatively cheap way to raise new capital.

Beyond these considerations, recent privatisation measures might be seen as a consequence of a basic change in the Social Democratic attitude to State enterprise. Labour's industrial policy offensive of the late 1960s was informed by a vaguely articulated, but strongly felt belief that State-owned corporations could and should behave differently from private corporations. State enterprise was expected to serve as a tool of regional and industrial policy, and to play a leading role in the development of industrial democracy as well as technological innovation.

The Social Democrats effectively abandoned such ambitions in the early 1980s. The new government accepts that State-owned corporations with poor profitability must be supported, but its conception of successful State enterprise does not appear to be any different from its conception

of successful private enterprise. Given this outlook, the question confronting the government is not so much 'why privatise?', but rather, 'why not?'

The Social Democrats' new attitude to State enterprise must, in turn, be seen as part of a broader retreat from selective industrial policy. Reflecting on the experience of the 1970s, the Social Democrats returned to power convinced that workers and local communities had become accustomed to believing that the government would protect them against market forces, and that the only way to resist such pressures was to withdraw from selective intervention in industrial development. The partial privatisation of State-owned corporations forms part of a more or less conscious effort to insulate these corporations from political pressures and, at the same time, to relieve politicians of responsibility for corporate decisions.

The absence of any serious opposition to privatisation within the labour movement is noteworthy. In part, it can be explained in terms of the ideological legacy of Swedish Social Democracy. However much the Social Democratic approach to State enterprise has changed, it was essentially pragmatic in its 'expansionist phase' (1967–76), and remains so in its 'privatising phase'. The entrenched position of organised labour throughout the Swedish economy also seems to be an important factor in this context. In contrast to Britain, to cite the most obvious example, privatisation does not pose a direct threat to organised labour in Sweden.

To conclude, the State enterprise sector in Sweden, and the public sector more generally, has been restructured and partially privatised under Social Democratic auspices in the 1980s. The overall thrust of these changes conforms to the general trend in Western Europe, but Social Democratic rule has curtailed the extent of privatisation, and profoundly affected its character.

NOTES

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1. This section draws primarily on Donald Söderlind and Olof Petersson, *Svensk förvaltningspolitik* (Uppsala: Diskurs, 1986), Ch. 2,
2. The latter figure includes the direct subsidiaries of the State Enterprise Corporation, a holding company established in 1970, now known as Procordia Ltd. (see below).
3. Sources for this paragraph: Henry Parris, Pierre Pestieau, and Peter Saynor, *Public Enterprise in Western Europe* (London: Croom Helm, 1987), pp. 27, 34, and Department of Industry, *Industri och industripolitik 1985* (Stockholm, 1985), p. 97.
4. Cf. Leif Lewin, *Planhushållningsdebatten* (Stockholm: Almqvist & Wiksell, 1967); also, Herbert Tingsten, *The Swedish Social Democrats* (Totowa: Bedminster Press, 1973), and Diane Sainsbury, *Swedish Social Democratic Ideology and Electoral Politics 1944–1948* (Stockholm: Almqvist & Wiksell International, 1980).
5. Lennart Waara, *Den statliga företagssektorns expansion* (Stockholm: Liber, 1980) provides a thorough account of the expansion of State enterprise, and the motives behind it. The Agrarian Party made an historic policy deal with the Social Democrats in 1933, trading agricultural tariffs in return for supporting deficit-financed public works, and joined the government in 1936. The national emergency government formed in 1939 also included the Liberals and the Conservatives.
6. This bank merged with the postal savings bank in 1974 to form the Postal and Credit Bank *(PKBanken),* Sweden's s third largest bank. For a more detailed discussion of the politics of planning in the 1940s, see Jonas Pontusson, 'Labour Reformism and the Politics of Capital Formation in Sweden' (Ph.D. dissertation, University of California, Berkeley, 1985), Chap. 3.

7. See ibid., Chap. 8, for a broader treatment of labour's industrial policy offensive.
8. Roger Henning, *Staten som företagare* (Stockholm: Rabén & Sjögren, 1974), p. 28. The following categories of State enterprise were *not* included within the State Enterprise Corporation: the commercial State agencies and their subsidiaries; credit institutions; corporations with legally sanctioned monopoly status (the Liquor Board, National Lottery, etc.); and corporations engaged in nuclear research and development. The Pharmacy Corporation and Pripps Breweries were also left out when they came under public ownership.
9. Cf. ibid.; also, Gunnar Eliasson and Bengt-Christer Ysander, 'Sweden: Problems of Maintaining Efficiency under Political Pressure' in Brian Hindley (ed.), *State Investment Companies in Western Europe* (New York: St. Martin's Press, 1983).
10. On industrial policy under the bourgeois parties, see Pontusson, Chap. 8; Roger Henning, 'Industrial Policy or Employment Policy?' in Jeremy Richardson and Henning (eds.), *Unemployment: Policy Responses of Western Democracies* (Beverly Hills: Sage, 1984); and Kjell Lundmark, 'Welfare State and Employment' in Kenneth Dyson and Stephen Wilks (eds.), *Industrial Crisis: A Comparative Study of the State and Industry* (New York: St. Martin's Press, 1983).
11. SOU 1978:85, *Statligt ägande i samhällets tjänst,* p. 74.
12. On post-1982 economic policy in general, see Andrew Martin, 'Sweden: Restoring the Social Democratic Redistributive Regime' (forthcoming, Harvard Center for European Studies). Cf. also Peter Walters, "Distributing Decline": Swedish Social Democrats and the Crisis of the Welfare State', *Government and Opposition,* Vol. 11, No. 3 (Summer 1985).
13. Cit. in Department of Industry, *Industri och industripolitiken 1982,* p. 77. The preceding figures come from various issues of this annual publication. My treatment of the development of State enterprise also draws on the government's most recent account to Parliament, *Regeringens skrivelse 1987/88:20 med 1987 års redogörelse for de statliga företagen.*
14. In its recent publications, the Department of Industry discusses State industrial enterprise in terms of seven concerns: Procordia (still highly diversified), Swedyard (renamed Celsius Industries in 1987; shipbuilding and other engineering activities), SSAB (steel), LKAB (iron ore), ASSI (forest products), NCB (forest products), the holding company of the Forest Service (forest products), and the holding company of the National Industries Board (military matériel).
15. Cit. in Söderlind and Petersson, p. 59. The name Procordia was taken over from the State Enterprise Corporation's most profitable subsidiary, originally called the Swedish Tobacco Corporation.
16. Information provided by Lotta Palmér at Procordia (28 March 1988).
17. The government's approach to privatisation is articulated in Government Bill 1986/87:74, 'Näringspolitik inför 90-talet,' pp. 178–81.
18. Cf. Söderlind and Petersson, pp. 412–18.
19. *Regeringens skrivelse 1987/88:20,* p. 9.
20. Cf. Söderlind and Petersson, *passim.*

ABSTRACTS

The Politics of Industrial Privatisation in Western Europe John Vickers and Vincent Wright

This overview of industrial privatisation in Western Europe examines the different forms of privatisation and the motives and ambitions of the privatisers. It then outlines the factors that have shaped the various privatisation programmes, which include the origins, size, scope and structure of public sector enterprises, political and institutional arrangements, and differing economic and financial structures. It concludes by looking at the economic and political impact of the various privatisation programmes and by speculating on the issues that privatisation raises for the future.

The United Kingdom: Privatisation and its Political Context David Heald

This analysis sets the UK privatisation process in its policy context and examines both declared intentions and underlying motives. Three phases in the privatisation programme are identified: the denationalisation of financially successful enterprises ('eliminating the fringes'); more ambitious proposals involving the public utility sector ('denationalising the monopolies'); and the development of plans for loss-making enterprises in public owner-ship ('finishing the job'). The notion of people's capitalism is shown to have assumed major political significance. The structure of government has itself played a role in determining the pace and style of privatisation policy, with the process of rolling back the State paradoxically characterised by an unprecedented centralisation of political power.

The Politics of State-directed Privatisation: The Case of France, 1986–88 Michel Bauer

The policy of privatisation carried out in France by the self-proclaimed liberal government of Jacques Chirac was frequently presented as a success. Yet a close analysis reveals the gap between that policy and economic practices motivated by economic liberalism. The profoundly anti-liberal nature of the policy of denationalisation may be seen in the methods of privatisation as well as in the initial effects in terms of the transformation of the French socio-economic system. Some of the most conservative and traditional features of the French industrial and financial system were strengthened by the privatisation programme.

'Symbolic Privatisation': The Politics of Privatisation in West Germany Josef Esser

Although the conservative-liberal government in West Germany promised in 1982 to reduce government involvement in business and to revive market forces, it has not lived up to its promises so far: the intended deregulation and privatisation have remained insignificant. This study describes the politics of non-privatisation as 'symbolic privatisation' and explores the reasons for the government's timidity in this field. It is argued that the explanation must be sought in the traditional consensus about State holdings as being an indispensable instrument for regional and industrial policy, a consensus sustained by important political and social forces.

Privatisation in Belgium: The National and International Context Anne Drumaux

The process of privatisation in Belgium has developed within a context of rather special political and economic conditions. Both the manner in which the debate on privatisation has been structured as well as the initial reactions to the first decisions are highly revealing about decision-making in Belgium. The tradition of mixed public-private economic activity explains the nature of the privatisation process. Finally, moves at the European level, inspired by the prospects of 1992, suggest that State and supra-State regulation will not disappear in Belgium, but will merely be reformulated.

Privatisation in Italy: Aims and Constraints Patrizio Bianchi, Sabino Cassese and Vincent Della Sala

What is so striking about the Italian experience of privatisation is the extent to which it is not the result of a governing formula or a political programme aimed at redefining the boundaries of the public and private sectors. The impetus for decentralisation has come from the State holdings agencies and their attempts to regain financial autonomy from the government. The Italian experience differs from the French and the British in terms of the dimensions, the agents, the procedures and the beneficiaries of privatisation. The experience needs to be understood within the limits imposed by the complexity and accretion of goals of the public sector, the nature of financial and capital markets, and Italy's political and institutional framework.

Privatising in a Corporatist Economy: The Politics of Privatisation in Austria Wolfgang Müller

Privatisation has become an important issue in Austrian politics in the 1980s. The contribution examines why and how this occurred after the general acceptance of the comprehensive post-Second World War nationalisation programme as one of the basic elements of the Austrian socio-economic consensus up until the 1970s. It is argued that the deteriorating macro-economic performance, increasing doubts about the 'Austro-Keynesian' macro-economic policy of the Social Democrats and, above all, the poor performance of nationalised industries were relevant for privatisation gaining momentum. The study then examines the development of the policy proposals of the two big parties, which—for different reasons-had both accepted privatisation by 1986. An account of the driving and inhibiting forces in the privatisation debate is given. Then the government plans for privatisation are summed up and an account is given of what had been put into practice by the end of 1987. Finally, the impact of privatisation is examined: it is argued that it will affect the distribution of social power in Austria. Although labour will be weakened, there is no real alternative; privatisation and the reform of nationalised industries is the least worst option for labour. This shift of power will take place within the framework of corporatism, rather than destroy it.

Less than Nothing? Hidden Privatisation of the Pseudo-Private Sector: The Dutch Case Rudy B. Andeweg

In the Netherlands there has been very little privatisation, despite a huge public sector, and despite the government's commitment to privatisation. This lack of success is explained not by political resistance or legal constraints, but by the fact that the potential for privatisation is small, given the nature of the Dutch public sector. However, when we cast our net wider, to include the 'mixed sector' where government and private sector are inter-twined, we find the same retreat by the government that is labelled privatisation elsewhere.

The Triumph of Pragmatism: Nationalisation and Privatisation in Sweden Jonas Pontusson

Never strongly committed to public ownership in the first place, the Swedish Social Democrats have recently undertaken several privatisation measures. Their privatisation policy is distinguished by its limited and pragmatic character. Still, recent developments underline the paradoxical

combination of left dominance and a small State enterprise sector characteristic of the Swedish case. The following analysis unravels the 'Swedish paradox' in terms of the constraints on Social Democratic power and the strategic choices made by the Social Democrats in the face of such constraints.

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