DER ÖFFENTLICHE SEKTOR

THE PUBLIC SECTOR

PRIVATIZATION AND THE EUROPEAN SOCIAL MODEL

The Coordinated Action PRESOM

3-4/2006

ifip TU

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ISSN 1563-4604

Content

Editor: Wolfgang Blaas
Layout and Wordprocessing: Wolfgang Blaas

Gedruckt mit Förderung des Bundesministeriums für Bildung, Wissenschaft und Kultur

32. Jahrgang

Heft 3-4/2006, März 2007

Preis:

	Inland	Ausland
Einzelnummer	€ 5,10	€ 5,80
Doppelnummer	€ 9,50	€ 10,90
Jahres-Abo	€ 16,00	€ 18,20

PSK-Konto-Nr. 2.415.150
(Österreichische Postsparkasse)

Introduction
Who or What is PRESOM?[1)]

Jörg Huffschmid

PRESOM is the short version of: Privatisation and the European Social Model

PRESOM is a network of social scientists who are critical of the current wave of liberalisation and privatisation of public services in the EU. We regard this as a threat to the European Social Model (ESM). At the same time we notice with astonishment the frequency with which European institutions are invoking the ESM to underpin and justify their policies. This raises questions about the meaning of this term. Obviously unions and social movements who oppose privatisation as an attack on the European Social Model have something different in mind than politicians who justify privatisation with reference to the same term.

PRESOM takes up these contradictions with the aim to clarify the issues, disseminate our findings and thus to contribute to the public discussion. Our basic position is that one of the essential pillars of the European Social Model is social solidarity and that this requires a strong and democratically organised public sector which provides public goods to everybody living in the EU regardless of his or her origin and economic and social status.

PRESOM has 14 participants from 10 countries of the EU, amongst them three new member states (see box). It is a so-called "Co-ordination Action" financed under the sixth framework programme for Research and Technology of the EU. The project started in January 2006 and will be financed until December 2008. It will organise a number of workshops and international conferences and participate in workshops and conferences organised by others.

From 2007 onwards PRESOM will publish bimonthly Newsletters in which we present our work and inform about current issues in our domain, including official policies and responses from social movements and civil society.

Structure of PRESOM's work

The work of PRESOM is divided into **three phases**:

In the **first** phase a general stocktaking has taken place of :

a. the background and history of privatisation in the EU.

b. theoretical approaches to the explanation of privatisation.

c. the concept of the European Social model.

This phase has been terminated by now, reports have been written and are available on the homepage of PRESOM (www.presom.eu).

In the current **second** phase more in-depth studies are undertaken for four areas:

a. privatisation and finance

b. privatisation in social services (health and pensions)

c. privatisation in education

d. privatisation in the new member countries

This phase should be terminated by the end of 2007.

In the **third** phase conclusions will be drawn and policy proposals will be formulated with regard to the political approach to further liberalisation and privatisation and to the role of a democratic sector in a progressive European Social Model. This phase is envisaged for 2008.

Communication and an exchange with the scientific community and with stakeholders like policy makers, social movements and civil society are essential in all phases of the project. This will be organised in small meetings, workshops and larger open conferences.

1) The text of this introduction is a part of the first PRESOM newsletter, see www.presom.eu.

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Privatization Experiences in the EU

A Review

Wolfgang Blaas, Marica Frangakis, Gabriel Sakellaridis

1. Introduction

This paper has been compiled from a number of working papers[1] which have been written as contributions to the workshops and discussions of the Coordinated Action PRESOM during it's first year of operation. While it gives a brief overview over some crucial aspects of privatization in the EU member countries, it claims to be no more than a basis for further discussion.

The countries included in this overview are grouped in the following way:

* Western Europe: UK, Germany, France, Italy, the Netherlands, Austria
* Scandinavian countries: Sweden, Finland, Denmark
* Southern Europe: Spain, Portugal, Greece
* CEE countries: Czech Republic, Hungary, Slovenia, Poland, Romania
* Baltic states: Estonia, Latvia, Lithuania.

Privatization is a multidimensional economic and social phenomenon. It will be dealt with across the above mentioned countries along the following dimensions:

* Time dimension - Phases, periods and turning points in the history of privatization across different European countries (the "when" question).
* Sectoral dimension - The sectors involved. Sectors of interest include industry, services and utilities (the "what" question).
* Institutional/legal aspects - Types of privatization (the "how" question).
* Actors involved in the process of privatization (the "who" question).
* The rationale for privatization relevant at the time of privatization (the "why" question).

Before turning to these dimensions in more detail, the paper presents a short general background of the privatization and liberalization development in the post World War II period in the EU.

2. Background and history of liberalization and privatization in the EU

Following the Great Depression and World War II, the consensus among elites in economics and politics was that capitalism could only function with regular and robust government management. So much so, that in 1971 Richard Nixon announced a plan to impose wage and price caps in order to curb inflation, declaring "We are all Keynesians now"[2]. However, with the collapse of the Bretton Woods Agreement only a few years later and the two oil shocks that marked the 1970s, the consensus on the role of the government in the economy gradually declined, and eventually it changed direction.

With the onset of the 1980s and the Reagan and Thatcher era in the US and in the UK respectively, the dogma of privatization and deregulation took hold of both politics and economics, spreading to the rest of the world at a remarkably fast pace. In fact, it is estimated that over the past twenty-five years, privatization has reduced the share of state-owned enterprises (SOE) in "global GDP" from more than 10 percent in 1979 to less than 6 percent in 2005[3].

The member states of the European Union readily adopted the policy of privatization, in the pursuit of a multiplicity of objectives. These included (i) promoting efficiency, on the often axiomatic assumption that "private companies tend to be more efficient that public ones", or, more elegantly, that "public ownership is … considered to reduce incentives for efficient resource allocation, both in terms of improvements in internal efficiency (cost-minimization) and allocative efficiency (pricing according to marginal cost)"[4]; (ii) increasing competition in particular sectors and in the economy at large; (iii) developing a national capital market; (iv) reducing the public debt, as well as the public deficit, especially in view of the adoption of the single currency; and (v) last but not least, promoting a culture of equity ownership amongst the population in general.

Most of the above objectives were first articulated by the Thatcher government in the UK, in the early 1980s. They were soon adhered to by many other European governments, primarily of a conservative political orientation, especially in the 1980s, as well as of a social democratic orientation in the 1990s. Furthermore, they were adopted by the Central and Eastern European countries (CEEs) in the 1990s, following the collapse of their Soviet-style regimes. In the latter case, privatization was also regarded as a means of societal transformation.

From the start, privatization was considered to be a significant component of structural reform and a central element of the "liberalization package", that promised to lift the European economies out of the standstill they found themselves in, in the late 1970s. As such, it was first implemented in competitive sectors, such as manufacturing and banking, beginning with smaller assets, which were easier to dispose of, while it moved on to the services sector in the 1990s.

In particular, the services sector was considered to be an ideal candidate for privatization, given that it was mostly outside the sphere of international competition. The more oligopolistic the structure of any particular sector - such as that of the public utilities, communication, transport, etc - the more it attracted the attention of privatizers. The telecommunications sector dominated privatization, both on the European and on the global level. This was largely due to the rapid pace of technological progress and the introduction of new products and structures, lowering the costs of entry, as well as the liberalization of the sector by government policy. In fact, the extensive and early sale of telecom assets was said to serve as "a flagship sale of public utility assets"[5]. As a result, telecommunications companies have been partially or fully privatized in most European countries over the past 20 years (see Appendix, Table 1).

The actual form of privatization varied from country to country and one period to another. Certain common elements can however be discerned. Thus, in the 1980s, the emphasis lay on public share offerings (PSO). These were costly to perform, as well as time consuming. However, they helped boost the national capital market, while they served the primary ideological goal of privatization, that of spreading share ownership. Although PSO did boost both the market capitalization and the trading volume of European stock markets, they failed to spread share ownership, as many buyers disposed of their newly acquired shares soon after. For example, it has been found that the total number of shareholders in the largest privatizations (500.000 or more investors) declines by 33 per cent within five years of the share offering[6].

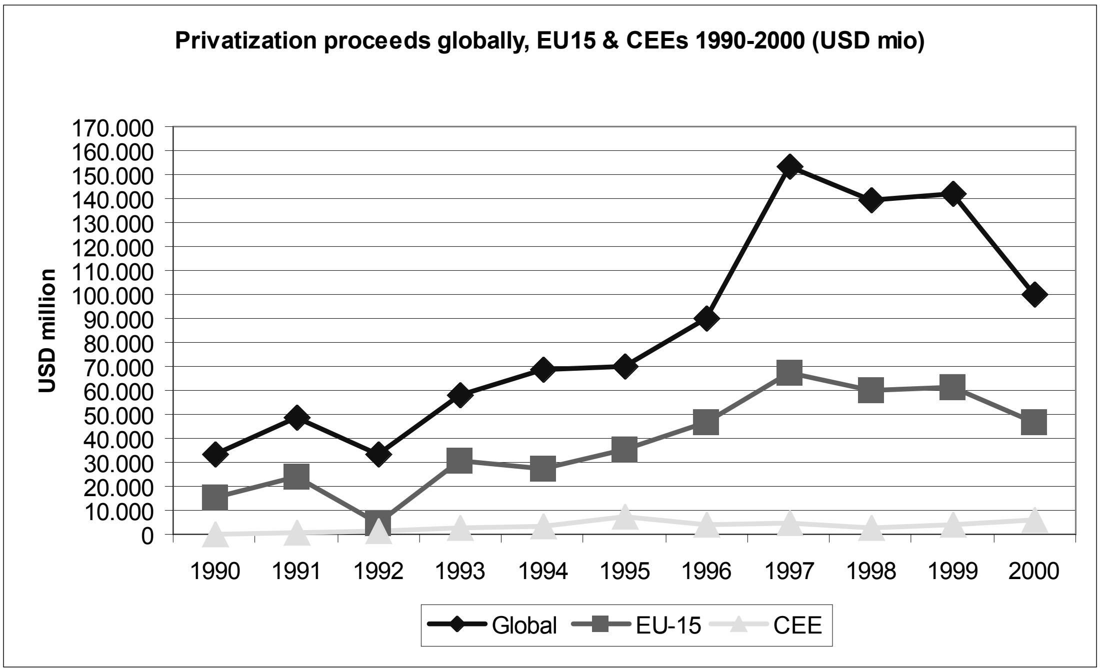
Other forms of privatization include trade sales, i.e., the direct sale of an asset to a buyer through negotiations or a process based on competitive bidding, usually favoured for small and medium-sized companies &/or where the national capital market is practically non-existent, as was the case in the CEEs.

Yet another form of privatization, prevalent in the CEEs especially in the early stages, was that of "mass" or voucher privatizations, whereby vouchers were distributed to the population, which citizens could use to bid for shares in the companies being privatized. Although very popular at the beginning, this method led to disappointment in many instances, largely due to the absence of a well-developed legal and financial infrastructure and to its lack of transparency.

In later years, as the privatization process matured - i.e. the stock of state-owned assets was depleted - new forms of privatization emerged, such as the "private-public partnerships" (PPP) and the "private finance initiatives" (PFI), especially popular since 2000 in all member states of the EU. These denote a new type of relationship between the public and the private sector, whereby the latter is in control of public assets, largely, if not exclusively, in its own benefit.

Over the period 1990-2000, the privatization proceeds of the EU-15 accounted for 45% of the global amount raised from privatization. Including the Central and Eastern European countries raises the EU's share to 48%[7]. Figure 1 shows the annual amounts raised by the EU-15, the CEEs, as well as globally between 1990 and 2000. In the case of the EU-15, these increased steadily since the early 1990s, peaking in the second half of the decade, while they fell after 1999, following the deflation of the world stock markets. The amounts raised by the CEEs, starting from practically zero in 1990, peaked in 1995, while they appear to have been little influenced by the stock market downturn of the late 1990s.

Figure 1: Privatization proceeds



Source: OECD, Recent Privatization Trends, 2001

As we can see, the severe fall in stock market activity in the late 1990s was reflected in a slow-down in the rate of privatizations both on the global and on the EU level. However, since 2004, as stock market activity picked up, European governments pushed forward their privatization agendas anew. For example, in 2004, privatization revenues increased by 58% in relation to the 2001-2003 average, accounting for 53% of global operations and 72% of global revenues[8)].

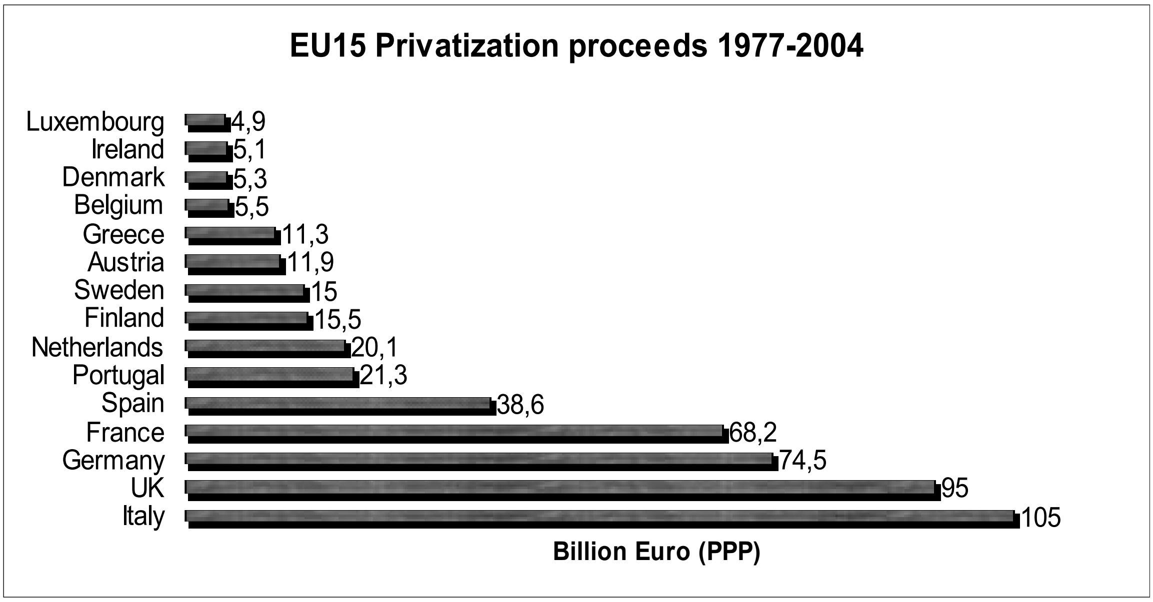
Overall, over the period 1977-2004, the privatization revenues of the member states of EU-15 amounted to €497 billion, while those of the new member states amounted to €54 billion. The top privatizers were France, Germany, the UK and Italy amongst the EU-15 (Figure 2) and Poland and the Czech Republic amongst the CEEs (Figure 3).

With regard to the sources of the privatization proceeds, the European governments initially targeted domestic retail investors specifically, in order to justify their claim of promoting 'popular capitalism'. Such investors were in fact an important source of privatization revenues in the 1980s. Foreign investors however acquired a significant role in the 1990s, as well in the CEEs.

Although the main purpose of this paper is to discuss the methods and rationale of privatizations across the member states of the EU, rather than to assess the empirical evidence of their impact on different variables, it should be noted that after 25 years of privatization experience, there has emerged no universal consensus as to its social and economic implications. However, as the rate of privatizations intensified in the 1990s, the notion that these lead to greater profitability and efficiency appears to be gaining ground. At the same time, the detrimental effects of privatization on employment are generally acknowledged[9)]. Lastly, its distributional effects, i.e., its implications for income from employment and for the access to formerly public goods and services, constitute a relatively new area of research.

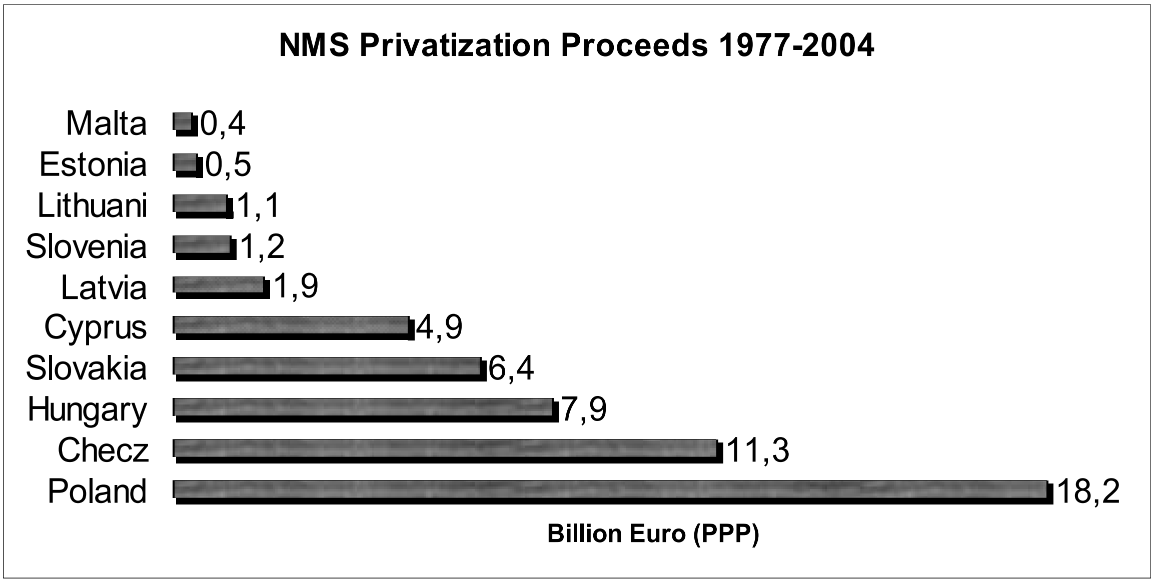
Overall, the privatization experience of the European countries encompasses a wide range of approaches, closely related to each country's unique economic, social and political context. Collectively, they provide a valuable source of information on the methods, practices and implications of privatization over the past twenty-five years.

Figure 2: EU15 privatization proceeds



Source: Morano 2005, The Future of Privatization in Europe

Figure 3: New Member States of the EU (NMS) proceeds of privatization



Source: Morano 2005, The Future of Privatization in Europe

3. Phases of privatization (the "when" question)

The development of the privatization process across the member states of the European Union dates back to the mid 1980s. In view of their different historical background, the actual experience across countries varied. For example, in Western Europe, the change in government from conservative to social democratic appears to have had a direct impact on the pace of privatization. However, moving into the 1990s this distinction becomes blurred, as the rate of privatization became more synchronized across the EU. Outside the core group of the EU, the experience of the southern periphery states and of the CEECs, as well as of the Baltic states, presents certain particularities, which however become weaker towards the end of the 1990s. And since 2000, the privatization policy of the EU member states appears to follow a similar trend.

3.1 Western Europe

Privatization in the **UK** started with the first Thatcher government in 1979. Before 1979 there had been a few de-nationalisations, while the state was the only player in many sectors of public interest. The process in the UK can be divided into four phases, not only chronologically, but also due to its varying features since 1979. The first phase, which covers the first half of the 1980s, included the sale of minor shareholdings or small manufacturing companies of no particular public interest. The second phase, consisting of an accelerating wave of large privatizations, began in the mid 1980s (with British Telecom) and lasted for about 10 years (Railtrack). These two initial phases of privatization concerned - with very few exceptions (such as the case of the Bank of England) - all the sectors which had been nationalized during the post-war nationalization wave of 1945-51, as well as by the Heath government in the early 1970s (Water Board, British Leyland, Jaguar). They related mostly to infrastructure and to a smaller extent to manufacturing. Following these phases, the share of the public sector in GDP fell considerably from 9% in 1979 to less than 3,5% in 1992.

In the third phase, new forms of privatization were developed. The most prominent one was de-mutualisation, which started in 1989 (Abbey National) and played a significant role throughout the 1990s. The fourth phase of privatization was set in motion following the return of Labour to office in 1997 and it continues until today. It takes mainly the form of Private Public Partnerships (PPPs) and especially Private Finance Initiatives (PFIs), which, although applied by conservative governments since the early 1980s, were fully endorsed by Labour. Also, the contracting-out of public services constitutes a major form of privatization since the late 1990s.

Germany differs from the UK in terms of timing, although its privatization record can also be divided into four main periods. In particular, a privatization programme was launched in Germany much earlier than in the UK, in the 1950s, under Chancellors Adenauer and Erhard, lasting until the mid-1960s. This policy resulted in about 40 privatizations, mostly of minor public entities like local airports or industrial holdings, with a total estimated value of about 250 million DM. The first major privatizations were those of Preussag (mining company; 1959), Volkswagen (automobiles, 1961; the federal state kept 20% and the State of Lower Saxony 20%) and VEBA (energy, 1965; the federal state retained 40%). After the mid-1960s, the social democrats were elected to government and the privatization process was frozen for about two decades, until the mid 1980s. The second phase of privatizations in Germany began in the mid 1980s and lasted until the end of the 1990s. It concentrated in the first place on network industries, running in parallel with the corresponding process in most other countries of the EU. A separate, relatively short but very intensive third phase within the second one was the complete privatization of the Eastern German economy, which started in 1990 and was largely accomplished by the end of 1994. The fourth phase started at the end of the 1990s and it is still gaining momentum. It relates mostly to the public services.

In **France**, the first steps towards nationalization and the construction of the "public service" concept occurred in the 19th century. Following the two World Wars and the Great Depression, the state adopted large-scale interventionism in the French economy. The last round of nationalizations took place after the elections of 1982, that led to a socialist-communist government. However, after the victory of the conservatives in 1986, the first large wave of privatizations took place in France, lasting until 1988 and leading to the privatization of 15 groups or subgroups that corresponded to 1,200 firms and 350,000 workers. The law that was passed in 1986 listed a number of public enterprises to be privatised, establishing a Commission that was put in charge of evaluating public enterprises and supervising the process. In 1988, a new socialist government was elected. It froze the privatization program, although it did not renationalize any privatized enterprises. This is what is known as the "neither- nor" period. However, the re-election of a right-wing government in 1993 generated a second privatization wave. The law of 1993 listed 21 public groups, corresponding to 1,645 firms and 644.000 workers. In 1997, a new socialist government won the election. The "neither-nor" policy was replaced with an "and-and" one. That is, the socialists adopted privatization as a means of restructuring the economy and improving its competitiveness. Between 2000 and 2002, privatizations slowed down due to the stock market decline. However, since the middle of 2002, the process has accelerated following a "pragmatic approach to the state's role in the economy", according to former Premier Ministre Raffarin.

Turning to **Austria**, we note that state intervention generated high growth rates in the post-war era. However, in the 1980s the large losses incurred by state enterprises gave rise to concerns both by management and the public at large, leading to the radical reform of particular firms. The ÖIAG (Austrian Industry Holding) played a central role in this process, which it still does. In 1993 a decisive change in the task of the ÖIAG took place. It was transformed from an operational and management holding into a property and privatization holding. The criteria for choosing between alternative methods of privatization was the maximisation of revenue by the seller. A new task was assigned to the ÖIAG in 1996. The holdings of the central state (Bund) were transferred to the ÖIAG with the prospect of being subsequently privatized. In 1997, the social-democrat government formulated the new role of the ÖIAG as a core-shareholder. To prevent hostile takeovers, the state was to hold at least 25% in key industrial companies. However, the government's privatization strategy changed significantly in 2000, when the conservative party came into power. The model of the public core-shareholder was abandoned and replaced by a programme of outright privatization. Of the ÖIAG's 14 holdings, 9 had been sold by the end of 2005.

Following WWII and until the early 1980s, **Italy** was next to the Soviet Union the country with the largest percentage of public property in production. The state owned and controlled 100 % of the steel industry, 90% of the shipbuilding industries, 80% of the banking sector and large parts of other industries. The starting point for privatizations was in the 1980s, when a restructuring of the economy appeared necessary. The first privatizations occurred not in a systematic way. They were concentrated mostly in the automobile industry, the steel and engineering industries, the shipbuilding and repair sectors and in maritime transport. However at the same time, the state increased its participation in other sectors. At the beginning of the 1990s, the Italian state participation in the economy was the largest amongst OECD countries. This is when privatization was introduced in a systematic way and a number of laws were passed. It accelerated strongly in the second half of the decade in absolute and in relative terms. According to OECD statistics, the revenues from privatization in Italy exceeded those of any other OECD country between 1995 and 1999.

In the **Netherlands**, privatization as a programmatic political activity started in the first half of the 1980s during the Lubbers governments, which in 1982 published a privatization programme and a list of 14 privatization candidates. And 1988, when eight of these had been implemented (at least in the form of "corporatisation") a second list with a further 40 objects was published. But the change of government in 1990 together with unfavourable experiences with privatised services - e.g. in ship pilotage - brought privatization to a halt. It was subsequently taken up again in the 1990s and gained momentum under the second social democratic government of Wim Kok during the current decade. Since then the government has more or less continuously sold different stakes of its state participations. Currently new reservations are rising.

3.2 Scandinavian countries

In **Sweden**, there were only minor ideological differences concerning privatization between socialist and non-socialist parties after World War II. For example, a non-socialist government carried out the nationalization of the shipyards in 1976-82. The decisive change came with the right-wing Bildt-government of 1991-94. This authorised the privatization of 35 companies, which was meant to promote "competitive ownership structures", and, more generally, to separate more clearly politics from business. When the social democrats came into power in 1994, no more general authorisations to privatize the remaining companies (out of the 35 firms) were given.

In **Finland**, privatization appeared on the political agenda in the 1980s, when the social democrats were in government. In 1991, the Ministry of Trade and Industry (MTI) set out a privatization programme. The subsequent right-wing government was not able to engineer it, due to the then prevailing economic crisis. This happened later, despite the election of a left government in 1995. Until 1997, three major companies (Enso-Gutzeit; Valmet; Outokumpu) had been privatized. On the other hand, the state became the majority shareholder (30,4%) of a previously private manufacturing concern in mineral products and machinery (Partek).

In **Denmark**, the privatization experience was different to that of other countries. Very few privatizations have taken place. From 1993 until 2005, 11 privatizations occurred, a number which is relatively low, implying that the state continues to play a key role in many sectors of the Danish economy.

3.3 Southern Europe

In **Spain**, the process started at a very slow pace after the election of the socialists to government in 1982. Since 1985 a large scale process has taken place following the accession of Spain to the then European Economic Community. Firms that were nationalized during the 1970s recession, those belonging to sectors outside the strategic planning of the government and those characterized as technological latecomers, were the first to be privatized. After 1992, the large budget deficits, in combination with the economic recession of the early 1990s, forced the government to accelerate the privatization of public enterprises. One of the last acts of the socialist government was the dissolution of the National Institute of Industry (INI) and the creation of two groups of firms: the State Company of Industrial Participations (SEPI) and the State Industrial Agency (AIE). The former incorporated the most profitable and dynamic firms. Following the election of the conservatives to government in 1996, the process accelerated rapidly, especially after 1997. Between 1996 and 2001, the total revenue from privatizations reached 29.778 million US$, doubling the privatization proceeds achieved by the socialists over the previous ten years. The most intensive privatization activity was carried out in 1997 and 1998, when the privatization proceeds reached 2,7% and 2,8% of GDP, respectively.

In **Portugal**, privatizations started earlier than in other members of the European Union. As a result of the political commitment to a market economy advocated by the Portuguese Government under the influence of British Thatcherism, a wave of privatizations ended the short period of nationalizations, common in all three Southern European countries emerging from dictatorships in the mid-1970s. The change in government in 1995 with the election of the socialist party actually increased the rate of privatizing the economy.

In **Greece**, the process started late by comparison to the other European countries. After the nationalization of major enterprises that took place in the 1970s and 1980s, the public sector increased significantly in size. The first privatizations took place, when the conservative party won the elections in 1990. The law of 1990 prescribed a number of different methods of privatization, while its main emphasis was on the rate of implementation. The conservatives were succeeded by a "blairite"-type of socialist party, which ruled for the next 11 years (1993-2004). The initial privatization law was reformulated in 2002, lifting many of the remaining restrictions to privatization policy (Law 3049/2002). The proceeds from privatizations in Greece were insignificant in the early 1990s, while it is only in the late 1990s that they became significant, peaking in 1998-1999. During the last term of the socialist party (2000-2004) and since the return of the conservatives to power in 2004, privatizations accelerated anew.

3.4 CEE countries

As it may be gathered, the privatization experience of the former socialist countries goes back to the fall of the previous regime, namely to the early 1990s. However, in some countries the first steps towards private ownership took place earlier.

In the **Czech Republic,** the privatization process started in 1990, taking the form of the "restitution" of assets that had been socialized in 1948. In that year, a "small-scale privatization" process also took place, involving the ownership of small firms and shops. The law regulating privatizations was passed in 1990. This was followed by the so-called "coupon-privatizations", which were launched in two waves, in 1991-92 and in 1993-94. The first wave covered the whole of Czechoslovakia, whereas the second one involved the Czech Republic only. This method of privatization was very popular in the

Czech Republic until 1996. In the late 1990s, large-scale privatizations took place, whereby the state sold the companies to professional investors chosen on the basis of tenders. In 1998 the so-called strategic companies were still under state ownership, or state-owned banks held shares in them. In 2000, the process gained a new momentum, when political agreement was achieved between the government and the opposition.

In **Hungary**, the process started in 1988, already before the collapse of socialism. The period 1988-1990 can be characterized as the "spontaneous" phase. During that time, state enterprises maintained their status, although their property and financial assets were transferred to economic associations, while, in exchange, they were given shares in the stock holding company. In March 1990, the State Property Agency was established and the First Privatization Programme was put into effect. One of the first steps was the reorganization of the state enterprises according to the requirements of the market. Parallel to the restructuring, which lasted from 1990 until 1994, privatization took place on the basis of techniques and methods introduced in Western Europe and especially in the UK. In 1992 a State Holding Company was established to handle the part of the property that remained in state ownership. In 1995 the socialist Hungarian government merged the two state institutions into the Hungarian Privatization and State Holding Company (ÁPVRT). With the privatization law of 1995, the government declared its aim to accelerate privatization and launched a large-scale privatization policy.

Similarly to Hungary, **Slovenia** took certain privatization initiatives already in the late 1980s before the change of the regime. In the early 1990s, the first debates concerning the privatization method took place. Two different types of privatizations emerged. On the one hand, a gradual, decentralized and commercial type of process was advocated, while on the other hand, there existed supporters of a mass, centralized and distributive type of privatization. The first concept was implemented until April 1991, but it failed to provide support for the large unprofitable enterprises, while it was politically unattractive, as it was not accompanied by the free distribution of shares to the citizens. Thus, it was replaced by the second privatization concept. Its implementation was initially rather sluggish. In 1993, only 135 enterprises presented their plans to the relevant authorities, of which 31 were approved. By the end of 1995, 1.446 companies had submitted privatization programs. The process lasted for more than six years, during which 1.381 enterprises obtained approval for and were included in the Court Register, while the remaining 55 companies were either transferred to a Development Fund or liquidated.

At the turn of March and April of 1990, two bills on privatization were submitted in **Poland** almost simultaneously, one governmental and one parliamentary. The two bills differed considerably in terms of the conception of privatization that they proposed and the solutions they offered. The final draft of Privatization Act concerning the State-owned enterprises passed in July of 1990. It generally was concordant with the one submitted by the government although it contained some concessions to local authorities. The staff was granted the right to obtain 20% of the company's shares at half price. Additionally, they could take part in deciding upon the method of privatization of their company. However, in the first years of Polish privatization process the results were very poor. In 1997, Poland exhibited the smallest private sector from all CEE countries, with 65% of GDP produced by the private sector.

A number of laws were passed in **Romania** at the beginning of the 1990s, facilitated the transition into the free market system. More specifically, it was the Law no. 15/1990 concerning the conversion of former socialist enterprises, which enshrined the notion of non-privatizable entities, the so-called "regii autonome", the Land Law and the Law no. 58/1991, the so-called "Privatization Law". The latter fully covered the above-mentioned laws and contained a very ambitious and radical Mass Privatization Program. It shared some elements with solutions used in other Eastern European countries, and contained some specifically Romanian elements. For the five years 1992-1996 the notion of privatization was virtually identical with the provisions of Law no. 58/1991.

3.5 The Baltic states

The first steps towards privatization in Estonia, Latvia and Lithuania took place - as in other former socialist countries - before the collapse of the regime. The "perestroika" experiments and the introduction of the entrepreneurial co-operatives in the Soviet Union during the late 1980s were the forerunners of what followed. These co-operatives were mainly set up in trade and services, although a rather large number of them existed in the manufacturing sector. Later, the co-operatives were reorganized into private firms. In 1990, the cooperatives employed

10% of the workforce in Latvia and Estonia and 5% in Lithuania.

During the period 1992-1993, the governments of the Baltic states put forward a small-scale privatization plan, aiming at selling small enterprises, especially retail shops. In **Estonia**, by 1994, the private sector share in services was 83%. In **Latvia**, the privatization of small enterprises started in November 1991. Out of 712 enterprises listed for privatization, only 312 were privatized during 1992-94 mostly through lease buy-outs to insiders. In **Lithuania**, privatization was much faster and more comprehensive in the early years of transition.

During the period 1994-1997, a large scale privatization process occurred in the three Baltic countries. In Estonia the privatization of large enterprises reached its peak in 1994. In Latvia the process was slower, gaining momentum in 1995-96 and peaking in 1997. In contrast, in Lithuania the privatization of larger enterprises took place around 1992 and many of the large enterprises had been sold by 1994. In 1998, the public sector in Estonia owned 1% of all enterprises, in Latvia 7% and in Lithuania 6%.

4. Sectors which have been privatized (the "what" question)

Practically all sectors of economic activity feature in the privatization experience of the member states of the EU, albeit with variations as to the extent of the sector being privatized, the chronological order, the proceeds and the regulation of the sector following its liberalization and privatization. In particular, the privatization of state enterprises in the manufacturing sector, which in many cases preceded the privatization drive of the 1990s, presents the greatest variations. It mostly concerned shipyards, cement and steel industries, although it is difficult to discern a unique pattern. On the other hand, the privatization of the network industries - transport, telecommunications, energy - appears to follow more or less a similar pattern, although the experience of the CEECs displays certain differences, related to their particular historical and institutional background. The financial services sector has also undergone extensive privatization, especially in the CEECs. Lastly, privatization is currently spreading to the public services sector, which in many cases still remains in public hands.

4.1 Western Europe

In the **UK** the first privatizations took place in the manufacturing sector. A number of state manufacturing enterprises were sold to private investors subject to no further regulatory constraints. Of these, only two - British Steel and Rolls Royce - yielded substantial revenues, estimated at 77% of all revenues from privatization in manufacturing (4.636 bn BP out of 6.013 bn BP). Infrastructure and public utilities were the main sectors to be privatized from the mid-1980s to the mid-1990s. The privatization of British Telecom yielded a substantial amount (about 19.338 bn BP, 32,4% of the total). Other important privatizations included Railtrack, the British Airport Authority, British Airways and of course the public electricity and gas company. In the financial services sector, the two sub-sectors that are worth examining are the mutual building societies and the mutual life insurers. They were mostly de-mutualized throughout the 1990s. The transformation from mutual societies to stock corporations was usually accompanied by a payment to the stockholders, equivalent to their shares in the former mutual societies. The prospect of this payment was a further reason to press for transformation. Privatization has also penetrated education, social services and even public administration, prison and military services.

In **Germany**, privatizations occurred in four major areas. (A) In a small number of large industrial corporations - some of which, such as Volkswagen (cars) and Salzgitter (steel), had been founded as state-owned corporations during the Nazi-time - and industrial conglomerates (VIAG 1986 and 1988), IVG (1986, 1988 and 1994). (B) In the infrastructure and utilities sector in West Germany: electricity, gas (VEBA, RWE); postal services (Deutsche Post: partial privatization of 49,8%), telecommunications (Deutsche Telekom, UMTS licences), transport (Deutsche Lufthansa, airports, local transport). However, water provision is still mostly under the ownership of municipalities. (C) In the entire economy of East Germany, which was transformed from a socialist into a capitalist state. And (D), in the public services of unified Germany, especially after 2000, including public and cooperative residential complexes, health services and in particularly hospitals and pension schemes (introduction of capital funded schemes), education and research. An important area of privatization on the federal level is the German pension system. This process started with the pension reform of 2001, through which the public pay-as-you-go system was curtailed and a second capital funded (i.e. provided by private financial institutions) pillar was introduced, strongly promoted via tax subsidies. The ongoing discussion of the healthcare system points to a similar direction.

In **France**, privatization policies prevailed in the financial and banking sector. The process started in 1987 with the privatization of Cie Financiere de Paribas through a public offering that yielded 1.764,4 million US$. In 1993 and 1994 respectively, the majority share packet of Banque Nationale de Paris (BNP) and of an insurance firm, UAP, were sold through a public offering yielding 3.056,3 and 2.545,4 million US$ respectively. This process accelerated in the late 1990s with the privatization of Credit Lyonnais and GAN and it was followed in the 2000s with the sale of Eulia and Banque Hervet. In the manufacturing sector the largest privatization was in the automobile industry - the sale of Renault in 1994 and in 2000 and of Thomson Multimedia in 2000 and 2002. In the energy sector, the largest privatization was the sale of 12,7% of the shares of Electrecité de France in 2005, which yielded 8.400 million US$. In the same year, 17,5% of Gaz de France was sold at 4.051 million US$. In the oil industry, the sale of Elf Aquitaine in 1994 and the public offering of Total in 1991, 1992, 1996 and 2004 were the most important privatizations.

In **Austria**, water provision is delivered to 78% of the households by water enterprises under public law and a further 16% by enterprises under private law but owned by public authorities. Hence, the role of private business so far is quite small. However, there are some trends towards privatization, which may be classified in three groups: expansive strategy, selling/transfer and PPP-models. The introduction of the latter was on the programme of the government coalition of the mid-1990s. The conservative government (2000-2006) started a privatization debate on the basis of a Price Waterhouse Coopers report, which recommended a reorganisation of water supply in 10 regional providers, which subsequently should be run by private enterprises. With regard to the housing sector, which has a strong public tradition in Austria, the regulating law changed in 2001 and allowed the non-profit housing institutions to convert into profit-seeking enterprises. In fact, the Federal government forced the 5 largest housing institutions to become profit seeking. Concerning the railways, the first steps towards privatization were taken in 1992 when the ÖBB (Austrian Federal Railways) was transformed into a company under private law. The net infrastructure was opened to competitors in 1998, and a controlling institution was implemented. In 2004, the ÖBB-Holding was established, consisiting of five firms. Though formally behaving as a private company, the holding is owned completely by the state. The net infrastructure was opened to other providers, but by 2005 only 11 other railway companies were using the track infrastructure, with a more or less negligible market share.

In **Italy**, privatization focused in the first half of the 1990s on the financial sector and the utilities, while later on, it spread to the manufacturing sector. As a result of this process, state ownership in the financial sector has shrunk to almost zero, from 90% in the early 1990s, while public participation in the oil (ENI) and electricity companies (ENEL) has fallen to about 20%. With regard to telecommunications, Telecom Italia was totally sold to private concerns between 1985 and 2002, through successive IPOs and private sales of shares. Only the railways and the postal services remain under public control and (direct or indirect) ownership. Privatization has mainly affected corporations owned by the central government, rather than by the local or regional government. Publicly owned local services are still widespread in transport, water provision, waste disposal, sanitation, gas and electricity distribution.

Privatization in the **Netherlands** concentrated very much on the network services where it is still going on. It has also taken place in the area of public social housing from which the state has largely withdrawn since the 1980s. Beyond these sectors in 1990 the government merged the state owned Postbank and the Nederlandsche Middenstandsbank and sold it to the private financial conglomerate ING against cash and a (very small) stake in ING which it sold in the subsequent years. By now the postal and telecommunication services, the energy and gas sector and the transport sector have been largely privatised. But at the same time in several areas there is still government ownership, in some not irrelevant cases 100% and in some cases new government owned corporations were set-up, like Tennet (see Annex, Table 2). This unclear and seemingly paradox development finds its explanation in the concept of privatization which is prevailing in the Netherlands (at least according to von Damme 2004). It should also be noted that the Dutch parliament has passed in 2004 a law that prevents private companies from providing drinking water services to the public (Hall 2004: 3).

4.2 Scandinavian countries

In **Sweden**, the most important privatization was the sale of 20,9% of Telia AB, the leading telecommunications company, which was floated on the stock market. Between 1998 and 1999 several privatizations took place in the energy, gas and water distribution sectors (Stockholm Energi, Hassleholm Energi AB, Kramfors Fjarrvarme AB, Norrkoping Miljo and Energi). In manufacturing, the most important privatizations were those of Pharmacia AB (a pharmaceutical firm) and of SSAB (Swedish Steel Firm), in 1992 and 1994 respectively.

In **Denmark**, privatization has involved the sale of shares in the financial sector and in a computer centre (Datencentralen). In the latter case, 75% of the shares were sold to an American company in order to gain technical cooperation. A partial privatization has taken place in the case of Tele Danmark and of the Copenhagen airport. However, privatization and deregulation are not an issue in the services sector. Only some municipal bus companies have been sold and some services have been outsourced, for example in the Copenhagen region.

In **Finland**, it seems that privatization and commercialization play an increasingly important role in the services sector. E.g., two bus companies in Helsinki are owned by private foreign business (Linjebuss, Sweden and Stagecoach, UK), while the bus lines are increasingly being tendered. Although the railways, the postal services and telecommunications have not yet been privatized, they have gradually shifted their primary business goals from social objectives to profitability.

4.3 Southern Europe

In **Spain**, a large wave of privatizations took place after 1996. In the energy sector, Repsol, the oil company, was totally privatized in the period 1989-1997 after six consecutive IPOs and one direct sale. Moreover, Endesa (energy) was privatized in the same way, although the state holds a 'golden share' of 2,85%. In the telecommunications sector, Telefonica, the state monopoly was also privatized through IPOs and direct sales. In the transport sector, 40% of Iberia, the national air carrier, was privatized through a direct sale in 1999, and 48% through an IPO in 2001, yielding 1.617 million Euro in total. In the banking sector, the largest Spanish bank, Argentaria, was privatized through 4 IPOs from 1993 until 1998, yielding 5.041 million Euro.

In **Greece**, privatization has mostly affected the manufacturing sector, banking and telecommunications, while it is also expanding to other sectors. E.g., one of the first privatizations to take place was in the cement sector (Heracles Cement, 1992). This was followed by the trade sale of shipyards. In the telecommunications sector, the public enterprise (OTE) was privatized through IPOs. The share of the state now amounts to 34%. In the energy sector, Hellenic Petroleum was also privatized through IPOs and the state now holds only 40% of the shares and the management. The electricity company (DEH) largely belongs to the state (51%). On the other hand, most state banks have by now been privatized. The latest one was the direct sale of the Emporiki Bank to Credit Agricole (2006).

In **Portugal**, a lot of privatization activity was observed in the banking sector. This started in 1989 with the sale of Banco Totta e Acores and was continued with the sale of a large number of public banks. The most important ones were the sale of Banco Espirito Santo in two phases, in 1991 and in 1992, the privatization of Banco Fonsecas & Burnay in 1991, of Banco Portugues do Atlantico through public offerings in 1992, 1994 and 1995 and of the Banco de Fomento e Exterior that occurred in 1994, 1996 and 1997. In the telecommunications sector, the five public offerings of Portugal Telecom from 1995 until 2000 privatized the public monopoly totally. In the electricity sector the privatization of Electricidade de Portugal (EDP) was the most significant.

4.4 CEE countries

In the **Czech Republic**, one of the most dynamic sectors to be privatized was the banking sector. Although the process started relatively late (at the end of the 1990s), most of the banks have by now been sold to foreign concerns. A characteristic of the privatization of the banking sector was that its restructuring required a huge amount of resources (about 15% of the GDP in 1997). In the energy sector, the sale of CEZ electricity and Transgas monopolies yielded high revenues (3.701,5 million US$). However, their monopolistic structure remained. The energy sector remains fully regulated by the state. Moreover, in 2005 the government sold 63% of the shares of Unipetrol to PKN Orlen from Poland. In the manufacturing sector, the privatization of Skoda (bought by the VW Group in 1989) was the most important one. The telecommunications sector was fully liberalized on 1 January 2002, following the

EU directives. In 2005, the state monopoly of Cesky Telecom was sold to Spanish Telefonica, yielding 3.455 million US$, which makes it the second largest privatization.

In **Hungary**, the Hungarian Electric Works (MVM) was split into three groups after the transition: production, distribution and sales. In the spring of 1993, the ÁVÜ sold about 48% of its capital. Two years later, ÁVÜ disposed of six electricity companies and six power stations. In 1990 started the restructuring of the gas and oil sectors. Five gas supplier firms were sold to European multinationals. In the transport sector, the government decided to keep the railways (MÁV Rt.) under 100% state ownership. Moreover, it was decided that the share of the state in the shipping company (MAHART) and in the main local and inter-city traffic companies should not be less than 50%-plus-one voting rights. A 25%, i.e. a minority share, was established for the national airway company (MALÉV), but at the end of the 1990s it was above 60%, as an attempt at merging was unsuccessful. In the telecommunications sector, MATÁV was privatized in the mid-1990s; it was bought by a consortium of Deutsche Telecom and Ameritech at an estimated 875 million US$. In the banking sector, the Hungarian government spent large sums in order to restructure the sector and bail out banks. Bank privatization was completed in 1998. However, the sale of bank and insurance companies did not yield significant amounts, while foreign investors captured the majority position through capital increases. Water-supply ownership also changed in the 1990s. Before the transformation, 28 public enterprises as well as 5 regional associations provided county and town water supply. The public water supply and sewage-disposal enterprises were transformed in two phases. In the first one, around 80 percent of the wealth of public utilities was given to municipalities. In the second phase, parts of the firms were privatized. Large municipality and town water supply and sewage-disposal associations were transferred to private ownership, mostly to foreign concerns.

In **Slovenia**, privatization occurred in all sectors of the economy. Concerning the telecommunications sector, 48% of Iskratel was sold through a private sale for 15,8 million US$ in 1992, while in 2001, a much larger privatization took place through the sale of SiMobil (75% of the total shares), yielding 138 million US$. In the financial sector, the most important privatizations were those of SKB Banka in 2001 (140 million US$) and of 39% of Nova Ljubjanska Banka (446,82 million US$). In the manufacturing sector, some of the most important privatizations took place, such as the private sale of Krka in 1996 (141,7 million US$) and of Sava Tires in 1997 (100 million US$).

The most significant event in the telecommunication sector in **Poland** was the privatization of the public monopoly TPSA. It started in 1998 with a public offering of 15% of the shares and was continued with a private sale of 35% in 2000. With subsequent public offerings from 2001 to 2003, a 23% of the shares was also sold. In heavy industry and mining, the biggest privatizations were the public offering of 45,56% and the secondary offer of 26% of PKN Orlen SA (oil company) for a total of US$ 1.223 bn, and the public offering of KGHM Polska Miedz SA, the world's sixth leading copper producer (47,8% for approximately US$ 200 million). In the banking sector sell-offs included: 52,1% of Bank Pekao S.A. for US$ 1.074 bn to a consortium formed by UniCredito Italiano and Allianz (Germany); 36,7% of Bank Przemyslowo-Handlowy SA to a consortium led by Germany's Bayerische Hypo und Vereinsbank for US$ 600 million; 80% of Bank Zachodni SA, sold to a group of Irish banks for US$ 583,132 million; and 30% of Bank Handlowy SA, sold for US$ 400 million via public offering to a group of shareholders made up of JP Morgan, Swede Bank and Zurich Insurance (for a total of 25,96% of the capital). In the area of insurance, finally, we point to the partial sale of the country's largest company, PZU, in 1999. At present, the company's group of shareholders is comprised of the state for 55%, the Dutch company Eureko BV for 31% and other shareholders making up the remaining 14%. In the field of utilities, among the most important privatizations were the sales of 55% of Elektrocieplownie Warszawskie via private bids for US$ 218 million and of Zaklady Energetyczne Patnow-Adamow-Konin SA, to a consortium headed by Elektrim.

The most important privatizations in **Romania** took place in the energy sector, since this sector represents the backbone of the Romanian economy. More specifically, in 2004 a sequence of sales of energy companies to foreign investors raised FDIs to 3,4 billion Euros. The privatizations of Petrom, the national petroleum company, which was sold to the Austrian group OMV yielded 1,5 billion Euros, corresponding to a record amount for an oil company in CEE. Other privatizations in the energy sector were the sale of Electrica Banat and Electrica Dobrogea to the Italian Enel in June 2004 (a total transaction of 111,8 million Euros) and the sale of Electrica Oltenia and Electrica Moldova to the Czech CEZ and the

German EON. In the telecommunication sector, the privatization of ROMTELECOM started in October 1998, when the Greek Telecommunication Company (OTE) purchased 35% of its shares. The predominance of ROMTELECOM monopoly in the telecommunication sector ended in 2003, when the market got fully liberalized. Moreover, the government has decided to privatise by the end of 2006 the last state owned telecom operator, SN Radiocomunicatii (Radiocom), and to restructure and privatize the postal services provider, Posta Romana. In the transportation sector, road transports conducted by buses and trucks are totally privatized. The state-owned railroads company had accumulated large deficits on account of overmanning, outdated equipment and historical non-payment by many loss-making state-owned enterprises. As a result, the government launched a railway reform program in 1996. The previous state railway company (SNCFR) that was initially separated into five companies, merged into three: infrastructure (CFR), freight (Marfa), and passenger (Calatori), with the state as the sole shareholder in all three. In the maritime and inland waterways transport sector, similar principles have been adopted where State owned bodies or entities are in charge of the port infrastructure (quays, breakwaters, landfill, etc.) and award concessions to private bodies for port operations. In the banking sector, Romania is a laggard compared to the rest CEE countries. In 2000, foreign investors owned less than half of Romanian banking assets and two of the three largest banks remained state-owned as late as 2003. By the end of June 2001, there were four banks with state-owned capital in the system, which owned together approximately 55% of the entire capital of the banks and approximately 46,4% of the entire assets.

4.5 Baltic states

By 1994, 90% of the wholesale and 94% of the retail sector had been privatized in **Estonia**. The privatization of public utilities started with that of Estonian Air; 66% of its share capital was bought by a Danish company in June 1996. In August 1996, part of Estonian Oil was sold to a USA investor. In 1997, a big shipping company was sold to a Norwegian investor and in 1998 parts of the energy sector were privatized. In February 1999 49% of Eesti Telekom shares were floated on the domestic and international stock exchanges.

In **Latvia**, the list includes some of the largest infrastructure companies, such as Latvian Gaze in the energy sector, sold to a consortium of German Ruhrgas and Russian Gazprom.

In **Lithuania**, the most important privatization to take place was that of the Lithuanian telecommunications company, Lietuvos Telekomas. The state received approximately 2 billion LTL from the sale of 60% of the shares of this company, which was sold to a Finnish-Swedish consortium formed by Sonera and Telia. By 1995, marking the first phase of the privatization programme, nearly 100% of the construction and services sectors, 91% of manufacturing and 31% of transport and public utilities had been privatized. In the 2000s, the greatest deal in the manufacturing sector was the sale of the Lithuanian Shipping Company (LISCO) and in the banking sector, that of the Lithuanian Savings Bank (LTB). The last state-owned bank, SC Lietuvos □emes Ukio Bankas, was privatized in March 2002, completing the privatization of the financial sector. Further, the Lithuanian government sold 34% of the natural gas distributor, Lietuvos Dujos, to a German consortium.

5. Forms of privatization (the "how" question)

Whereas the phases of privatization and the sectors being privatized across the EU over the post-war period bear strong similarities, the same cannot be said of the types of privatization employed. More particularly, these are more closely connected to the historical, social and political specificities of the different countries. Thus, where a developed stock market prevailed, IPOs were used; and where this was not so, direct sales were the main means of privatization; where opposition to privatization was especially strong, such as in the former socialist countries, a more "popular" form was adopted, e.g. through vouchers more or less widely distributed. Similarly, where a large workforce was adversely affected by privatization, Management Buy outs (MBOs) were the preferred means. More recently, new forms of privatization, such as the Private Public Partnerships, have appeared and are gaining ground, especially in the core Western European countries. Overall, as the policies and institutional characteristics of the member states of the EU converge, so do the different types of privatization.

5.1 Western Europe

In the **UK** we can distinguish three different patterns. First, the transfer of state ownership to private firms, which was the most common practice for large privatizations. Most of these were carried out through the stock market, either as Initial Public Offerings (IPO) with fixed prices or as public tenders. Forty per cent of all privatizations were made through the stock market. Another thirty per cent were trade sales, i.e. direct transfers from the government to a private buyer; twenty-five per cent were management or employee buy-outs and five per cent were carried out through private placements. Another form of privatization was the so-called de-mutualisation, which required the change of the legal status of the corporation, whereby the members of the mutual societies became shareholders of the new private stock company. Such changes were made possible and promoted by the deregulation of the financial services sector. Demutualisation triggered a process of rapid concentration, in which many former building societies were bought by other building societies or commercial banks. Finally, one very common practice is that of the PPPs and PFIs, especially since the late 1990s and early 2000s. Under this scheme, private investors finance investment in public services (schools, hospitals, prisons etc.), which are then leased back to the government. PPP are to be found in all services sectors, including transport (London Underground), defence, health, education, etc. By March 2006, over 700 PFI projects with a total value of 46 bn BP had been signed, of which over 500 have been completed, delivering amongst others "185 new or refurbished health facilities, 230 new and refurbished schools and 43 new transport projects." (HM Treasury 2006: 13). From 2006 to 2010, another 200 projects with a value of 26 bn BP are scheduled. In total, PFI account for 10-15% of investment in the public services.

In **West Germany**, the privatization of industrial corporations and infrastructure was mainly organised via Initial Public Offerings (IPOs) with a particular incentive for small shareholders, although banks also (above all Deutsche Bank), insurance companies and large industrial corporations participated in the process and acquired relevant minority stakes in the privatized companies. Privatization in East Germany was directed and supervised by the Federal Trust Agency (THA), which was established in order to oversee the transition. At the end of 1994, 7.853 firms out of 12.000 had been fully privatized. Of these, 1.600 were returned to their former owners, 261 were transferred to the municipalities and 2.700 were sold to former employees or managers (MBO). Moreover, 3.713 formerly state-owned firms were shut. At the end of 1994, the THA was dissolved. The cost of the transition was especially high, as the THA spent over DM 300 billion, while the total privatization revenues amounted to DM 60 billion only. At the same time, millions of jobs were lost. In the unified Germany, the focus of privatization is on the public services and it takes various forms. In many cases, the production and provision of public services have been delegated to private firms, which operate under state supervision and control. Moreover, another form of privatization is the outsourcing of various activities to the private sector, e.g. school canteens. More importantly, private contracts are the basis of all public private partnerships, which are advocated as a particularly efficient way of delivering public goods. According to a recent study, in 2005 there existed more than 300 PPP's with a planned investment volume of over € 7 billion. Of these projects, about 80% are carried out on the local level. Of all local projects, about 30% relate to schools, another 28% to sports and tourism, 19% to transport, 15% to public transport, 15% to public administration and 3% to culture.

In **France**, the most common forms of privatization have been direct sales and IPOs. Until 1995, the sale of the Societé Nationale Elf Alquitaine (for almost 4 billion US$) and that of the largest insurance group in France - Union des Assurances de Paris (UAP) for US$ 2,5 billion in 1994 - together with the two IPOs - Banque Nationale de Paris (BNP) for over 3 billion US$ in 1993 - were the most important privatizations. The two IPOs of France Telecom in 1997 and in 1998 yielded about 6 billion US$ each, through the sale of 24,80% and 10% of its capital, respectively.

In **Italy**, the wave of the 1990s privatizations started with an organizational restructuring: the overarching holdings of state owned IMI in the banking sector and IRI in the industrial sector were transformed from public entities into joint stock companies subject to corporate law. The management of the new joint stock companies was given significant autonomy to carry out the restructuring and privatization of the companies' subsidiaries and sub-holdings. There was a declared preference for public offerings on the basis of the 1994 law, so that the majority of large privatizations took this form. However, direct sales to private investors also occurred, and in some cases, which were considered to be of vital or strategic interest, a public floatation was combined with the formation of a group of core investors (mostly in the financial sector).

Privatization took place in two steps in the **Netherlands**. The first - and seemingly by far the most important one - was the transformation of a public entity under public law into a private corporation in the legal framework of a public limited liability firm or share company under corporate law. The second step was the sale of shares of this still state owned enterprise (SOE) to private owners, either to strategic investors or via IPOs on the stock exchange to a broader public. According to the literature the government has put most emphasis on the first step. Privatization in this sense is not so much change of ownership rather than liberation of the public entity from government control and tutelage. This trend was supported by Dutch corporate law which gives management a strong position and shareholder a relatively lower weight and influence.

5.2 Scandinavian countries

In **Sweden**, 13 out of the 61 privatizations that occurred during 1989-2005 were done through IPOs, in all other cases through private sale, either through tenders or by strategic investors. However, the revenues from IPOs largely exceeded those from private sales. More specifically, IPOs yielded 14.150 million US$, while private sales yielded only 6.332 million US$.

In **Denmark**, 5 out of 11 privatizations were done through IPOs and the rest through private sale. The revenues are equally distributed between the two types of privatization.

In **Finland**, the majority of revenues comes from IPOs, although more private sales took place between 1988 and 2005. In particular, 29 IPOs yielded 15.029 million US$, while 39 private sales yielded 6.463 million US$.

5.3 Southern Europe

In **Spain**, during the period 1985-1996, the state sold directly shares of public firms mainly through tender, whereas it resorted to IPOs only twice. In the period after 1996, the number of IPOs increased significantly. However, the prevalent method of privatization in Spain remained that of direct sales either to foreign or to domestic investors. Despite the fact that there were fewer IPOs, they yielded more than twice what direct sales did. More specifically, during the period 1986-2005, IPOs yielded 35.781 million US$, while direct sales yielded 15.691 US$ million.

In **Greece**, IPOs became a common practice in the late 1990s and early 2000s. Other methods of privatization included the direct sale through tender and calls to strategic investors. During the period 1991-2005, the total revenues from IPOs are estimated at 13.893 million US$, while the revenues from direct sales reached 3.143 million US$. More recently, privatization includes long-term operation contracts, which usually contain an option for their renewal on favorable terms. These are a form of PPPs, which were regulated on the national and local level by a law passed in 2005.

The IPOs also dominated every other privatization method in **Portugal**. Between 1989 and 2005, 42 IPOs yielded 21.498 million US$, by comparison to 46 direct sales of public firms to domestic and foreign investors, which yielded 6.456 million US$.

5.4 CEE countries

In the **Czech Republic**, a number of methods were followed for the transition of state-owned enterprises into private ownership. Open sale to small investors on the stock market, sale of majority ownership to strategic investors and the offering of coupons to place ownership in the hands of citizens. Variants of the three methods were also applied in Poland and Hungary. The first type played an important role in the disposal of small firms. The process was done through auctions, where the Czech citizens had certain privileges. The disadvantage of this method was that it was costly, so that the revenues obtained were used to cover the expenses. In contrast to the rest of the transition countries, the so-called coupon-privatization played a significant role in the Czech Republic. This solution mitigated the internal opposition against privatization, although it lacked transparency. The restitution of previously socialized property was also a vital part of the Czech process. More recently, the privatization of large concerns has been launched through direct sales to foreign investors e.g. by tender.

Also in **Hungary**, various privatization methods were implemented. During the "spontaneous" phase (1988-1990), public enterprises retained their status, although their property and financial assets were transferred to economic associations. The first step towards a more organised type of privatization was through a pre-privatization program, which resulted in the sale of 10.318 retail shops by mid-1999, yielding revenues of about 20,1 billion HUF. Another mass privatization initiative was the self-privatization programme, which related to approximately 700 firms. The programme accelerated the mass privatization of small and medium-sized enterprises, so that the government was able to concentrate on the privatization of large firms.

In **Slovenia**, there were conflicting notions between "a gradual, decentralized, and commercial" process and "a mass, centralized and distributive" one. The notion of "decentralization" implied that the existing self-managed enterprises would initiate the process of transforming themselves into private companies using various techniques. "Gradual" meant that privatization might be in total or partial, while "commercial" implied that there would be no free distribution of shares. On the other hand, there were supporters of a mass, centralized and distributive type of privatization. In this case, the notion of "centralization" related to the role of the government in carrying out the procedures. By "mass" and "distributive", it was meant that enterprises were to be immediately converted into joint stock companies through the "free distribution" of shares to citizens. In November 1992, the Slovenian government passed a law on the transformation of social ownership as a compromise between the two concepts of privatization. This law encompassed features of both approaches: decentralization and gradualism, as well as predominantly distribution through vouchers given to all citizens. Several methods of privatization were included. Accordingly, the transformation of social ownership is to be attained by (a) restitution to former owners; (b) debt-equity swaps; (c) transfer of shares to the Restitution Fund, the Pension Fund, and the Development Fund; (d) distribution of shares to employees; (e) management and worker buy-outs and (f) sales of company shares.

There were three basic conceptions of privatization in **Poland** in the late 1980s and the early 1990s. They can be categorized as a) commercial, b) common patronage and c) enfranchisement. The commercial method opted for the transfer of property using market methods exclusively, such a s the sale of public property to private investors. However this method faced a fundamental problem due to the lack of sufficient capital among the domestic investors, rendering the purchase of a substantial number of state-owned-enterprises impossible. Moreover, Poland was enlisted among the high-risk countries in terms of investments. Under these unfavorable circumstances, the permission for free transfer of public property into private hands proved to be an effective way of changing the property structure and reducing the public sector' participation. Thus, the method of common patronage, or also known a civic privatization, appeared in Poland. Another conception of public property privatization is the acquisition of property by the staff of the state owned enterprises. The method of enfranchisement was presented even before the privatization process had begun and the first step was to hand over the companies' ownership to the staff. The staff would be transformed thus in a general assembly and the staff board into the supervisory board of the newly formed company. Finally, in Poland the direct sales were preferred to public offerings because of the urgency of completing the transition. According to OECD (2003), "by the end of 2001 some 86% of companies privatized through an indirect (capital) method used trade sale, either through negotiations based on public invitation (77%) or through public tender (23%)".

The "Privatization Law" (15/1990) divided the companies in **Romania** into two groups; the commercial enterprises on the one hand and the so-called "Regii Autonome" on the other hand. The latter remained under the authority of the ministries in charge and were not included in any privatization program until 1997, when the legislation ordered the corporatization and subsequent privatization of the Regii. The privatization of commercial firms took place in two different methods. The 30% of shares of privatized firms were allocated to all adult Romanian citizens through tradable vouchers at a symbolic price. Moreover, five Private Ownership Funds (POFs) were established to carry out and supervise the voucher privatization. All Romanian citizens that participated in the voucher system received a free-of-charge certificate of ownership, which entitled them to control the POFs, and to receive dividends. However, de facto it was impossible to control the POFs. First, the ownership was totally dispersed and no institution was set up to provide information on their activity. The whole attempt was a failure since no dividends were distributed during the five years of existence of the POFs, and the board of directors was appointed by the Parliament and the Government. The remaining 70% of privatized firms' shares was granted to the State Ownership Fund (SOF), which was responsible for the restructuring and the privatization of these firms. The last method of privatization applied in Romania was the sale of the firms through auctions, direct sales and public offerings.

This method had not gained a significant share among privatization methods until 1996, but in the period 1996-2000 it became the dominant one. Another method of privatization was, as in most of the transition economies, the manager-employee buy-outs (MEBOs), which was very common for small and medium public enterprises. In this way, firms remained in the hands of those who were operating them, reducing thereby the cost of a change in ownership.

5.5 Baltic states

A privatization tool that was used extensively in the Baltic states was that of vouchers. In **Estonia**, they were mainly used in the housing sector (46% of all vouchers), which was almost completely privatized by 1993. Two types of vouchers were issued: capital vouchers (distributed to all residents during 1992-96 in proportion to the number of years worked) and compensation vouchers (distributed after 1994 to the owners of property that was nationalized in the early Soviet period, if its owners either did not want it back or it was not possible to return it to them). Another common practice in Estonia was that of management and employee buy-outs. Until 1995, about 30% of all firms were sold in this manner. Direct sales were also quite common, whereas IPOs were relatively rare by comparison to Western Europe. Finally, restitutions were an important type of privatization in Estonia. They involved the return of assets to their previous owners, where the prior acquisition of the property was deemed to be unjust.

Latvia also resorted to vouchers as a method of privatization, although it adopted a more restrictive approach towards issuing them, since their distribution relied on residency criteria and on whether the individual had enrolled in the Soviet Army. Latvia made vouchers freely tradable in 1994, as did Estonia. However, vouchers played a limited role by comparison to the other two countries. E.g., in 1998 about 38% of all vouchers had not been used. Direct sales and management and employee buy outs were also employed.

In **Lithuania**, vouchers were regarded as part of the campaign for independence. For this reason, the assignments were made only to Lithuanian residents. The distribution of vouchers depended on the age of the citizens. The difference in the use of vouchers in Lithuania by comparison to the other two Baltic states was that, before 1993, the vouchers could not be traded directly, although they could be used to acquire a shareholding in an investment fund, which could then be traded. What really played a key role in the speed of the Lithuanian process was the role of the investment funds. The absence of a clear-cut regulation of mass-privatization largely favoured the dominant position of these funds. The creation of investment stock corporations after 1994 led to the concentration of 33% of the privatized capital in these investment funds. In addition, about 5-6% of firms were privatized in Lithuania through management and employee buy-outs, while direct sales and auctions were preferred to restitutions.

6. Actors involved (the "who" question)

These include individual investors, institutional investors - foreign and domestic - and of course the state, which played a predominant role in all cases. As it might be expected, the share of institutional investors rose over time, while market concentration also increased in the sectors that were privatized.

6.1 Western Europe

In the **UK**, the process through IPOs increased the percentage of the share-owning adult population from 7% to 25%. However, the percentage of shares on the stock market held by private individuals never rose beyond 30% while it fell from 30% to 20% during the period of accelerated privatization (the 1980s), as a a large number of shareholders sold their shares rapidly at a profit. For example, the number of shareholders of British Airways at the time of its being privatised was 1.100.000, while it later fell to 347.897, implying that a large number of shares was absorbed by institutional investors. Also the process of de-mutualisation did not result in more stock companies competing against each other in the mortgage and life insurance sectors, but instead, in a higher degree of concentration.

In **Germany**, the buyers of the privatised public property can be distinguished in four categories: (1) strategic investors, such as banks and other financial institutions, domestic or foreign corporations, who tried to enhance their market position through the acquisition of privatized firms and domestic and foreign investors, who form large private groups on the regional and local level; (2) institutional investors, such as pension and investment funds and insurance companies; (3) private equity firms and (4) small shareholders who buy shares on the stock market. However, the share of the German adult population owning shares (directly or indirectly through investment funds) never rose above 20%, while it has considerably fallen in the past few years.

In **France**, the objective of increasing the number of small shareholders appeared to be successful. More specifically, in 1978 - when tax incentives were given to participate in public offerings - there were only 1,3 million shareholders (roughly 2% of the population), but in 1982 already 1,7 million, and in 1987, when the first wave of privatizations started, the number of direct stockholders increased rapidly to 6,2 million (roughly 10% of the population). In 1991, their number fell to 4,5 million and in 1993, when the second wave took place, the shareholder's number increased again to 5,7 million. Privatizations have also induced a growing ownership of French companies by international investors. For example, 58% of Total, 50% of Alcatel, 45% of BNP Paribas and 56% of Aventis have been bought by foreigners.

In **Italy**, the goal of privatization policy was to generate private companies with a widely dispersed ownership pattern, that would operate in a liberalized and competitive environment. However, although 47,3% of the privatized shares were held by domestic investors, foreign institutional investors also participated extensively. Moreover, the ownership structure of the privatized companies remained highly concentrated. In 2001, the largest shareholder held on average 42% of any quoted company. Industrial concentration increased significantly after privatization. Similarly, in the banking sector the degree of concentration is higher than before the process began, while the market share of the five largest private banks has reached 62,5%.

6.2 Southern Europe

In **Spain**, a large part of the privatized public property was acquired by domestic investors. The fact that the revenue from public offerings was high implies that at least at the beginning of the privatization process the public largely participated. However, the concentration of stocks in investment funds and large corporations was inevitable. Foreigners participated to a significant extent in the Spanish privatization experience, especially after 1996, when most of the restrictions discriminating them against the domestic investors were abolished.

The same is more or less true of **Portugal**. Initially, a "popular" capitalism concept was developed, with the participation of individuals in the capital of privatized firms through public offerings. However, after a while, large investment funds and multinational firms came to hold the majority of the shares.

The situation in **Greece** was not different to that of the Iberian countries. In the 1990s, public offerings provided the illusion that individuals participated in the newly privatized firms, rendering in this way more palatable the unpopular privatization policies. The private sales were mainly carried out to domestic investors, especially in the banking sector and in manufacturing. In the late 1990s, the stock market boom led to an ephemeral concentration of shares among individual investors. In the early 2000s, the Greek government changed its attitude toward foreigners and proceeded to dispose of assets in private sales, especially in the financial sector.

6.3 CEE countries

When privatization started in the **Czech Republic**, it was dominated by methods that favoured Czech investors against foreigners, such as coupons and restitutions. The Czech privatization methods, especially until the late 90s, did not attract foreign investors, so FDI flows were quite low. The fact, that household savings were quite high was conducive to the sale of assets to domestic buyers. However, as FDI flows doubled over the period 1998-2004, it would appear that foreigners increased their participation in the privatization process at a later stage.

In **Hungary**, domestic investors were deprived of resources that could allow them to compete against foreigners. For this reason, the government established certain mechanisms strengthening the participation of the Hungarian private sector, such as privatization credit, Manager/Employee Buy-Outs, the employee share scheme, etc. However, it was difficult to participate in large-scale privatizations. Owing to the market-based logic of privatization, foreigners have faced very little discrimination. Foreign investors have actively participated in the Hungarian privatization process. The greatest amount of investment has come from Germany (25%), reflecting Hungarian economic traditions. The United States is in second place (13%), followed by France (9%), Austria (5%), the Netherlands (4%), and Belgium (4%). One of the Hungarian peculiarities in the privatization process was the extensive sale of public utilities, including gas and electricity companies as well as water companies, to foreign investors. Similarly, Hungary was the first country to involve foreign investors in the privatization of domestic banks and the national telecommunication and oil companies.

After the first wave of privatization in **Slovenia**, significant stakes of privatized companies ended in the hands of two quasi-governmental funds and private investment funds. These were artificially created, privately and state-managed funds and in fact, they became the new majority owners of the economy. In general, Slovenia was considered hostile towards FDI and foreign participation in the privatization process, as it can be seen in relation to the size of such flows, which is smaller than those to the Czech Republic and much less than those to Hungary. For example, Slovenia has remained the only former socialist country with the majority of the banking sector in domestic ownership. For example, the ownership structure of the Slovenian listed companies differs from the ownership structure of listed companies in the EU countries, particularly in terms of the high share of households and low share of foreign owners.

The participation of foreign investors in the privatization process of **Poland** was significant, as it was in most of the CEE countries. This can be justified by the initial inability of domestic investors to compete with foreigners. FDIs have played a very important role in the privatization process, where the revenues from transactions concluded with foreign investors accounting for over 75% of the total value of capital privatization revenues for the period 1990-2000 according to OECD (2003).

After restructuring the public sector and the privatizing enterprises in **Romania**, the state continued to be an influential owner of many firms through the State Ownership Fund (SOF), a state holding company. At the beginning, the voucher privatization through the five Private Ownership Funds (POFs) spread the ownership of private firms among the citizens (through vouchers). But after a while, these vouchers were sold and the identity of the new owners is unknown. New private owners emerged as a consequence of MEBO, mass privatization and case-by-case sales. MEBOs, being most popular in the first years of transition (1993-95) gave space for insiders, and through mass privatization (1995-96) a large number of domestic individuals received tiny fractions of ownership. The last method, direct sale of shares was mostly used after the MPP (1996-2000). Both domestic and foreign investors obtained shares of state-owned companies. Thus, practically all possible owners are present in Romanian firms. As far as it concerns the purchases of privatised fims' shares from foreign investors, the FDIs data expose the trend. Overall FDI flows as a share of Romanian GDP represent 20,5%, a rather small figure compared to neighbouring countries. The evolution of FDI in Romania has been very slow in the first years of transition and it picked up only in 1997, when annual FDI inflows exceeded for the first time the 1 bn US$ mark. Romania registered a record of 2 bn US$ in FDI flows in 1998, with the privatization of ROMTELECOM subsequently decreasing at about 1 bn US$ in the following years. But recently, Romania ranks fourth among CEEs in terms of FDI, outperformed only by the Czech Republic (US$ 11 bn), Poland (US$ 7,7 bn) and Hungary (US$ 6,7 bn). The total volume of foreign direct investments attracted by Romania in 2005 and in the first half of 2006 amounts to US$ 6,388 bn according to World Investment Report 2006 of the United Nations Conference on Trade and Development (UNCTAD).

6.4 Baltic states

All three Baltic states favoured insiders during the privatization of small-scale industry phase. At the beginning of the privatization process, employees had the right to buy the enterprises at the initial price, which in most cases was below the market value of the assets. It is estimated that around 80% of the first wave of privatization - 450 small enterprises - was taken over by insiders in **Estonia**. In **Latvia**, employees who had worked for more than 5 years in the enterprise also had a pre-emptive right to buy at the initial price. In **Lithuania**, employees had the opportunity to buy a certain percentage of the shares (10% in 1991 and up to 50% in 1995) in the first round, before the remaining shares were sold through public offering in the later rounds. In Lithuania this system made it possible for employees to obtain a considerable part of the ownership, even in large enterprises with relatively high capital-intensity. In Latvia and Estonia, most advantages for insiders in the case of small privatizations were largely taken away in 1992. On the contrary in Lithuania, insiders retained considerable power after privatization, even though fewer formal advantages were awarded to employees. Foreign investors played a minor role in the privatization of the small enterprises in the Baltic States. Foreign capital gained increasing access during the stage of large privatizations. In Estonia, by the end of 1998, foreigners had taken over approximately one third of the total enterprise assets included in large privatizations. In Latvia the foreign share was 34% of all purchases over the period 1995-1997. Foreign involvement concentrated in the largest enterprises in manufacturing, energy, transport, telecommunications and finance. In Lithuania foreign capital played an important role in the privatization process after 1998.

7. The rationale of privatization (the "why" question)

Global pressures, as well as specifically European pressures had a part in the rationale of privatizations in the member states of the EU, not least of which was the preparation for the EMU on the basis of the Maastricht Treaty, which became prominent in the 1990s. In addition, the lagging productivity of state enterprises in certain cases, as well as the onset of the neo liberal ideology, provided further grounds for the growing intensity of privatizations. Lastly, in Eastern Europe privatization was an integral element of the effort to transform the economy into a capitalist system.

7.1 Western Europe

In the case of the **UK,** the privatization rationale contained the following elements: a) pressure from outside (IMF) b) lack of a convincing concept and performance of the public sector and c) neo liberal ideology as a broader agenda of rollback. As to the pressures from the IMF, it should be noted that the UK had to accept the condition of rejecting the state subsidies for public enterprises, in order to receive a loan from the IMF. The second element seems to have been especially important. There has never developed a culture of democratic participation in the public firms, which could result in a better management and working environment. This absence of a democratic culture at the enterprise level in addition to the absence of a clear definition of the role of public firms in strategic economic policy, led to the downgrading of the public sector. This weakness was exploited by neo liberalism in order to develop a campaign against the public sector, put forward by the Thatcher government. It should be noted that the UK privatizations of the 1980s and until the mid 1990s were neither due to pressure from the EU, nor to a fiscal type of pressure.

In **Germany**, the ideological hegemony of neo liberalism also was one of the main factors for the spread of privatization policies. Furthermore, the fiscal pressures played a dominant role in the privatizations of the current decade, on the federal, as well as on the regional and local level. The pressure on the local level is particularly hard, due to the German tax policy, which has drastically reduced revenues on the local level and forced cities and municipalities not only to severely cut expenditure and thus reduce the provision of public goods, but also to sell public assets and to outsource public services. Moreover, an additional factor is the seeking of profitable investment opportunities. The excess liquidity created by the redistribution in favour of the higher incomes needed to be absorbed by profitable investment. Privatizations provided such an outlet.

The same type of rationale is encountered in **France** and **Austria**.

All the aforementioned factors also hold for the **Italian** experience. It is worth noting however that the pressure from the European Union on Italy was particularly important in accelerating the privatization process, especially after the Maastricht Treat and the collapse of the Exchange Rate Mechanism in 1992.

In the **Netherlands**, the theoretical concept behind privatization was at the beginning rather naive, based on the belief that, firstly, liberalisation would lead to more competition and, secondly, more competition would lead to more welfare to the consumers and society. Unfavourable experience with first privatizations prompted - some of them were transformed from public to private monopolies (still in public ownership) and behaved accordingly - the development of conceptions of regulation as a means to safeguard the "public interest" (a concept which was only relatively late introduced into this debate) in privatised network industries, regardless of their ownership. Later on privatization was regularly accompanied - and in some cases preceded - by the establishment of regulatory authorities, with different degrees of power to oversee and/or intervene in the specific structure and behaviour of the privatised sector; such as the OPTA for postal and telecommunication services, as a regulatory body if its own, and the DTe for the energy sector as a chamber of the 1998 created competition authority NMA. Problems arise because of the specific division of tasks: the rule-making power remains with the parliament, the implementation is left to the regulatory authorities, and private corporations can always challenge the interpretation of the legal rules by the OPTA, so that cases have in the last instances to be resolved by the courts. To the extent that participations in liberalised infrastructures were sold to foreign competitors (e.g. EON or RWE in the energy sector) additional difficulties arise as long as there is no uniform European regulation.

7.2 Southern Europe

In the three countries of Southern Europe, **Spain**, **Portugal** and **Greece**, we encounter the same type of rationale as in Western Europe. However, in their case, privatization seemed to be more urgent, since these countries had accumulated large budget deficits, mostly the outcome of the nationalization of loss-making firms. Privatization took place at a different pace in each of these three countries, which was mainly the result of the political situation in each country.

7.3 CEE and Baltic countries

The transition economies of CEE, as well as the Baltic states, exhibited a similar rationale. The main reasons were:

* To establish a market economy based on private ownership, with stable property relations
* To reduce the role of the public sector in the economy and increase its revenues
* To enhance economic efficiency and competition
* To introduce new technologies and management practices that would raise productivity
* To promote the country's integration into the global economy

Annex, Table 1

Country	Local public transport (LPT), water & gas distribution	Electricity	Fixed-network telephony
AUSTRIA	Public ownership prevails. Services usually provided by firms owned by municipalities or provinces	Public ownership prevails particularly in the provinces. The main operator (Verbund) is majority-owned by the state (51%). Fully liberalized since Oct 2001	The state owns a 47.2% stake in Telekom Austria. There are other public investors active in the sector. Liberalized in 1998.
BELGIUM	Public ownership prevails except in gas, where the state owns nly a "golden share" in the dominant operator	Main operator is private (Electrabel, part of the Suez group). The second largest (SPE) is public. Full liberalization since July 2003 in the Flanders region, 2005 in Wallonia and 2007 in Brussels.	The state owns 50.6% of the main operator. Belgacom is a public sector company regulated by specific legislative provisions. Liberalized in 1996
CYPRUS	LPT: very limited public ownership, only private companies. Water: 100%. No gas distribution	The state owns 100% of the Electricity Authority of Cyprus (AHK), a monopoly.	The state owns 100% of CYTA. The market was liberalized in 2003. Only small companies have emerged so far. CYTA itself may establish private law subsidiaries.
DENMARK	LPT: 10% public ownership. Water & gas: 100%	Mixed ownership prevails in regional companies (municipalities, consumer cooperatives and private undertakings). One of the main players is the state-owned energy company DONG, whose privatization is being debated. Sector reform started in 1999; liberalization still under way	There is no residual public ownership on TDC. Fully liberalized in mid-1990s.
FINLAND	LPT: 50% public ownership. Water and gas 100%.	The state owns 59% of Fortum, the leading energy company. Local authorities are also important players in generation and sale. Liberalization began in 1995	The state owns 13.7% of TeliaSonera, the result of the merger of Telia and Sonera, the former national fixed-network operator in 2002. Privatization and liberalization in late 1990s
FRANCE	Public ownership prevails in LPT and gas; minority stakes in water	The state fully owns Electricite de France (EDG). Liberalization started in 1998	The state owns 43% of France Telecom. Liberalized in 1998 and in 2002 for local calls
GERMANY	Public ownership prevails	Public ownership prevails. In three of the four leading operators (RWE, EON & EnBW), local authorities hold controlling stakes, with other industrial or financial investors. The fourth is a subsidiary of the Swedish state electricity company (Vattenfall Europe). Liberalized in 1998	The federal state owns 23% of Deutsche Telekom. Liberalized in 1998

Table 1 continued

GREECE	LPT: 100% public ownership. Water: 61%; Gas: 65%	The state owns 51% of the Public Power Corporation (DEI). Sector reform started in 1999, but DEI remains the only electricity provider.	The state owns 34% of Hellenic Telecommunications Organisation (OT). Liberalization started in late 1990s
HUNGARY	LPT: 90% public ownership; Water: 90%; Gas: 1%	Generation 40% public ownership; distribution 20%. Major privatizations in 1995-96. The state still owns the main operator, the Hungarian Power Company (MVM)	The state owns a residual stake of 1% in MATAV. Privatization and liberalization occurred in 1993-95
IRELAND	LPT: parts of some networks can be franchised to private operators, through CIE company is fully state owned. Water and gas: publicly owned	The Electricity Supply Board (ESB) is fully owned by the state. Liberalization started in late 1990s	Eircom was fully privatized in 1999. Liberalization started in late 1990s
ITALY	Public ownership prevails. The main operators are municipal companies.	The state owns some 43% of Enel. Liberalization started in 1996. Since July 2004, the market is fully liberalized for non-household consumers	There is no residual public ownership in Tlecom Italia. Liberalization was completed in the early 2000s
MALTA	LPT: Has traditionally been privately run. Gas (Enemalta): 100% public ownership. Water: 100%	Enemalta is fully state-owned. Monopoly.	The state has a 60% stake in Maltacom. Monopoly.
NETHERLANDS	LPT: 80% public ownership. Water: 100%. Gas: 50%	The overall level of public ownership is around 80%. The three main operators Essent, Nuon and Eneco are fully owned by local authorities. Liberalization started in late 1990s.	Public ownership in KPN is 14.2%. The government also holds a 'special share', with specific entitlements attached. Liberalization started in 1994
NORWAY	LPT: mainly private. Water: 90% public ownership. No gas.	Generation 90% public ownership. Distribution 100%. Liberalization started in the early 1990s	The state owns 51% of Telenor. The sector has been liberalized since the early 1990s
POLAND	LPT: 80% public ownership. Water: significant public ownership (private operators in several cities). Gas: 100%	The main energy producers (BOT and PKE) are publicly owned. Other important energy companies have been privatized. Public ownership still prevails. Liberalization & privatization started in the second half of the 1990s	The state still holds some 4% of Telekomunicacja Polska (TP). Privatization occurred over 1992-2000. Liberalization started in 1990s and was completed in 2000s
SLOVAKIA	LPT: 100% public ownership. Water: 59%. Gas: 51%	The state owns 100% of the dominant generation company, Slovense elekrarne, which is awaiting privatization. There are three regional monopolies for distribution, which are state majority joint ventures with EON, RWE and EDF. Liberalization has started	The state owns 49% of Slovak Telecom. Liberalized in the second half of the 1990s

Table 1 continued

SLOVENIA	LPT: 100% public ownership. Water: public, private and mixed ownership in equal shares. Gas: minority public ownership	Generation 90% public ownership; distribution 75%. Liberalization started in late 1990s	The state owns 63% of Telekom Slovenije. Liberalization started by legislation in 2001
SPAIN	LPT: public ownership prevails. Gas 0%. Water 100%	The state holds a 3% stake in Endesa. Sector reform started in 1994 and liberalization in 1997. Fully liberalized in 2003	There is no residual public ownership in Telefonica. Liberalized.
SWEDEN	Public ownership is significant, especially of municipalities. Public firms usually compete with private undertakings	The state fully owns Vattenfall. Liberalization started in early 1990s and was completed in 1996	The state owns 45.3% of Teleia Sonera. Liberalization started in early 1990s
UK	Private ownership	Private ownership largely prevails. Public ownership of six nuclear stations (due to close by 2010) and one hydroelectric station. Electricity distribution and generation were privatized in 1990-92. Liberalization completed in 1998	Private ownership. British Telecom was privatized in 1985. Liberlaization was completed by 1991

Table 2: State participation in the Netherlands

Name	Estab-lished	Legal form	Share 1997	Share 2001	Share 2005
Traded on stock exchange					
TNT Post Groep	1997	NV	100	34,9	9,6
Koninklijke KPN	1989	VN	44,3	34,7	14,2
PinkRoccade	1990	NV	100	28,4	25,0
KLM	1920	NV	25,0	14,1	14,1
Koninklijke Hoogovens	1918	NV	11,5	-	-
Alpinvest Holding	1991	NV	30,3	-	-
Financial institutions					
De Nederlandsche Bank	1864	NV	100	100	100
Bank Nederlandse Gemeenten	1914	NV	50,0	50,0	50,0
Nederlandse Waterschapsbank	1954	1NV	17,2	17,2	17,2
Financierungs- Mij Ontwikkelingslanden	1970	NV	51,0	51,0	51,0
Kantoor voor Staatsobligaties	1973	BV	100,	100,0	100,0
MTS Amsterdam	1999	NV	-	5,0	5,0
NIB Capital Bank	1945	NV	50,2	14,7	14,7
Energy					
Energie Beheer Nederland	1973	BV	100	100	100
Nederlandse Gasunie	1963	NV	10,0	10,0	10,0
Ultra Centrifuge Nederland	1969	NV	98,9	98,9	?
Nederlandse Pijpleiding Maatschappij	1966	BV	50,0	50,0	100,0
Tennet	1998	BV	-	100,0	100,0
Saranne	2001	BV	-	100,0	100,0
Transport and infrastructure					
Nederlandse Spoorwegen	1937	NV	100	100	100
VSN NV (Connexxion)	1994	NV	-	100	100
Luchthaven Schiphol	1958	NV	75,8	75,8	100
Luchthaven Maastricht	1956	NV	34,8	34,8	100
Groningen Airport Eelde	156	NV	80,0	80,0	100
Luchtvaartterrein Texel	1956	NV	65,3	65,3	65,3
Haven van Vlissingen	1934	NV	35,5	-	-
Westerscheldetunnel	1998	NV	-	95,4	95,4
Others					
Koninklijke Nederlandse Munt	1994	NV	100	100	100
Nederlandse Inkoop Centrum	1990	NV	100	100	100
NV SDU	1988	NV	100	100	100
Centrale Organisatie voor Radio-actief Afval	1982	NV	10,0	10,0	100
Thales Nederland	1993	BV	1,00	1,00	-
Eurometaal Holding	1993	NV	33,3	13,2	-
Vuil Afvoer Maatschapij	1929	NV	99,9	-	-
AVR Chemie	1984	BV	30,0	30,0	30,0
DLV Groep	1993	NV	-	82,5	82,5
Twinning Holding	1998	BV	-	100	-
NOB Holding	1999	NV	-	100	100
Nederlandse Omroepzendermaatschapij	1935	NV	59,0	59,0	59,0
Holland Weer Services BV	1999	BV	-	100	-
Holland Metrolog	1995	NV	100	-	-

Source: van Damme 2004: 54/55, Privatization Barometer, Atlas Netherlands

NV: naamloze vennootschap = joint stock company

BV: besloten vennootschap= limited company

Explanations to Table 2:

1. Most of the companies with state participation traded on the stock exchanges were established relatively recently in the late 1980s and in the 1990s. Of course public postal services and telephone were much older, but they were corporatised in the 1990s and then subsequently the state participation was reduced but often not completely abandoned.

2. Things are different for the state-owned financial institutions: they were established much earlier (beginning with the Central bank founded in 1864), have been working along commercial lines and the participation of the state remained unchanged (although the Postbank, which belonged to the PTT complex, was corporatised in 1986 and sold to ING in 1990).

3. Basically the same is true for large parts of the transport sector. The central undertakings were founded in the 1930s (railways) or in the 1950s (airports) and state participation has remained unchanged or even (as in the case of Schiphol) risen. The set-up of Connexxion is the result of an outsourcing from NS, the central railway company.

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3) Megginson et al. 2005

4) Morano 2005:2 and OECD 1995:40, respectively

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Theoretical approaches to the explanation of liberalisation and privatisation[1)]

Malcolm Sawyer

1. Introduction

The objective of this work package was 'a systematic stocktaking of different theoretical approaches to the explanation of liberalisation and privatisation as a basis for the critical analysis of their impact in the next phase.'. The intention was to 'examine contributions to the explanation of privatisation from different sciences (economics, business administration, regional science, engineering, political science, sociology) and from different schools of thought (neo-classical, institutionalist, evolutionary economics and sociology, regulationist school, neomarxist approaches). It will establish a comparative synthesis of these and elaborate an assessment of the strengths and weaknesses of the different approaches with regard to the capture of the real process and shape of liberalisation and privatisation in different historical, economic and social contexts.'

This paper begins by a consideration of the Austrian approach to markets, private property and competition. This approach is the one which most unambiguously promotes the role of privatisation and competition in a neo-liberal setting. In the next section, the 'economics of institutions' schema of Williamson (1998) is utilised to enable an overview of the different paradigms which go under the heading of neoclassical, new institutional and original institutional schools of thought. This leads into a more detailed discussion of each of those schools. The notion of efficiency involved in discussion of privatisation is briefly considered and the contribution of the schools discussed to the explanation of privatisation. The next section of the paper discusses the regulationist analysis of privatisation and liberalisation, followed by remarks on the liberalisation of network industries. The final main section of the paper considers the relationship between privatisation and the financial sector.

2. Austrian approach

The Austrian approach views competition as a dynamic process taking place against a background of change and uncertainty. The existence of profits, particularly high profits, is seen as an indicator that the firms concerned are particularly efficient both in terms of productive efficiency and of producing goods which consumers wish to buy. In particular, high profits are not seen as associated with market power, though there may be an association between high market shares and profits. But the link is not from high market share indicating monopoly to high profits, but rather that above-average efficiency generates a high market share and large profits.

It is the threat of new entry into an industry which keeps the incumbent firms on their toes. This leads to an emphasis on the importance of entry conditions into an industry, rather than the number of firms in the industry. One firm in an industry may appear to be a situation of monopoly, but if there are a number of firms ready to enter that industry if the existing firm allows its prices to rise above their level of costs then the incumbent firm is highly constrained in its pricing.

An important element of the Austrian approach is the importance of property rights and of the entrepreneur. If the entrepreneur is to seek after profits, then (s)he must have the claim to the profits generated, and hence, it is argued, the property rights to the profits must be assigned to the entrepreneur. The single entrepreneur is seen to be willing to take risks, to strive for lower costs etc., because (s)he will be the beneficiary of any resulting profits. In an organization with a large number of owners, the link between effort and profits is much diluted. The essential difficulty of nationalised industries, workers' co-operatives and also of large manager-controlled corporations is seen to be that ownership is dispersed.

The Austrian approach places great emphasis on the role of the entrepreneur in a market situation seeking out new opportunities and undertaking innovations. The market process is viewed as one of discovery, as entrepreneurs compete against one another. The outcome of the competitive process cannot be predicted. This raises difficulties for regulation of public utilities. 'Many commentators … have asserted that the purpose of utility regulation, and of price caps in particular, is to mimic the operation of the competitive market. I myself have never claimed that. I agree with Mises about the difficulty of predicting what a competitive market price could be, particularly in markets characterised by heavy capital investments that are location-specific and have long asset lives.' (Littlechild, 2000, p.13)

The Austrian approach would strongly support private ownership over public ownership on the grounds of the allocation of property rights which leads to owners having incentives to pursue profit opportunities. It also plays down the need for any regulation of an apparent monopoly position or industry operating with economies of scale. A leading exponent of the Austrian view (and one closely involved with UK privatisation and subsequently regulation) wrote in the following vein: 'what are we to make of the Austrian view of utility regulation ? There seems to be a general consensus that monopoly is not as widespread or permanent or problematic as generally believed; that such monopoly as does exist is most likely attributable to government restrictions; that regulation of potentially competitive markets is likely to produce shortages or be counter-productive; and that a little intervention is likely to breed more. … Government ownership of utilities is considered to be undesirable because it is likely to be loss-making or too powerful, and likely to prolong the monopoly.' (Littlechild, 2000, p.15)

3. Economics of institutions

In figure 1 the four level model of the ' economics of institutions' (Williamson 1998) is presented with neoclassical economics (NCE) at L4, Transaction Cost Economics (TCE) at L3 , theory of property rights (PR) at L2 and 'social theory', which we will call 'original institutional economics', at L1. The location of the theories is slightly different from Williamson[2)].

In Figure 1 all aspects of a socio-economic-political phenomenon like privatization are covered. The embeddedness of privatization is presented at level 1 (L1): the culture consisting of values and norms is the environment, which is important to understand the nature of privatization. For instance individualistic values of the Anglo-Saxon system represent a culture, which has a different influence on the nature of privatization than the more collectivistic culture in Continental Europe of Asian countries.

The formal legal environment of privatization is presented at level 2 (L2): what are the formal rules, the property rights, the role of politics and bureaucracy? When for instance the property right system is not well defined and enforcement is questionable, then privatization will have other consequences (see the privatization in Eastern Europe) compared to a legal system with well defined property rights and a neutral bureaucracy. Getting the formal rules, like property rights, right is called ' first order economizing'.

When privatization is realized the actors in the market will coordinate their transaction not in a state owned enterprise (SOE) anymore, but in 'private governance structures', such as contracts and different type of organizations. Forced by competition actors are supposed to select the governance structures that minimize the transaction costs (second order economizing). The 'governance 'is presented at level 3 (L3; see below).

Level 4 represents the allocation at markets where actors are forced by competition to minimize production costs (third order economizing).

The arrows between the layers show the relationship: the higher levels constrain and enable behaviour at lower levels. At level 4 for instance actors can only get the marginal conditions right when at level 3 the governance structure is right and at level 2 the institutions are right. The dotted arrows indicate a feed back between the levels from the bottom to the top.

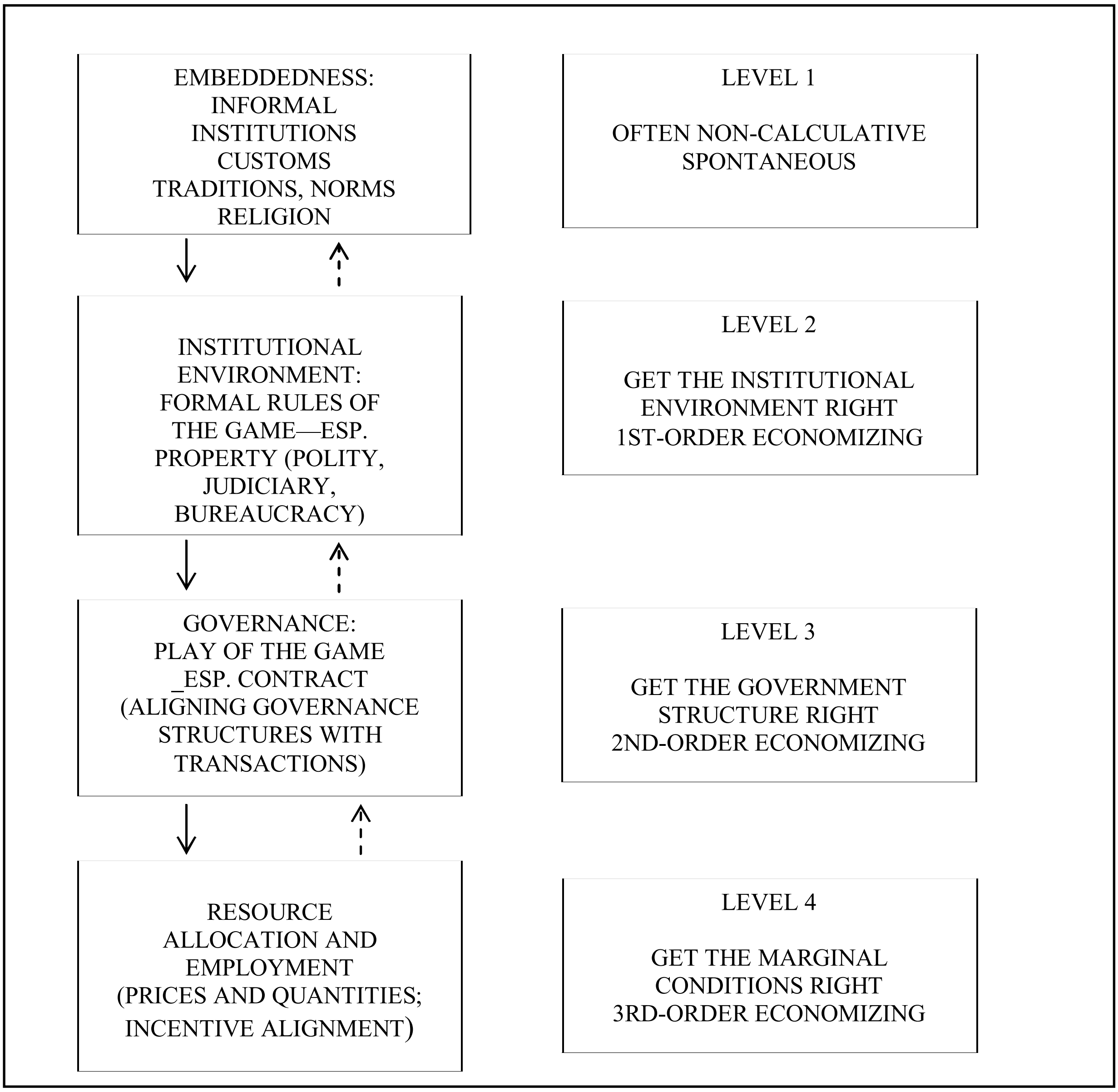
Below we discuss the nature of the theories at the different levels and outline their relevancy for the issue of privatization.

4. Neoclassical economics and privatization

In terms of figure 1 neoclassical economics is located at level 4. Markets are embedded in a context of formal institutions (values, norms, culture), a context of formal institutions (laws, regulations, public organisations of the state) and a context of private institutional arrangements, like private organisations and hybrids like public private partnerships.

At one level neo-classical economics could be viewed as taking a neutral stance on the issue of public verses private ownership. The objectives pursued by a firm would impact on the decisions which it made with regard to price, output, employment, investment etc.. But the objectives set for say managers of a publicly owned firm could, if required, mimic those of managers of privately owned firms, leading to essentially similar outcome. Neo-classical

Figure 1: The four levels of the economics of institutions



Source: adapted from Williamson (1998)

Note:

1. social theory (connects to original institutional economics)
2. theory of property rights (part of new institutional economics)
3. transaction cost economics and positive agency theory (part of new institutional economics)
4. neoclassical economics (including normative agency theory)

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analysis had been used to devise rules for the operation of public utilities, for example ideas of marginal cost pricing, investment decision rules.

Neo-classical analysis had long pointed to higher prices and lower output under monopoly as compared with perfect competition. Public utilities appeared as a situation of 'natural monopoly' under which a position of perfect competition (or even oligopoly) would involve much higher costs (as benefits of economies of scale were lost) and indeed perfect competition would be unsustainable as larger firms with lower costs drove out smaller firms.

From a neo-classical perspective, the main argument for public ownership appeared to stem from the 'natural monopoly' case: public ownership to prevent monopoly exploitation of consumers. From that perspective, the argument was undermined in ways. First, doubt was cast on the extent of economies of scale and the degree to which there was a position of 'natural monopoly'. This was linked to the second line, namely that even where part of a production process was subject to economies of scale, other parts were not, and those which were not could be operated separately from the other. Hence competition and private ownership could (should) be injected into those parts of the production process which were not subject to economies of scale. Third, there was perceived to be a strong link between a guaranteed position of monopoly and public ownership. Public owned companies were often granted exclusive rights to operate in a particular industry.

Neo-classical economic analysis had been firmly based on the assumption of technical efficiency, that the technical maximum output was achieved from the factor inputs, and then focused attention on questions of allocative efficiency. The notion that firms did not typically operate with technical efficiency and that the degree of technical inefficiency varied (Leibenstein, 1966) changed that perspective (though as always it could be questioned whether incorporating technical inefficiency and its causes was consistent with neo-classical economics). This chimed with the frequent popular accusation that publicly owned enterprises were inefficient. Leibenstein did not discuss technical inefficiency with regard to different forms of ownership but he did with respect to competition versus monopoly. The possible link between public ownership and monopoly alluded to above would point towards the relative inefficiency of public ownership. Indeed a number of neo-classical economists have argued that public ownership per se does not lead to inefficiency, but the monopoly position does.

Neoclassical economics assumes that competition in the market will result in efficient outcomes. L4 is about 'getting the marginal conditions right'. When producers are put under competitive pressure they are then forced to produce at minimum costs (technical efficiency), to produce what consumers want (allocative efficiency) and to innovate new products and production processes whenever possible (dynamic efficiency). If not, they will not survive in he market place. Much of the literature on liberalization, deregulation and privatization works out of that underlying assumption. Neoclassical economics then predicts what the optimal scale and scope of production will be.

This is the world of fully rational actors who have sufficient information to calculate ex ante the minimum efficient scale of production. The firm is then a production function and the insight provided to management is 'get the scale of production right'. Because normative agency theory works out of the same principles we also (following Williamson) locate that theory at L4.

Markets do not spontaneously result in such efficient performance when market failures and /or market imperfections exists. Failures refer to collective goods (non excludability and non rivalry), to natural monopolies (decreasing marginal costs) and externalities. Imperfection results from abuse of market power. In both cases government should intervene to correct the failures (produce collective goods, nationalize or regulate natural monopolies and correct externalities that are not corrected by the market itself) and imperfections (competition policies).

Privatized firms will be driven automatically to the efficient scale and scope (through internal growth, or external growth (Mergers and acquisitions) or through divestures.

With respect to privatisation NCE considers private firms to be the norm; only in exceptional cases government should regulate private firms and State Owned Enterprises (SOEs) do not really belong to the options NCE would be choosing from. The more the system is moving away from private firms competing in markets, the more inefficiency due to limited market incentives, have to be accepted, according to theories at L4.

5. New Institutional economics and Privatisation

Generally three related schools of thought are suppose to address the question of 'governance' at L3: theory of property rights, positive agency theory and transaction cost economics together called the school of New Institutional Economics (NIE). In NIE the actors differ from NCE in the sense that actors are bounded in their rationally and can behave opportunistically. They do follow the rules of cost minimization.

Below we discuss the three schools of thought that together form the New Institutional Economics.

5.1. Property rights and Privatisation

The insights of property rights play a role at level 2. The economics of property rights demonstrates the importance of well-defined and objectively enforceable property rights to make contracting possible. Due to bounded rationality, contracts are always incomplete. Actors aim at minimising the risks of 'post-contractual opportunism' and the theory of property rights then explains that the owner of the rights has control over the way how the incompleteness is filled in at a later stage. That makes the allocation of property rights crucial.

The allocation of property rights largely determines the incentives structure. The owners can have the right to use, to manage, and to alienate the property. It should be noticed that property rights can be different from decision rights: the owner can give decisions rights to another party (in the case of leasing, or renting), or the decision rights can be limited through laws and regulation.

With respect to the issue of privatization the theory of property rights focuses on the incentives related to the type of property rights. Private property rights are generally efficient because individuals negotiate in contracting processes on the (ex) change of property rights. In case of state owned property the theory predicts large bureaucratic inefficiencies. In case of common property ('Tragedy of the commons') each individual will maximise her profits by letting more sheep graze on the common, or fishing more fish out of the sea. By maximising individual profit the 'common' is destroyed. So in that case the theory of property rights explains the necessity of a set of rules that preserve the common. In case of collective property rights, for instance the ownership of a hall in an apartment building the theory of property rights also explains the necessity to guide individual behaviour on the basis of a set of rules.

So, the theory of property rights provides the basic arguments for privatization. When formerly SOEs are privatized and the domain is of special public interest (energy, public transport and the like), then government is in need of regulation of the privatized firm. Agency theory provides relevant insight then.

5.2. Agency theory and privatization

In the second school of NIE the idea of contracting is taken a step further by the principal - agent theory (AT), in which the firm is characterized as a 'nexus of contracts'. The insights of agency theory play a role at level 3. Principals and agents have different objective functions and information is asymmetric. Otherwise no agency problem would exist. The situation of different objectives between the principal and the agent and the existence of information asymmetry between them raises the question how best how to align the interests of the principal and the agent through contracts and organisational arrangements like monitoring and bonding.

Different kinds of principal-agent relations can be distinguished:

* Government (ministry) vs. state-owned enterprise
* Government vs. private firm
* Shareholder vs. manager
* Manager vs. employee

According to AT privatisation means replacing the bureaucratic internal control mechanisms by competitive pressures and contracts between the government (principal) and the agent (privatised firm). How managers of privatised firms that need to be regulated behave depends on different internal (workers council, internal auditing) and external disciplining mechanisms on management of private firms: product market, labour market for managerial labour and the market for corporate control. Regulation by government should be studied in the context of those other disciplining mechanisms.

When formerly SOEs are privatised, transactions between and within these firms are no longer coordinated through a vertical command system, but through institutional arrangements like contracts and organisations. How this can best be done is the question addressed by TCE.

5.3. Transaction Cost Economics and Privatisation

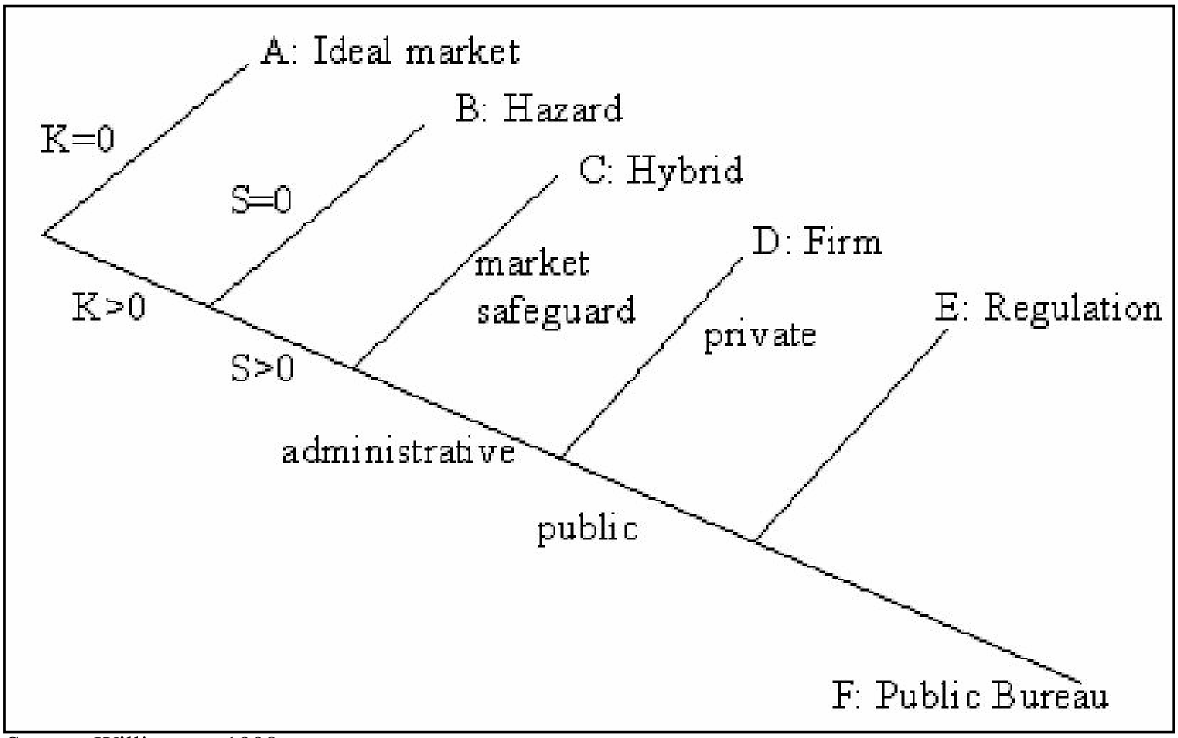
Transaction Cost Economics is located at L3 in figure 1 and builds upon the theory of property rights and agency theory. The issue now is what governance structure most efficiently coordinates transactions including privately and state owned firms.

Given the institutional environment of (in)formal institutions what then are the efficient modes of governance (second order economizing) ? TCE characterizes the transaction according three dimensions (asset specificity, uncertainty and frequency) and matches different governance structures with different transactions. The level of asset specificity is generally considered to be the most decisive one: when asset specificity is high, the risk of opportunistic behaviour is high, so the need for safeguards is high. This will be more costly to realize in a market contract then in a hierarchy. Between the market and hierarchy an intermediate category of hybrids is located: long term contracts, strategic alliances, networks, and the like.

Privatisation often implies regulation (access to the network, quality, prices, security of supply, investments) to safeguard competition and the public interest; what is the net benefit?

We can draw a continuum of governance structures from the contracts on spot markets to the vertically integrated hierarchies and further to the area of public ordering (regulation and public bureau). See figure 2.

Figure 2: a contracting and organizational schema



Source: Williamson 1998

It would be a mistake to think of governance structures as only private arrangements: government plays a role as well and sometimes even a dominating role. This can be the case in sectors of the economy where competition needs careful regulation in order to prevent firms to make abuse of a dominant position, or to prevent unwarranted collusion between firms. In sectors such as railways, energy, telecommunication, public transport, health services, and the like, government creates governance structures to assure a specific performance of the market. For instance the provision of energy at reasonable prices to all citizens is an objective of public interest that needs specific governance. The continuum in figure 2 shows the type of governance structure related to the degree of asset specificity (k). The asset specificity concerns the type of investments actors make in order to have a good or service transacted. When the investments are very specific then the investment is worthless when the transaction is ended. The degree of asset specificity has implications for the possibility of opportunistic behaviour and therefore for the need of safeguards. In figure 2 the asset specificity increases from left to right. When no asset specificity exists the transaction can be efficiently coordinated with a 'contract on the ideal market' (potential opportunism is absent because of the high level of competition and low level of asset specificity). When asset specificity increases safeguards are built into the contract, e.g. through long term contracting, and so-called 'hybrids': governance structures in which contracts are combined with organisational structures for monitoring, arbitrage and sanctioning. When asset specificity increases further the hierarchy (vertical integrated firm) will be most efficient from a transaction cost point of view. Private ordering is complemented by public ordering (regulation and 'public bureau', or State

Owned Enterprise) when government is responsible for a specific performance of the sector and the market does not automatically produces the desired outcome. Competition authorities and sector specific regulators are typical examples.

6. Original Institutional Economics and Privatisation

The original institutional economists were first of all interested in issues of institutional change, in the analysis of processes. The analytical framework based upon their ideas is presented in figure 3.

Compared to NIE the differences are to be found in the extension of the model with the technology and the political layer, the different attributes of the actors, and the feedbacks between the layers. This approach allows for the analysis of path dependent processes and power of interest groups that can influence government policies and strategies of private firms. The OIE approach is dynamic, multi-disciplinary and more holistic.

Efficiency

Private ownership vs. public ownership is often discussed in terms of the relative efficiency of the ownership forms. The Austrian approach most clearly postulates that private ownership will be more efficient than public ownership and in effect judges efficiency in terms of profitability. Survival in the

Figure 3: Layered dynamic institutional model

Layer 1 Informal institutions: $\rightleftarrows$ Technology:

- Culture
- Values
- Norms

- Trajectories
- Artefacts
- Operationalisation

Layer 2 Formal institutions:

- Political system
- Role of the state
- Relationships between bureaucracy, politics and business

Layer 3 Formal institutions:

- Laws (property rights) and regulations (price regulation)
- Policies (competition, technology, economic, financial)

Layer 4 Institutional arrangements:

- Contracts
- Organisations (vertical integration)
- Hybrids like networks

Layer 5 Individual actors:

- Mental maps
- Habits, routines
- Human creativity and learning
- Powerbase for opportunism (encapsulation)

market becomes the test of efficiency. The neo-classical approach has clear notions of efficiency in terms of allocative and technical efficiency. It is relevant to note the shortcomings of such an approach to efficiency. First, it is well-known that the efficiency criteria of neo-classical welfare economics pay no attention to issues of distribution. Privatisation may well lead to a different structure of prices (as compared with public ownership) which has a differential impact on income groups. It is often seen that the pricing structure post-privatisation favours the rich rather than the poor. Second, little attention is paid to wages and conditions of labour. If cost efficiency is increased through the payment of lower wages and/or the intensification of labour, it would be doubted as to whether that can be considered as improving social welfare. Third, the neo-classical approach adopts a rather static approach and does not pay sufficient attention to issues of investment and technical progress. The impact which privatisation has on the extent of investment particularly in the public utilities has been little considered but of considerable importance for the secure supply of essentials such as water and electricity. Fourth, the nature and 'quality' of the product is liable to change under privatisation and liberalisation. Regulation of privatised utilities has focused on price and has found difficulty in ensuring quality. Liberalisation in the form of 'contracting out' of public services has faced problems of writing and monitoring the contracts in a way to ensure good quality services are provided.

This brief discussion points to the conclusion that privatisation cannot be adequately assessed using the narrow concept of efficiency associated with neo-classical economics. Social welfare cannot be narrowly aligned with costs of production or profitability. A broader range of considerations, some of which have been indicated above, have to be brought into the picture.

7. Explaining privatisation

7.1 Austrian approach

The Austrian approach has always championed private ownership over public ownership (and more generally any forms of social ownership), and viewed barriers to competition as arising from government intervention rather than from economies of scale and activities of incumbent firms. In the Austrian view, private ownership is inherently more efficient than public ownership : the key argument in their approach is the identification of a 'residual claimant' who has the interest of maximising the residual (i.e. profits). In seeking to maximise the residual, costs are minimised, and in that sense efficiency is pursued. In the Austrian view any firm which does not have a well identified residual claimant will not operate in an efficient manner. In the Austrian approach, the natural monopoly argument is not given a great deal of weight as a rationale for government intervention. Even if economies of scale are strong enough leading to a dominant firm in the industry concerned, the Austrian approach stresses the competitive pressures which arise from the possibility of other firms entering the industry if the incumbent becomes inefficient.,

Government policy should then to be focused on ensuring that no impediments are placed in the way of new entrants. The public ownership of natural monopolies often includes the exclusive rights to operate in the industry concerned. The Austrian approach would stress the change of ownership from public to private and also the removal of any barriers to entry. The Austrian approach would also stress the difficulties involved in regulation of utilities arising from problems of 'agency capture' (regulator operating in the interests of the producers), issues of information and 'government failure', the subjective nature of costs and the inherent difficulties of replicating a competitive market. One summary of this position is given by 'when technical conditions make monopoly the natural outcome of competitive market forces, there are only three alternatives: private monopoly, public monopoly, or public regulation [of private monopoly]. … 'All three are bad so we must choose among evils … I reluctantly conclude that, if tolerable, private monopoly be the least of the evils'. (Friedman, 1962, p. 28)

The Austrian approach would seek to explain the shift to privatisation in the past quarter of a century in terms of the 'triumph of ideas'. The advocacy of privatisation by that approach has been unchanging and not related to the economic, political or material circumstances. For the form of privatisation, the shift to private ownership would be seen as the key element with little need for regulation of the private industry (other than ensuring that there are not limits on entry of firms into the industry concerned). Any regulation (notably over prices) should be limited in time until the barriers to entry can be removed.

7.2 Neo-classical approach

The neo-classical approach has generally seen public ownership as a response to the 'natural monopoly' problem. It was always recognised that regulation (of prices, profits) private 'natural monopoly' was an alternative to public ownership. As indicated above the neo-classical approach only favour private ownership over public ownership in so far as the objectives pursued as more conducive to the achievement of allocative efficiency. The neo-classical approach may be able to explain privatisation through the idea that technological changes have changed the extent of 'natural monopoly' (telecommunications may be an example) and hence the need for public ownership as a form of regulation. Another route, which may be debatable whether it would be a neo-classical explanation, would be changing perceptions of the objectives of public versus private corporations and the effects of those objectives on technical efficiency. The notion of X-inefficiency permitted the discussion within neo-classical economics of the factors which may influence the degree of technical inefficiency, and a favoured line was the role of competition in this regard. The absence of competition in the natural monopoly setting could then be viewed as a cause of technical inefficiency (and hence higher costs).

The neo-classical approach can be seen to have influenced the form of privatisation in two particular respects. First, the structure-conduct-performance paradigm (from industrial economics which can be associated with a neo-classical approach) postulates the relevance of industrial structure including barriers to entry and exit for industrial performance. Second, the nature and form of regulation has been strongly influenced by the neo-classical perspective. The 'natural monopoly' perspective suggested the need for regulation of prices and profits of privatised utilities, at least with regard to those parts of the production process where economies of scale prevailed. The neo-classical approach has generally informed the approach to the precise regulation of prices and costs and the allocation of costs between activities (in contrast the Austrian approach stresses the subjective nature of costs which raises some obvious difficulties for regulation). The focus of regulation on price rather than say investment, research and development, may also reflect the essentially static nature of neo-classical economics.

7.3 New institutionalist approach

The discussion of the new institutionalist approach above highlighted three aspects, namely property rights, agency theory and transactions costs. This approach could then explain the occurrence of privatisation through some combination of changes in perceptions of the role of property rights and of principal-agent issues and changes in the structure of transactions costs. This would though leave unexplained how and why the perceptions of the role of property rights and of principal-agent issues changed. A thorough investigation would be required to see whether there had indeed been changes in the transactions cost technology which would have generated the observed changed.

It is rather debatable as to whether the principal-agent issue and transactions costs have had much effect on the nature and forms of privatisation. Some utilities have been privatised in a vertically dis-integrated form (the British railway system is a well-known example) and the ways in which principal-agent matters arise and the transactions costs (in a broad sense) arise in a disintegrated industry do not appear to have had much impact on the way in which privatisation has been structured.

8. Privatisation and regulation theory

8.1 Growth regime and institutions in the regulation approach

The regulation theory is an institutionalist approach developed in France by authors like Aglietta (1976) or Boyer (1986) which focuses on links between institutions and growth regimes. Periods of well established growth can be associated with some stable institutions which serve as pillars of the growth regime. In this context regulation mechanisms underpin the reproduction of the whole system and can be regarded as sufficiently stable. But these mechanisms are not immutable as they are submitted to progressive changes in institutions induced by the growth process itself. After a more or less long delay, misalignments appear between regulation mechanisms and institutions. Sustained growth can be no more warranted and the economy enters in period of 'great crisis'. During this period structural changes happen, institutions are reshaped and regulation mechanisms adapted in order to recreate conditions for a new growth regime. This process of adaptation and transformation can be more or less long and painful, according to characteristics of each country and period.

In the traditional regulation approach (Boyer, 1986) five main institutions are distinguished: wage relations or wage nexus, competition forms, the monetary and financial regime, State and institutional compromise, internationalisation forms. In the varieties of capitalism approach (Amable, 2003), which is close to the regulation one, five main institutions are also considered: competition forms, wage relations, financial intermediation and corporate governance, welfare state, education system. The importance of institutional complementarities is underlined and helps to characterise varieties of capitalism. In this perspective five models of capitalism are distinguished during the 1980s and 1990s and have been analysed in details: the Anglo-Saxon model; the social-democrat model; the continental European capitalism; the Mediterranean capitalism; the Asian capitalism.

In spite of differences between the main industrialised countries, the crisis of the Fordist regime during the 1970s can be characterised by some common features: a decline of the labour productivity rate of growth and a fall of the capital productivity due to the erosion of the mass production system, a rise of the wage share and a fall of the rate of profit, a rise of the inflation rate in most of the countries, except in Germany and Japan, an increasing public deficit due to the slowdown and the use of some Keynesian tools to try to sustain economic activity. Facing a persistent crisis, a turning point appeared at the end of the 1970s with clear announcement of the need of structural changes to engage towards new growth regimes (Mazier, Baslé and Vidal, 1984). This search for a new growth regime followed different paths according to specificities of each country (or varieties of capitalism).

8.2 The search of new growth regimes during the 1980s and 1990s

From 1979 the USA and the United Kingdom were pioneers in the implementation of a new regime based on a liberalisation process and changes in macroeconomic policy and reliance on monetary policy. Japan followed a different strategy, but the success of the 1980s did not resist financial liberalisation. Lastly the continental Europe was confronted by a gradual sliding towards liberalisation.

With a highly restrictive monetary policy, strong deregulation, pressures on wages and trade unions, but also demand sustained through public deficit, the USA managed to find a way out of crisis and were able to reduce significantly unemployment. During the 1980s the US growth regime was still based on services, low wages and low productivity growth. New economy and finance led growth regime emerged only during the 1990s. However, beyond the financial crisis of 2001, increasing international unbalances lead to question the sustainability of the US growth.

The break was even more important in the United Kingdom since 1979 with the starting of a liberalisation process and search for labour flexibility. Monetary policy became progressively less restrictive. Based on services and a strong financial sector, a finance led growth regime also emerged during the 1980s with increasing inequalities.

Japan explored a very distinctive strategy. It found a way out of accumulation crisis very early in 1978 through a yen depreciation and an export led growth, based on a highly competitive manufacturing sector. During the 1980s Toyotism was considered as the new productive model, able to give answers to limits of the old Fordist model. Unfortunately, financial liberalisation, largely imposed by the USA and implemented too quickly, led to a financial bubble and a deep crisis in 1990. Since then, banking crisis, credit rationing and deflation locked the Japanese economy in stagnation.

Continental European economies represent another type of case. Here also deep institutional changes occurred since the beginning of the 1980s with more labour flexibility, a decline of the State intervention and financial liberalisation. The profit rate was restored, but without recovering a sustained growth and full employment. The failures of the European economic policy in many respects explain a large part of the growth in many European countries in mass unemployment. A relative convergence towards a more Anglo-Saxon model has been observed but the continental European capitalism with its different specificities has resisted. Some small European countries, especially those belonging to the Social Democrat model, have been more successful. Their former institutions were better fit to new forms of competition and their high degree of openness can explain the larger efficiency of the costs-cut strategy.

8.3 Privatisation: a general trend inside the liberalisation process

The liberalisation process has been a main component of institutional changes which occurred since the 1980s with the objective of restoring profitability and accumulation rates. More competition was supposed to improve productivity and competitiveness , and consequently to increase growth. More labour flexibility was also a factor of increasing productivity and of costs reduction. Lastly financial liberalisation was a tool to improve capital financing, both by reducing the capital cost and by increasing the volume of financing.

Inside this broad liberalisation process, privatisation was a key factor as it was supposed to have a positive impact on, at least, five fields which were at the heart of the crisis. Privatisation meant more market oriented systems which were seen as more efficient. Privatisation offered new markets for private capital accumulation at a time where demand was often regarded as too weak. Privatisation could be seen as a partial answer to the crisis of Public finance. Privatisation could be used to improve labour flexibility. Lastly, privatisation could be favoured by recent technical change.

Privatisation took different forms according to varieties of capitalism. The process of privatisation began very early in United Kingdom but came very late in France where, contrary to all countries, large nationalisations were realised at the beginning of the 1980s before the beginning of the privatisation in 1987. Three distinctive fields were concerned with quite different implications: the productive sector in countries where a large public sector was inherited from the previous period with strong State intervention; public utilities which could be delivered at a larger scale by the private sector in the new growth regime; social services where new opportunities appeared within the crisis of the welfare system, especially in the health system and pensions.

8.4 Five main determinants of privatisation

The evolution towards more market oriented systems was one of the answers to the crisis of productivity appeared during the 1970s. Competition was considered as more efficient than public monopole to improve productivity, decrease prices and stimulate innovation. This was notably the case in countries, like United Kingdom, where the efficiency and the quality of services of the public sector were weak. Telecommunications, energy, transport and health sectors have been the first concerned with the settlement of new forms of regulation. In this matter the European Commission has plaid a leading role since the Single Act of 1986 which launched the liberalisation process at the European level.

Beyond the technical reasons put up front, the decline of the notion of public services and the crisis of the State intervention linked to the failure of Keynesian policies during the 1970s have been strong determinants.

Privatisation offered new markets for private capital accumulation when demand was seen as insufficient. This was especially the case in European countries since the 1970s with restrictive economic policies which became predominant. Profitability was restored since the end of the second half of the 1980s, but without durable recovery of the rate of accumulation at the macroeconomic level due to the insufficiency of demand, but also, presumably, to the impact of the financial liberalisation which favoured more financial accumulation. In this environment large and secure markets, mainly in public utilities and pensions systems, and to a less extent in the health system, were made accessible for private capital accumulation thanks to the privatisation process. Profitable activities were easily privatised while activities with deficit remained public.

The public productive sector also gave good opportunities for private accumulation after costly restructuring financed with public funds, as it has been notably the case in France.

Privatisations were used as a partial answer to the crisis of public finance which affected most of countries recurrently since the 1970s. The context of public austerity induced a decline of the public sphere. The State could hardly finance large public investments. At short term they gave new resources to the Budget through the sale of public assets.

In the medium or long term privatisation was falsely presented as an answer to the crisis of the pensions system. The development of private pension funds was supposed to give additional incomes in the future in complement to public pensions whose amount would be reduced with ageing population. The same evolution, although less advanced for the moment, can be observed in the case of health systems.

Lastly financial liberalisation was favoured by governments to finance more easily the public deficit by issuing bonds on larger markets, especially at the international level.

The search for more flexibility of the wage relation was regarded as a key issue since the 1980s as it was supposed to help to reduce costs and improve profitability. In most cases trade unions benefited of strong positions in the public sector. Consequently privatisation weakened trade unions' positions and helped indirectly to promote more flexible wage relations. More generally it changed the rules in the privatised sectors and introduced more competition, notably in the wage relation.

Lastly, criteria justifying public intervention have changed under the effect of technical evolutions.

Some activities, like telecommunications, formerly with increasing returns, have turned into activities with decreasing returns thanks to technical innovations, thus rendering the monopolistic situation obsolete. The segmentation of activities, like in railways or electricity, has been developed and allowed the division of companies into several segments which could partly be submitted to competition. Consequently, traditional criteria (increasing returns, externalities) tended to disappear in favour of the nature of the information which could be easily manipulated or not. Contract theory has been developed a lot. When a contract could be established, privatisation and competition allowed recourse to private sector under the control of regulation authorities. Conversely, the difficulties involved in the contracting out of an activity arising from asymmetric information, costs of writing and monitoring contracts justified maintaining a public operator.

8.5 Privatisation: unequal success to support finance led growth regime

On the whole, since the 1980s privatisation has played an important role in shaping a new growth regime. According to varieties of capitalism, the forms of privatisation have differed between countries. Without increasing the efficiency of the whole system, privatisation has been coherent with the settlement of a finance led growth regime.

It has first given a strong support to financial markets, especially in European countries where these markets were underdeveloped. Through foreign investment funds, mainly Anglo-Saxon, it has led to an important penetration of foreign capital in many strategic activities. Reforms of pensions systems have also given large opportunities to financial markets.

Regarding investment, results appear unequal. Private accumulation in network services (notably telecom) has been booming, but with a financial bubble at the end of the 1990s. Investment growth in the electricity sector has been problematic. Privatised enterprises were poorly incited to invest by fear of loosing their market power. Interconnection investments have been insufficient and excess capacities limited facing a rather fluctuating demand. The strong volatility of market prices and the high capital intensity of the sector were combined to increase the risk of alternative phases of overcapacity and under-capacity.

Beyond these sectoral evolutions, the new growth regime has not been characterised by a sustained recovery of investment at the macroeconomic level in spite of the restored rate of profit.

Market regulation has varied in its efficiency and effectiveness. The split of network firms in distinctive centre of profit has raised problems. The separation between various activities (infrastructures, production, distribution, trade) had impact on firms' technical capacity, quality of services, and supply security. Management costs have been high with important advertising costs, overlapping supply in many cases as consequences of increasing competition. Productivity gains have been insufficient to compensate these high costs. By sectors specific problems can be underlined: excess of competition in telecommunications in European Union and distortion due to national authorities of regulation, risks of supply rupture and prices instability in the electricity sector. On the whole efficiency gains cannot be regarded as evident in spite of the initial discourses.

Growing inequalities cannot be ignored. They resulted first from the drawback of the notion of public services with more difficulties for accessing to networks for peripheral and poorer customers. Compensating mechanisms did not appear sufficient to restrain increases in inequality. The possibility of preserving the mission of general interest has been introduced through contracts approved by public authorities but this has not avoided higher charges for poorer customers.

The transformations of pensions systems and health systems have been regressive. More generally the financial liberalisation and the new corporate governance, linked to privatisations, have led to major inequalities.

9. Liberalisation of network industries

The network industries have many characteristics of natural monopoly and have in Europe typically been operated under public ownership and in a protected monopoly situation. The policy thrust in the past decade or more has been towards the liberalisation of these industries, and specifically the removal of the monopoly situation. A summary of the advocacy of this approach is given by:

'Liberalisation of network industries usually starts by inducing a restructuring process in these industries, characterised by entries and mergers and

acquisitions. This leads to employment and productivity changes. The productivity gains can be translated into price reductions, which benefit industrial users and households. Increased competitive pressures can also induce companies to be more innovative and this contributes to additional productivity gains. Finally, price reductions and technological developments can stimulate demand, offsetting the initial employment losses due to the restructuring process. However, the net impact on employment can not be predicted.' (EC HEPNI 2004)

This same report provided its own assessment of the effects of liberalisation in the network industries within the EU:

'the overall performance of services of general interest in the EU is good in terms of prices, employment, productivity, service quality, fulfilment of public service obligations and consumer satisfaction.' (EC HEPNI 2004)

Data from EUROSTAT sources however suggests a more mixed picture on prices, though a rather weak one (Hall 2006). From January 1996 to January 2005, prices have gone up by 41% for gas, by 21% for railway services, by 18% for airline services, by 10% for electricity, while the general price increase was 17.5%. Even in telecommunications where prices have fallen by about 25%, they may be doing little more than continuing previous trends. The results showing no dynamic productivity gains: *'the introduction of consumer choice of suppliers was associated on average with a reduction in employment levels of about 12%... one-off changes in the level of productive efficiency, without creating any increase in longer-term dynamic efficiency.'* (Griffith and Harrison, 2004). Further, *'any gains from deregulation in terms of technological catching-up or from privatisations of state monopolies should be interpreted more in terms of static efficiency gains and not with the dynamic efficiency gains needed to achieve an outward shift of the 'technology frontier'* (Denis et al 2004)

With oligopolies, effective competition seen as crucial to policy, But note the horizontal mergers of electric companies and cross-sectoral mergers between electricity and gas companies, and the vertical integration of electric generation/supply. Consumers have been sceptical on liberalisation. The industry believes electricity market manipulated to maintain prices : Dutch energy council 2004: *'The type of competition that can be expected to arise is not the type envisaged at the start of the liberalisation operation. The clients - and in fact, society as a whole - will not benefit from a static oligopoly. This will place too much pressure on the public interests: price, reliability and sustainability.'.* Most consumers in EU10 expect state protection and provision, believe electricity prices unjustified, concerned re extensions: *'The possibility of urban transport services being opened up to competition arouses mixed reactions, ranging in most of the Member States from outright rejections of this prospect to the limited or sceptical expectation of benefits for consumers… a very substantial majority of the people simply opposes the prospect of opening the [rail] market….the United Kingdom being cited in many other countries as a negative example of the consequences that can be expected '* (Euro Barometre 2004)

There is mixed evidence with regard to efficiency of the private sector relative to the public sector. 'While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.'(IMF, March 2004). General empirical evidence shows no consistent advantage (Willner 2001). UK privatisations created no significant productivity gain, but did create negative distributional effects (Florio 2004)

There is no evidence for EU liberalisation increasing efficiency. For the water industry : 'the econometric evidence on the relevance of ownership suggests that in general, there is no statistically significant difference between the efficiency performance of public and private operators in this sector….For utilities, it seems that in general ownership often does not matter as much as sometimes argued. Most cross-country papers on utilities find no statistically significant difference in efficiency scores between public and private providers.' (Estache et al 2005)

There has been acknowledgement of the empirical evidence by World Bank and IMF where in energy and water the World Bank strategy paper of 2003 says privatisation and liberalisation are not working and concerns surrounding Public Private Partnerships have been expressed by the IMF, EC economic directorate (impact on fiscal limits, avoidance as perverse motive for PPPs).

10. Privatisation and finance

10.1 Budget deficits and public finances

There have been different practices over the treatment of the sale of public assets. The British approach has been to treat such sales as negative public expenditure thereby reducing the recorded budget deficit. The early phases of privatisation, at least so far as the UK was concerned, were linked with a perceived need to reduce the budget deficit. This budget deficit requirement cannot be claimed to be the prime driving force behind privatisation but played a contributory role. An argument which was prevalent in the first half of the 1980s in the UK, and closely associated with the rise of monetarism, related to the alleged relationship between budget deficit and the growth of the money supply. The linkage was alleged to be : budget deficit impacts (perhaps determines) change in money supply, which in turn sets the pace of inflation. This took a concrete form in Medium Term Financial Strategy (MTFS) which set out targets in terms of both budget deficit and growth of money supply. This argument has now been thoroughly discredited.

The treatment in the EU under the Maastricht Treaty conventions is in effect to treat sales of public assets as one form of funding of the budget deficit, and consquently privatisation does not immediately effect the recorded budget deficit. In effect the sale of public assets goes alongside sale of bonds as a means of deficit funding. As bonds have a cost in terms of future interest payments so the sale of public assets has a cost in terms of the financial and other benefits from the public operation of those assets. If it were the case that the private sector was unwilling or unable to fund a budget deficit, then the use of the sale of public assets rather than the issue of bonds is unlikely to make much difference. The funding requirements placed on the private sector are the same, though the financial instruments used are different.

The Stability and Growth Pact places emphasis on public debt being less than 60 per cent of GDP. Hence it pays attention to public liabilities but without any regard being paid to public assets. As privatisation reduces public debt and at the same time reduces public assets this attention to only the public debt provides accounting encouragement for privatisation. Public assets can for this purpose be convenient divided into two. There are firstly those assets which help to provide public goods and services but which do not directly generate a financial flow (e.g. profits). Secondly, there are assets (typically operated by public corporations) which help to produce goods and services which are sold to the public and on which profits could be said to be earned (State owned enterprises SOEs).

Privatisation with regard to the first type of asset has essentially involved a leasing back arrangement whereby the asset is owned and operated by the private sector in exchange for a leasing and service fees. The private finance initiative, public private partnerships fall in this category. The immediate impact of the use of an PFI (as compared with a conventional finance capital project by government) is to reduce government borrowing requirement. However, the longer term effect on budget deficit is likely to be negative : the future stream of leasing payments under PFI will in general exceed the stream of interest payments (which would arise under conventional finance).

A similar argument applies in the case of state owned enterprises. In public ownership, those enterprises would yield a future stream of profits which are now lost to the public sector following privatisation. It could be argued that SOEs are often loss-making, but if so that makes them an unattractive proposition for private investors.

The loss to the public sector is amplified by the general underpricing of privatised companies. There does not seem any doubt that there has been underpricing in general, though the question can be asked as to how the degree of underpricing compares with that which occurs with share floatation of private companies.

10.2 Property owning democracy

The creation of a 'property-owning democracy' was a declared aim of the British Conservative Party election manifesto in 1979, which lead to the election of the Thatcher government and the initiation of privatisation. It was though largely linked with wanting 'more people to have the security and satisfaction of owning property' (1979 Conservative Party election manifesto). Privatisation has strong political underpinnings in terms of the spreading of share ownership.

The sale of shares in the privatised utilities were also undertaken at a significant discount with small individual shareholders as the target group. These policies not only indicate the intentions of these privatisation in terms of changing ownership patterns, but also that the financial benefits of privatisation are concentrated on a relatively small number. In contrast, the financial and others costs are spread and diffuse. An individual tenant purchasing their public authority house at a discount can readily appreciate the financial gains. The loss of social housing has a much more diffuse cost, e.g. those who would have otherwise had access to social housing. In a similar vein, the financial benefits of privatisation of utilities arose for those who were able to purchase shares, whereas the losses were spread over the whole community.

10.3 Privatisation and financial markets

The interests of the financial sector in privatisation are perhaps self-evident. There are substantial fees, commission and income generated by privatisation. The underwriting fees of the share issues, the income from dealing in the shares in the privatised companies etc. come immediately to mind. Public private partnerships are also lucrative for the financial sector (including accountancy and consulting firms). Deals have to be arranged, finance provided, consultancy advice provided at a price etc..

In varying ways, one of the objectives of privatisation reflected in the way in which the privatisation was undertaken has often been the development of equity markets and the spread of share ownership. Privatisation has also been promoted on the grounds of developing the stock exchange (e.g. in terms of breadth and liquidity) especially in the context of emerging markets. This argument in turn has rested on the view that financial development (particularly with regard to the stock market) is a stimulus to economic growth.

The financialization, 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005, p.3), of the economy is a widely observed phenomenon. Privatisation is clearly making a significant contribution to that process of financialization. As has been discussed it is seen to contribute to the growth of financial markets and provides significant income for the financial sector. But a much more significant element comes from the increased role of financial motives and financial institutions in the operation of large public utilities. Further, privatisation serves to inject financial motives into the provision of a range of public services. This is probably the most significant aspect of privatisation with regard to finance. As the quote from Epstein indicates it serves to inject financial motives and institutions into the operation of public utilities and services.

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1) This is a report for Work Package 2 of the PRESOM project. Malcolm Sawyer has taken editorial responsibility for this report. The report incorporates material written by John Groenewegen, David Hall, Jacques Mazier and Malcolm Sawyer.

2) Normative agency theory (AT) is located at layer 4 and positive agency theory is added to level 3.

Concepts of the European Social Model

Christoph Hermann

1. The comparative dimension

Analytically the term European social model (ESM) only makes sense in contrast to other social models. In this regard the main point of reference has traditionally been the United States, although the lack of comparisons with other developed countries such as Japan is simultaneously one of the major weaknesses of the debate.[1] Comparisons between the US and the European Union (EU) typically centre around four issues: wealth, poverty inequality and unemployment. While the US is much richer than Europe measured in GDP per capita - GDP per capita in the US is about one third higher than in the EU - Europe stands out as having a significantly smaller proportion of poor citizens,[2] and consequently a clearly higher degree of equality (higher GDP per capita in the US is also the result of longer working hours and lower unemployment - at least according to official statistics).[3] In the US, 17 per cent of the population has to cope with less than half of the national median income, while in Europe this is true for less than nine per cent. In the Nordic and continental European countries it is even less than six per cent (Albers 2006; see also Alesina/Glaeser 2004:47). Also in terms of inequality, the US ranks much higher than Europe. One possibility to measure inequality is the decile ratio. It shows how much more income those at the 90th percentile have in comparison to those at the 10th percentile. The US has a ratio of 5.5 while the EU average accounts for 3.6 (Albers ibid.). Another possibility to measure inequality is the Gini coefficient. Here, too, the coefficient is much higher in the US than in Europe and it is particular higher than in the Nordic and continental European countries (ibid.) The lower proportion of poverty in Europe is mirrored by a higher percentage of government expenditure including spending on social benefits and transfers (Alesina/Glaeser 2004:17-19).

Alberto Alesina and Edward Glaeser also point to the much higher proportion of public ownership in continental Europe which contributes to a redistribution of wealth (ibid. 49). The more troubling is the fact that public ownership is diminishing rapidly in Europe - especially in the new member states where public ownership was the dominant form of ownership before the transformation. Another major difference is public pensions. Public pension benefits are significantly less important for the income of retired Americans than for pensioners in continental Europe - especially for those on the lower-end of the income scale (ibid. 33). Furthermore, inequality in the US is also fuelled by a much less progressive tax system, with comparatively high tax rates for low-income earners (ibid. 37). Hence, Alesina and Glaeser conclude that: "European countries have adopted a wide range of policies that are meant to redistribute income from the rich to the poor. In the United States, this effort is more limited. While certain categories (say single mothers or the old) are not forgotten by the American legislator, if one were to be born poor, one would choose to be born in Europe, especially if risk averse" (ibid. 48-9).

2. The institutional dimension

There is a body of literature that analyses welfare institutions and their development over time. On aggregate these institutions form what after the Second World War became known as welfare state. Since it is not only the state but various public and private actors that provide welfare for citizens perhaps the more accurate term is welfare regime. As Christine André (2006) writes, "the traditional concept of the Welfare State is progressively replaced by that of the Welfare Regime or of the Social Model which is associated with a larger field than social protection and which takes into account actors others than the State." However, common to all three concepts is the notion of social inclusion. Martin Kronauer (2006) argues that from the perspective of social inclusion there is indeed a distinctive Western European tradition of welfare provision based on social rights and social justice rather than charity. "In contrast to the social model of the USA (but also to most Southern European countries), Western European welfare states are universalistic. They officially recognize a responsibility not just for particular groups in need but for all citizens with regard to their basic well-being in the most important dimensions of everyday life" (italics in original). James Wickham (2005:7) makes a similar argument when stating that "citizenship in Europe includes social citizenship, i.e. that cluster of rights to education, health and social security." As rights "they cannot be taken away and they are therefore enforceable" (ibid; italics in original). It is important to note that these rights were not freely given by any enlightened authority, but are based on a compromise between capital and labour after a series of partly violent struggles.

Social inclusion is not only guaranteed by the protection from social risks such as unemployment but also by equal treatment (non-discrimination), family arrangements and the organisation of non-paid work, as well as by an equal access to public services such as education, health and social services, utilities, communication and transport. Social inclusion is also guaranteed by the collective and inclusive organisation of services. Data from the UK show that in relative terms those at the bottom-end of the income scale profit more from the provision of free public services such as health and education. "The poorest get more benefit from these services than the rich - for the poorest, the value of public services is almost as great as the value of their entire income including benefits." (Hall 2007) From this perspective the European welfare-state tradition becomes particularly evident in the extraordinary important role of public services. In countries such as France the service public is an integral part of national identity and social citizenship. As the European Commission (2004:4) notes in its White Paper on Services of General Interest, "in spite of sometimes substantial differences in the views and perspectives of the various participants in the debate [on the Commission's Green Paper], the consultation has shown a broad consensus on the need to ensure the provision of high-quality and affordable services of general interest to all citizens and enterprises in the European Union." The public access to health services is a point in case. There are different ways of organising access, among them the Beveridge tradition of the UK or the employment-centred corporatist traditions in Germany, France and the Netherlands, which produced different degrees of inclusion. There are also important differences with respect to the level of provision that are thought to guarantee social inclusion. They can be "very narrowly defined as in the Hartz IV law, or more generously as in the Scandinavian countries" (Kronauer 2006). However, the universalistic tradition is clearly "not compatible with the exclusion of large parts of the population from health insurance or a 'welfare reform' which threatens unemployed poor people with the loss of any income support after five years" (ibid. italics in original). Furthermore, markets on which public services are traded as commodities for money tend to exclude those who have limited financial resources.

A universal right to social inclusion calls for a minimum degree of collective responsibility and solidarity and for a minimum level of the redistribution of wealth. As André (2006) points out, fiscal policies are therefore a crucial feature of every social model. Due to the universal access to a minimum level of subsistence, citizens become less dependent upon market forces to reproduce themselves and their dependents. The result is what Gosta Esping-Andersen (1990) has called the decommodifying effect of welfare state provision. Georges Menahem (2006) has attempted to measure the level of decommodification by the development of a "decommodified security ratio[4)]". The assessment of this ratio on 20 EU countries demonstrates that the Nordic countries or in Esping-Andersen's terms the social democratic welfare states show the highest level of decommodification (together with the Netherlands), while the new member states and Southern Europe bear the highest risks. The ratio of Spain, for example, accounts only for half of the ratio of Sweden (ibid).

More generally the need to restrict the free play of market forces is also accounted for in the concept of social-market as opposed to free-market economies. In the 1950s and 60s Germany promoted its social-market economy as viable alternative to unregulated markets and planned economies and the European Commission (2005b:4) recently declared a "European choice in favour of a social-market economy." On the other hand, Europe has a tradition of making up for market shortcomings through massive state investments in private-sector companies in what is generally perceived as mixed economies (Freeman 1989; Blaas 1992). This is different from the US way of spending public money on private contracts in the health sector and in the armaments industries. But Europe not only has a larger public sector, the role of the state more generally is also seen more positively than in the US. "Unlike the liberal variant of the US social model, the state is not primarily seen as a constraining threat to the freedom of the individual but as a necessary agency of social balance. Since the destruction wrought in Europe by fascism and the Second World War, the state has also been considered as a guarantor for combating extreme poverty, for comprehensive socio-economic security for all citizens, for the reduction of income inequality and for approximately equal access to qualitatively high-value social services and public care infrastructures." (Mahnkopf 2007.)

The different modes of regulating competition are also at the heart of the varieties of capitalism literature and its differentiation between Anglo-Saxon and Rhineland capitalism (Albert 1993) or between liberal-market and co-ordinated market economies (Hall/Soskice 2001; Coates 2000; Amable 2005). In an important way, competition is regulated through employment legislation and collective bargaining. Although there is no common European industrial relations system, there are nevertheless "significant common features in continental Western Europe which distinguish it from both the 'American model' of largely deregulated labour markets and the 'Japanese model' of management-dominated company employment relations" (Hyman 2005:11). Richard Hyman highlights three common qualities: there are substantial statutory limits on the way labour (power) can be bought and sold (e.g. employment protection); collective agreements usually have priority over individual employment contracts; there is a broad consensus that workers have independent interests and it follows from the acknowledgement of independent interest representation that there should be some form of interest coordination (e.g. social partnership). In a similar way Claus Offe (2005) argues that "if the 'European' model of capitalism is distinguished by one thing in particular it is the view, expressed in diverse economic institutions and regulative arrangements, that the interests of 'us all' are best served when the individualist profit-oriented pursuit of the interests of 'each individual' are to a certain extent limited by status rights."

Hyman (2005:11) also stresses the decommodifying effect of European employment regulation: "In important aspects 'labour is not a commodity'." Decommodification can be seen not least in the substantially lower number of hours Europeans work both on a yearly basis and during their lifetimes (shorter working weeks, more vacations, lower pensionable age). While usually this is seen as one of Europe's biggest problems (in fact it is a problem because a large part of leisure is involuntarily caused by persistently high unemployment rates), it could also be interpreted as a vital strength - especially if we take into account the ecological threat caused by high and ever-increasing levels of material production and consumption (Altvater 2005). Given the commitment to environmental policies, including the Kyoto protocol, Europe seems at least to be more aware of the problem of ecological sustainability of its economic and social model.

To sum up, a social model is more than a set of institutions. Instead it is a configuration of institutions, actors and social relations that guarantees the social inclusion of the members of a particular society. According to André (2006), a social model must cover at least the following issues: "Social protection in a wide sense (sickness, old age, disability, unemployment, social assistance, family), housing, health care, education and training, active policies of employment, labour market rights, and industrial relations. Moreover, some aims of social policies, like income redistribution, can also be pursued through fiscal policy and protection against unemployment is first obtained by an appropriate macroeconomic policy."

3. The political dimension

From the perspective of the ruling classes, the ESM has two main purposes: the first is to legitimise the predominately market-oriented integration process and the second is to modernise existing social systems. Yet as a hegemonic project it is full of contradictions and is open to alternative interpretations by social actors such as progressive political parties, trade unions and social movements. "European integration is an open-ended process, as hegemony constantly needs to be reasserted . . . [it] is open to contest and therefore . . . there are opportunities for resistance" (Hofbauer 2006). Andreas Bieler (2006) points to the political forces that are challenging the existing course of the integration process. However, Bieler also makes clear that the existing course is predominately neoliberal. From its inception European integration was almost exclusively an economic affair. As early as the 1950s the French prime minister was rebuffed when he attempted to make the harmonisation of social regulations a precondition of market integration (Scharpf 2002:665).

In the first phase the main goal of the integration process was the establishment of a customs union, i.e. the removal of tariff barriers between EU members and the establishment of a common external tariff (Bieler 2006). As a result, "European free trade was successfully combined with the national right to intervene in the economy in order to maintain order and social peace" (ibid.). Shortly after the accomplishment of the customs union, the world economy and with it the European economy plunged into the deepest crisis since the 1930s. Initially, European member states attempted to solve the crisis at the national level (resulting in a severe institutional crisis at the European level). As national strategies failed to revive the economy, national elites found new hope in the deepening of the common European market. Although tariffs were abolished by the late 1960s, there were still various national product standards that had to be taken into account in cross-border trade. "A bigger market was supposed to lead to tougher competition resulting in higher efficiency, greater profits and eventually through a trickle-down effect in more general wealth and more jobs" (ibid.).

However, the internal market programme put forward in the mid 1980s was still highly contested. There were at least two competing projects: a neoliberal project aiming for unrestricted trade within and without Europe and a social-democratic project which put more emphasis on intra-European trade and on re-regulation at the European level after national economies could no longer withstand international economic pressures (nurtured especially by the French experience with Keynesian policies in the early 1980s). As a relatively protected European market was thought to facilitate the creation of "European champions" able to compete on the world markets, the latter has also been identified as neomercantilist strategy (van Apledoorn 2001). Although the European Treaty was complemented by a protocol on social policy at the Maastricht summit in 1991, enabling the European-level social partners to conclude agreements that can be directly transferred into binding EU law, the Delors vision of social Europe fell victim to the neoliberal economic and social project, which in the Union had its higher expression in the economic and monetary union (EMU) and the Growth and Stability Pact (GSP). With the GSP and its tight monetary and fiscal rules the economic room for manoeuvre progressive politicians had hoped to attain at the European level never materialised. The neo-mercantilist project failed due to the alternative project of the leading fractions of European capital and its acceptance by the 'free-trade' governments among member states (UK, Netherlands, Germany etc.) and the European Union leaders. What remained was the neoliberal project. With the recent enlargement the neoliberal project was later extended to Central and Eastern Europe (CEE) where many had hoped for a socially regulated capitalism to replace the former state-planned economies.

Apart from monetary restraint and fiscal austerity, neoliberal-prone integration called for deregulation of product standards and flexibilisation of labour markets. "Economic recession in the neoliberal perspective of Anglo-American capitalism is due to institutional rigidities in the form of excessive state intervention into the market . . . To overcome recession, structural reforms are necessary including the privatisation of state enterprises, the liberalisation and deregulation of the economy and the flexibilisation of the labour market" (Bieler 2006). While monetary restraint and fiscal austerity was imposed by the GSP (and reinforced in the European Draft Constitution rejected by French and Dutch voters in spring 2005), the liberalisation of public services was mainly enforced through European competition policy. Perhaps the liberalisation and flexibilisation of public services contradicts with the European tradition of regulating markets in order to achieve socially desirable goals, which, consequently, questions the idea of a European social model. As Birigt Mahnkopf (2007) writes: "The neoliberal deregulation and privatisation since the mid 1990s introduced a historically important retrogression from legal to contractual exchange relations. Gradually, the provision, access and/or distribution of the public goods of care provision were left to market mechanisms. Consequently, power and government are increasingly less constitutionally laid down and fixed, but now continually have to be reconquered, maintained and legitimised between (unequal) contracting parties."

Hence the impact of deregulation and privatisation of public services goes beyond the re-regulation of certain economic sectors. Instead, "the focus on economic, monetary and social policies is crucial for an analysis of the social purpose of the European integration . . . They are fundamental in that they determine what is possible in individual policy sectors and are, therefore, at the core of the debate about which model of capitalism will emerge in the future" (Bieler 2006:3).

Due to monetary restraint and fiscal austerity, economic growth rates remained slow while liberalisation and flexibilisation produced increasing numbers of unemployed. In the mid 1990s the mounting problem of unemployment gave rise to a wave of mass protests including strike waves in Italy and France as well as the series of Euromarches amounting to what some authors have called the "post-Maastricht crisis" (Hofbauer 2006:8). The constitutional crisis caused by the rejection of the European Constitution can be seen as prolongation of these protests. The neoliberal hegemonic project was called into question and threatened to lose popular support. As a result, employment was taken up as an important European issue in the Treaty of Amsterdam in 1997. At the same time national and European policy makers increasingly used the idea of the European social model to maintain support for the existing integration patterns. In the 1994 "White Paper on Social Policy" the European Commission officially introduced the term ESM and defined it as "a set of common values, namely the commitment to democracy, personal freedom, social dialogue, equal opportunities for all, adequate social security and solidarity towards the weaker individuals in society" (ibid. 7).

Ten years later the Draft European Constitution specified solidarity as one of the main common values. Solidarity, among others, things constitutes "social security and social assistance in cases of maternity, illness, accidents, right of access to health care and access to 'services of general economic interest', even though terms and conditions of quality and access to public services such as health, transport, education or postal services are not defined" (ibid. 11). In 2005, at the European Council's extraordinary summit on the ESM at Hampton Court, the list was extended to include "equal opportunities and the fight against all forms of discrimination, adequate health and safety in the workplace, universal access to education and healthcare, quality of life and quality in work, sustainable development and the involvement of civil society" (COM 2005b:5).

While the invocation of traditional European values played an important in role in broadening the neoliberal project to include progressive forces and hesitant groups, the discourse on the ESM was also used by policy makers to put forward an agenda for modernising the existing European social models. The underlying rationale is that existing systems need radical change in order to confront the challenges of the twenty-first century. As Ines Hofbauer (2006) notes, "almost all documents on the ESM start by outlining the 'common challenges and shared responsibilities' that the different welfare regimes in Europe are facing today". The modernisation bias has become particularly prevalent with the Lisbon Agenda of 2000. Although equal opportunities and anti-discrimination play an important role in the modernisation discourse, the actual policies proposed under the modernisation label are by and large employment-centred. Not only this, but they are also exclusively supply-sided, including measurers such as life-long learning, labour flexibility, the promotion of entrepreneurship and the introduction of incentives to work more and longer (ibid.).

Hence, as Jane Lewis (2006) concludes: "When modern social programmes, organised around the principle of social insurance, largely replaced older, deterrent poor law systems at the end of the nineteenth and the beginning of twentieth centuries, the relationship between work and welfare was rewritten. It is not fanciful to see it being rewritten again at the end of the twentieth century, with the insistence on social policy as 'productive factor' and on the promotion of employment on the part of all able-bodied adults, female and male, as necessary prerequisite for the economic agenda of competition and growth and an important justification for all forms of expenditure on social policies." Lewis (ibid) shows how the discrimination of women in paid-labour markets was discursively shifted from a social justice issue to an issue of employment rates and growth thereby abandoning the deeper problem of the unequal sharing of paid and unpaid work. However, as a "productive factor" social policy is no longer a guarantee of social inclusion but an investment in the future (COM 2000:5).

"Social policy thereby no longer aims at a correction of the primary distribution through the market, and is also not intended as a publicly guaranteed legal right to a form of living independent of the market. The concept of the welfare state is thereby turning almost into its opposite. The requirement of 'modern' welfare statism is no longer the targeted, socially effective redistribution in favour of weaker population groups and regions, but the promotion of entrepreneurial action and the protection of business property - because this, it is said, stimulates the individual's readiness to work." (Mahnkopf 2007.) In short, social policy becomes "an instrument for optimising the adjustment of social-protection systems to market forces" (Jepsen/Serano Pascual 2005:238); social policy "becomes itself an element of the market" (Hofbauer 2006:17).

As such, social policy is largely subordinated to labour market flexibilisation. This is the essence of an influential intervention by André Sapir which was distributed as background paper at the 2005 Ecofin meeting in Manchester. Following the work of Tito Boeri, Sapir identifies four clusters of countries resulting in four basic European social models - the Nordic, continental, Anglo-Saxon and Mediterranean model. The paper is full of flaws (André 2006), but most notably Sapir (2006) contends that except for the Nordic model there is trade-off between efficiency and equality. The Anglo-Saxon model while producing high levels of inequality is sustainable because it is highly efficient. In contrast the Continental and Mediterranean models may promote equity but they are not efficient and therefore not sustainable. These models, which account for no less than two-thirds of Europe's GDP and 90 per cent of that of the Eurozone, must "be reformed in the direction of greater efficiency by reducing disincentives to work and to grow" (ibid. 381).

This sounds very much like the recommendation of the International Monetary Fund (2004) published in a 2004 evaluation report on the European economy. "After three decades of uneven economic performance and persistently high unemployment, there is widespread consensus that Europe's economic and social model needs to be reformed. Since the early 1970s, the area's per capita GDP has remained at 70 percent of the US level, as high labour productivity growth has been neutralized by a secular decline in labour utilization . . . Making the institutional and regulatory environment more market-friendly - more mindful of individual incentives to work, spend, save, invest, and innovate - is widely perceived as an essential ingredient of any policy package aiming to boost growth, reduce unemployment, and increase the economy's resilience in the face of shocks." Of course, the IMF's recommendation is based on the US experience and as such it is precisely aiming at eliminating European distinctiveness and prescribing neoliberal cures for market-based economic and social problems. Perhaps the result of these policy prescriptions will bring Europe closer to the US with respect to poverty and inequality rates.

As André (2006) points out, a major problem in Sapir's account is: "that he presents some performances of the models as if they were resulting only from labour market and social policies. There are indeed numerous inter-relations . . . so it is generally not possible to disentangle the impact of one type of policies from the impact of the other policies at the macroeconomic level." By combining his 'decommodified security ratio' with hourly productivity Menahem (2006) shows that the Nordic countries provide not only more security for its citizens but are at the same time highly efficient. Yet in this comparison, the UK ranges below the continental European countries very close to the Southern European member states, Hence instead of arguing for labour markets reforms, Sapir could also recommend the extension of the Nordic welfare system (Dräger 2007). To take only one example: if Germany were to employ the same number of elderly care workers per citizen as Sweden does, this would create more than one million additional jobs, which would certainly have an impact on the "efficiency" of the German model (Heintze 2005; Simonazzi 2007).

This does not mean that European social models do not need reform. "From the very beginning . . . the post-war Western European mode of inclusion was incomplete" (Kronauer 2006). Kronauer (ibid.) lists four major weaknesses of the traditional European welfare regimes: First social rights were based on citizenship and therefore excluded non-citizens. Second, although with important national variations, women did not achieve the same degree of inclusion as men. Third, bureaucratic state-provisions eroded communal or workplace-based forms of solidarity. Fourth, there was a strong link between welfare and full employment. One could add the hierarchical-bureaucratic character of public services which excluded or alienated many potential users. According to Kronauer (ibid.) the precarious link between employment and social rights is "the weakest point in the post-war mode of social inclusion". Kronauer therefore argues for further decommodification that goes beyond the levels attained in the post-war decades. This is precisely the opposite of the policies promoted by the mainstream modernisers. "To make entitlements and social rights in such a situation even more dependent on employment must spread vulnerability" (ibid.; italics in original). The same is true for public services. The neoliberal critique of the inefficiency of public services only became so powerful because it partly touched real problems mainly caused by the bureaucratic organisation of service provision. It is therefore not enough to claim back the old system; the former hierarchical-bureaucratic and now increasingly market-prone provision should be replaced by a more democratic system in which needs and services are commonly negotiated. In short, a public-service reform should enhance democratic participation of service producers as well as service users. Neither of these is consistent with the dominant drive towards privatisation.

In sum, the neoliberal integration process and the modernisation of the European social models were used to "circumvent and erode the social rights that were achieved in the post-war decades and that represented the essence of the various European social models" (Hermann 2007). On the other hand, the common rights and values discourse was used to steer sufficient support for the integration project - with some success as the continuous support of social democratic and partly even green parties (together with the current majority of the European Parliament) as well as a number of reformist trade union organisations shows (Bieler 2006). This does not mean that the ESM is necessarily a trap for progressive politics. As mentioned earlier, the ESM is part of a hegemonic struggle. As part of such a struggle it is open to contest. In fact, radical unions, social movements and parties from the far-left have also used the ESM to remind the elites of their promises and to present their own vision of a more equal, sustainable and solidaristic Europe. Apart from national and European public-sector unions, this includes various groups in national and European Social Forums. "Neither is the neoliberal model without its critics, nor is a successful challenge to this model guaranteed. Ultimately, it will be crucial that trade unions . . . work together with social movements in order to stem the neoliberal Anglo-American model and re-establish a European social model of capitalism" (ibid. 16). Ulrich Brand (2006:169) even goes one step further when assessing that: "we are currently experiencing conflicts over a 'post-neoliberal agenda', which can be filled in very different ways." Michael Krätke (2005:92) therefore argues that: "the 'European social model' has its future still ahead of it. The European left could make it into their trademark, into a common project, if only they had the courage. In most European countries the concept of the welfare state, which is not just obliged to the owners of capital but to all citizens, still enjoys the widest support. The neoliberal idea of the minimal state, which goes back to pure relief of poverty, is a long way from having won, even if the market ideologies that are part of it dominate the minds of the so-called elite."

4. Not only a social but a solidaristic Europe

Much in contrast to official lip-service, solidarity has been marginalised in the debates on the future of the ESM or reinterpreted as mere technical matter such as universal access to health services. Yet as Mahnkopf (2007) points out, the principle of solidarity goes further than simply providing the minimum means of existence. Instead, solidarity can be described as "a principle of 'asymmetrical mutuality' according to which contributions are raised according to ability, but assistance is granted according to need." And as Mahnkopf (ibid.) further notes: "The market cannot offer such asymmetrical mutuality, because it reacts exclusively to the signals of purchasing power and ability to work. . . . But precisely because of this - and as it seems not without success - the principle of solidarity must first be called into question, so that the foreseeable growing demand for health, education, care and social services in the aging societies of Europe can be served by markets and driven through competition."

Nowhere does the contradiction between market-based modernisation of the ESM and the need for solidarity become more apparent than in the ongoing restructuring of the European pension systems. In contrast to the US, the majority of pension systems in Europe were designed as pay-as-you-go systems, meaning that through their pension contributions those in employment cover the costs of those in retirement. A debate about the crisis of the publicly funded pension system has ensued in recent years on the part of the Commission and in many member states (Hufschmid et al.2005:72ff). According to the general argument, demographic changes mean the pay-as-you-go systems are no longer fundable and member states should therefore shift to a capital-market-based system or to a combination of both forms (ibid). Perhaps the promotion of fully funded private pension schemes, typically coupled with the introduction of strong tax incentives, questions the solidarity between different generations, as pay-as-you-go systems also had redistributive effects, even if only marginal ones, also between different social groups. Even the UK Pension Commission (2005) has acknowledged the importance of public pensions and the central role of the state in safeguarding the livelihood of elderly citizens. In a similar way, by promoting individuality and competitiveness trough cutting social transfers, introducing user fees for public services and the introduction of new tax models that profit the rich, neoliberal restructuring in CEE has radically and profoundly questioned the meaning of solidarity in these societies.

In contrast a noteworthy example of a 'solidaristic Europe' that has survived the neoliberal restructuring are the cohesion funds. Through these funds the richer countries in Europe exert some form of solidarity with the poorer member states. The transfers have a significant impact on the performance of the poorer economies - in Greece, for example, the Commission estimates that the resources allocated through the funds accounts for between eight and ten per cent of GDP (EC 2001). Yet in this case, too, emphasis has shifted from assisting those in need to promoting social cohesion as an important element in increasing overall European competitiveness (Mahnkopf 2007). And with an ever-greater need for social cohesion as a result of the admission of the new member states in Central and Eastern Europe - there are huge differences in social security across Europe: Norway's 'decommodified security ratio' is ten times higher than the ratio for Lithuania (Menahem 2006) - the richer countries have shown everless willingness to provide the necessary resources. One essential problem with the concept of a European Social Model is that is profoundly limited to territorial boundaries. Yet from the perspective of a 'solidaristic Europe' what we expect from the relationship between EU member states and between social groups within the member states should also apply to the relationship between Europe and the rest of the world. Here, as Mahnkopf (ibid) and Raza (2006) show the EU has pursued a rather aggressive trade policy especially with developing countries while pretending to be a fair and sensitive trading partner.

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1) Not to speak of a comparison with developing countries which shows the limits of he concept of the social model that really only makes sense for the capitalist industrialised world from this perspective it may even be problematic to speak of a social model in the transforming countries in Central and Eastern Europe.

2) Poor defined as those who live with less than half of average national income.

3) Measured, among other things, by the Gini coefficient.

4) When the size of "decommodified security" is measured in a specific country by the ratio of the "Decommodified income", such as retirement and unemployment provisions, reimbursement, free care and aids, according to the level of the disposable mean income of employed workers.

Privatization Research Institutions in Europe - First Results from a Survey

Andrej Holm

1. Introduction

Everywhere in Europe we can to observe an increasing importance of privatisation politics in the last decades. Privatisation is more or less one of the main targets of the neo-liberal politics. The academic research as well as social movements reacted to it and enforced the research of economic and social effects of privatisations in the last years. Although privatisation seems to be an international trend, many privatisation studies are so far limited to the national level.

An internationally oriented privatisation research should tie in with existing research approaches and networks. In the context of PRESOM project a first overview was compiled for the landscape of the privatisation research in Europe (Holm 2007). The overview contains the following information for each institutions, networks or research centres dealing with privatisation and the role of the public sector: the coordinates of institutions, a short description of size and character of the institution (foundation, university institute, grass-roots network), main focus(ses) of the work, an overview of main publications or publication series and links to political organisations and social movements.

The Survey on Privatisation Research Institutions in Europe wants to provide an overview to as many networks and institutions as possible, which work to the privatisation issue. This is neither a systematical survey nor a theoretical analysis of the current stage of privatisation research. Focal point was the identification of relevant institutions and networks in the EU member states. All by-products such as the bibliographies for different countries und regions as well as for different sectors of privatisations are not resulted by systematically research. Nevertheless they offer some interesting perspectives on privatisation research in Europe.

The survey introduces more than 30 networks and institutions dealing with the privatisation issue, in 10 European Union member states or Regions. An additional chapter covers research institutions and networks operating on the European level. The selection was the result of internet based investigation and personal inquiries of academic researchers and doesn't claim completeness. The results rather serve as introduction into the topic and offer perspectives for deepening studies. Another limitation of this survey results from language restrictions. The basic research was carried out in English; particularly networks and institutions without English language sections of their websites were only partially covered by this research. The lack on information on Greek and Portuguese networks is due to this language limitation.

2. Methodology and Resources of Survey Research

For the research on the Survey were used different methods and instruments:

1. Internet research (to find information on researchers, institutions, publications and networks). Therefore different search machines (google.com, wikipedia, scirus.com) were used. Through a combination of search words 'privatisation' OR 'privatization' AND 'NAME of the country' institutions, names and bibliographic references were registered. By reviewing the web pages of selected institutions site contents were searched for further information. Internet links of the respective projects and institutions and their official partners on national and international levels were of special interest thereby. Information, received in such a way became also registered.
2. Calls for information by email (to collect references for researchers, institutions and networks). The first sendout was directed at PRESOM project partners; the second sendout includs the findings from the first call. Unfortunately not all project partners responded imminently, so that only 5 or 6 research assistance could be used for further research. A similar number of replies were received from researches beyond the PRESOM network. Nevertheless the attained replies had a high quality and contained a lot of information. On the one hand unknown networks designated on the other hand helped the information to classify the well-known institutions.
3. (Data) Analysis of bibliographies on privatisation (to analyse key aspects and key persons of priva-

tisation research). A special database program for literature analysis was used for this research step. Around 300 (mostly English) articles dealing with the issue of privatisation in Europe or given a European country and written since 2000 were detected and admitted as datasets. Data interpretation occurred along the criteria publication year, country or region, sector of privatisation and kind/place of publication. On this basis it was possible to identify different focal points of privatisation research in Europe.

4. Study of literature and of internet research contents. The aim of this step was to receive an overview of the main publications of each institution or network. Against the background of the limited time for the work on the Survey I used a kind of one-day-analysis of all networks which appeared central. Therefore the web pages were inspected; research programs, seminars and conference documents were scanned and accessible articles and reports read. On basis of this one-day-analysis the parts for the country reports were written.

This way of research describes a central problem of the survey. The selection of the networks/institutions in the survey carried out by external references. But the reports on the networks and institutions predominantly based on self descriptions from web-pages and official documents.

3. Overview on Privatisation Research in Europe - first results

3.1 Privatisation Research around Europe - Geographical Focus of Privatisation Research in Europe

Articles, texts, reports and other publications are valuable indicators for the research activities in certain regions and sectors. All together about 300 publications on the subject of privatisation in Europe could be identified by searching the internet. For 180 of the case studies geographical focus could be clearly assigned. For 193 publications a clear classification of sectors was possible. Additionally, 139 publications were found, by the analysis of the selected networks in the report. For 86 of these publications a clear classification of one or more sectors was conducted.

This overview on privatisation research shows that there are huge differences between countries and regions in Europe. Nearly one third of all identified publications are dealing with the privatisation process in the UK. The next range of the most researched regions is occupied by the Central and Eastern European Countries (CEE) with around 20 percent of all publications. Privatisation research on Scandinavia, The Netherlands, Austria, Spain, Germany and France holds a share of 5 to 10 percent respectively of all publications. Only for Greece and Italy a few number of publications can be identified.

The proportion of publications dealing with privatisation seems to be a reflection of privatisation processes themselves. The UK count as the country with the most advanced privatisation policy in Western Europe. CEE as countries in transition is overcoming dramatic privatisation processes in the last decade. As a result it is not really surprising to find that privatisation research is more developed there.

But the relation between privatisation processes and the intensity of privatisation research is not inevitable. For example: the high values of privatisation research in Scandinavia or Austria are not only a reflection of privatisation politics but even more a result of a higher political sensitivity against privatisation efforts. This sensitivity resulted from the deep rooted beliefs on public regulation and social welfare in the traditionally political self-conception of these societies.

3.2 Privatisation Research in selected European Countries and Regions

Austria offers a widely ramified privatisation research. Many research projects are attached to administrative institutions like the Chamber for Labour or trade unions. One focus of the privatisation research is the effect of Europeanisation. A majority of the research work took place in international co-operations.

Privatisation research in Central and Eastern Europe is closely linked with transformation research. The majority of studies are dealing with the macro-privatisations in the beginning of the 1990s. While research work was strongly linked to the new or rebuild national institutions at the beginning of the 1990s, international institutions like the European Union, the UNECE and the World Bank are playing a larger role in the current research landscape. The Fact that a lot of research is done within a framework of organisational dependency of the very institutions that cary out privatizations of course effects the results. Therefore, questions of feasibility and implementation of privatisations are valued higher than

Table 1: Structure of Publications on Privatisation in Europe

Country	*Network Analysis*	*Internet-Research*	*total*	*Share*
Austria	10	24	34	10,2%
Central Eastern Europe	11	54	65	19,5%
France	3	15	18	5,4%
Germany	14	10	24	7,2%
Greece	2	3	5	1,5%
Italy	8	4	12	3,6%
The Netherlands	12	10	22	6,6%
Scandianvia	10	15	25	7,5%
Spain	15	9	24	7,2%
UK	43	56	99	29,6%
EU	6	0	6	1,8%
Total	**139**	**200**	**334**	**100%**

Source: Holm 2007

questions of social effects of privatisations. A majority of privatisation research in Central and Eastern Europe took place in research projects of Western European and American universities and was accomplished predominantly by Western European and American researchers.

Privatisation research has a high value in France as well In particular, the comparatively high portion of publicly/national enterprises play an important role. A part of this research work is accomplished directly through the "Agence participations de l'Etat (APE)". In addition privatisation and the perspective of public enterprises are a topic of great academic interest. With its prominent scientific board Attac France is an important institution for the privatisation research on a national as well as on the European level. The results of their studies are taken up - differently than in other European countries - in many scientific works.

Germany: Privatisation subject contained of the work and research of many institutions, networks and political initiatives. However, only few of them have developed privatisation to be an (independent) main focus of their work. The Survey identifies the Institute of Social and Economic Research in the Hans Böckler Foundation (WSI), European Network on Privatization, Public Goods, and Regulation (PPG) in the Rosa-Luxemburg Foundation and Research Group European Integration of Philipps-Universität Marburg as central of networks of the privatisation research. Examples of a more partial privatisation analysis are social movements like Attac (http://www.attac.de), NGO's like WEED (http://www.weed-online.org and academic networks like the research group Public Health of the Social Science Research Center Berlin (WZB). Privatisation is not located here in the center of the research approaches; however privatisation accompanies the institutions already for years as an important subfield of research.

Privatisation research has a marginal position in the research landscape of Greece. Only few institutions and networks concern themselves directly with the field. Often, however, the privatisation issue is affected in the context of general political strategy debates and research on the European integration. The left think tank (Nikos Poulantzas Institute) and the Centre of Planning and Economic Research (KEPE) which works in ministerial order are central for the privatisation research in Greece. Two further institutions of privatisation research are situated in the spectrum of trade unions. The range of their research work is the national level - and almost exclusively in Greek, so that limited language capabilities restricted deeper studies of these two institutions: The Labour Institute of the General Confederation of Workers (INE/GSEE, www.inegsee.gr) and the Labor Institute of the Federation of the Banking Sector employees (INE/OTOE, www.ine.otoe.gr). Both institutes don't specialise in the privatisation issues, but had to deal with effects of privatisation on the level of reorganisation the labor conditions in Greece. Another institute which carries out research on privatisation is IOBE-Institute for Economic and Industrial Research (www.iobe.gr). The research centre of the Federation of Greek Industrialists more or less supports privatization.

Privatisation is a politically controversial subject in Italy. Social movements like Attac (http://italia.attac.org) have organized in the past campaigns against the sales of public goods and services - e.g. the campaign "Campagna Acqua Pubblica" (http://www.acquabenecomune.org/). In the universities single researchers can be found who argue critically with privatisation policy. Economists like Nicola Acocella (http://dep.eco.uniroma1.it/~acocella/) stands for critical positions against the privatisation politic, but they don't have the capacities for a continuous empirical research on privatisation in Italy. However, the biggest share of the privatisation research is done by the Fondazione Eni Enrico Mattei (FEEM). Formally an independent institute, the foundation is strongly promoted by the government and often works in government's order.

The privatisation research in Scandinavia is comparatively limited, which is related to the fact that so far also the privatisation politics move on a relatively low level. Privatisation research is embedded almost exclusively in a politically left environment and has a more or less critical connotation. Questions of reorganisation and improvement of the public enterprises and services are in the centre of the research work.

Although privatisation in Spain is one of the central political projects only few research networks could be identified. Besides, there are many investigations and publications on the privatisation issue. However, many of them appear as relatively isolated works of single researchers or temporary research groups. A big part of the studies are initiated by central, regional and local administrations. Besides the universities offer many possibilities for single research projects. Different from the systematic presentation of the other country reports for Spain single researchers and their works will also be introduced.

There is no explicit privatisation research in the Netherlands. Nevertheless a wide range of academic institutes is dealing with subjects of the privatisation and liberalisation. Especially in research projects on larger infrastructures or on reorganisation of public services, also questions of the privatisation are also analysed. When compared to other countries, the privatisation debate appears less ideologically loaded and follows rather pragmatic extensions. E.g. the advantages and disadvantages of public and private institutions are compared in many studies. One reason for these pragmatic research extensions can be found in fact that the projects founded by the government. Many research projects on different sectors are commissioned by ministries. Many research institutions adjusted to this situation and emphasise the connection of theory and practice in their work.

The topic of privatisation of public goods and state owned enterprises lays an important role in almost all universities in the UK. As a reaction to the liberalisation politics starting in the 1980s strong privatisation research networks were developed in different sectors and different disciplines. British privatisation research is mostly embodied in academic institutions. Next to the broad range of the research work the situation of privatisation research in UK can be characterised by a polarisatuion of both content and politics. Privatisation-critical institutions such as the PSIRU (http://www.psiru.org/) compile a just as impressing empirical depth as the neo-liberal think tanks like the Adam Smith Institute (ASI) or the Institute of Economic Affaires (IEA).

The privatisation is an international and European phenomenon. Therefore, privatisation research is also mostly oriented towards an international context. In this respect almost all networks and institutions of privatisation research are also European networks. Nevertheless, for these section specifically those institutions and networks were selected which are European institutions in the way they organised are. The research activities of the European trade union organisations and the research programmes of the European Committee exemplify this. The size and complexity of European privatisation processes require large and well established institutions to undertake comprehensive analysis. Hence, privatisation research at the European level is - stronger than the national discussions - determined by the interests and positions of its sponsors. Questions and selection of sectors to be researched are strongly determined by the political intentions of the instructing institutions.

3.2 Sectors of Privatisation Research in Europe

Privatisation research - following the privatisation processes - covers a wide range of sectors. From industry over infrastructure to public services many fields of economy and supply are in the researcher's focus. For the analysis of the database of publications on privatisation around ten sector categories were constituted. Privatisation of public services, industries, transportation and energy are the main topics of European privatisation research.

Table 2: Sectors of Privatisation Research in Europe

Country	*Network Analysis*	*Internet-Research*	*Total*	*Share*
Agriculture/Forrest	0	2	2	0,7%
Education	1	10	11	3,8%
Energy	12	17	29	10.1%
Finance	8	9	17	5,9%
Health/Pension	9	18	27	9,4%
Housing/real estate	9	10	19	6,6%
Industry	27	18	45	15,6%
Public/social services	4	55	59	20,5%
Telecommunication/postal services	5	12	17	5,9%
Transport	1	38	39	13,5%
Water	10	13	23	8,0%
Total	**86**	**202**	**288**	**100%**

Source: Holm 2007

The emphasis of the PRESOM working groups (Education, Finance, Health/Pension) refers to research fields, which took no central role in the past privatisation research and feature a clear analysis need.

Education: The few works on privatisation within the field of education analyse privatisation as an aspect of the restructuring of the education systems in the context of comprehensive liberalisation politics (Anthofer 2005; Belfield 2003; Daun 2004; Whitty/Power 2000). Single studies concern themselves beyond that with special questions how privatisation of school meals (Gustaffson 2004), emergence of private schools in the counties in transition (Kraft 2003) and reorganisation of university libraries (Muhonen 2006).

Finance: The previous research developed different approaches to the connection of financial sector and privatisation. A set of studies examines the effects of privatisations in other sectors for financial and stock markets (Bosi/Girmens/Guillard 2001; Boutchkova/Megginson 2000a/200b; Nicodano/Chiesa 2003; Perotti/van Oijen 2003). Analyses to financial frameworks of privatisation form another focus of the current research (Canhoto/Dermine 2003; Earnhardt/Lizal 2002; Maskin 2000; Stelzer-O'Neill 2001)). Only a small group of research work concerns with privatisation processes in the financial sector (Patev/Lyroudi/Kanaryan 2000; Tykova 2000). Also studies to fiscal effects of the privatisation are so far an exception (Pankow 2000; Sawyer 2007).

Health/Pension: The previous work within the field of Health ranges the privatisation issue mostly in the process of restructuring and liberalisation of health care (Becker 2004; Fernler 2002; Gerlinger 2004; Krohwinkel/Sjögren 2006; Lethbridge 2003, 2006; Rice et al. 2000; Robinson 2005; Withehead et al. 2000). Many case studies, in particular to the Scandinavian countries rank among this range (Andersson/Varde/Diderichsen 2000; Diederichsen 2000; Heinonen/MacKay/Metteri/Pajula 2001; Krasnik 2004a,b,c; Quaye 2001). Another range of case studies are deals with the emergence of a private pension and insurance sector (Booth/Arthur 2002; Ginn 2004; Jost 2001; Robinson 2005).

3.3 Classifying the research institutions and networks

All in all there are approximately 400 publications, working papers and articles in edited contributions. Half of them (195) were published in referenced and other journals - on the other side also one third of all publications (136) are unpublished working papers, conference presentations and institutional report without an official status.

Table 3: Ways of Publication of Privatisation Research in Europe

Ways of Publication	*Network Analysis*		*Internet-Research*		*Total*	
	number	*share*	*number*	*share*	*number*	*Share*
Book	8	6,1%	36	13,7%	44	11,2%
Article in edited books	8	6,1%	11	4,2%	19	4,8%
Article in academic journals	17	13,0%	178	67,7%	195	49,5%
Working papers, reports	98	74,8%	38	14,4%	136	34,5%
Total	131	100%	295	100%	394	100

Source: Holm 2007

But this allocation differs in the two research paths which were used for this survey. The dominant form of publication identified by classical internet search with a range of two thirds is articles in academic journals (178). In contrast the majority of publications found in the web pages of the selected privatisation research networks (nearly 75%) are informal working and conference papers as well as institutional reports. An effect of this publication practice is that research networks (who directly deal with the privatisation issue) are present with only 33 (11 %) publications (books and articles) in the official academic debate on privatisation with a total of 288 publications. Privatisation research seems to be a more or less informal academic debate.

The institutional setting of the identified privatisation research networks serves as a possible explanation for this absence of public academic discourses. Only 13 of selected privatisation research networks are departments of universities - this a share of around 38% of all selected institutions. With 6 neoliberal think tanks and research units of social movements and unions in each case the share in politically motivated privatisations research is as strong as the academic research. The other research institutions could be classified as independent research units of non profit organisations and administrative organisations or institutions mainly working in administrative order.

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