

European Economic Policy

Topic 7. Privatization



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- **Privatization:** one of the most important economic policies over the last few decades (OCDE 2004 & 2007).
- Privatization had a generalized reach across the globe (the Americas, Europa, Australia, Africa, Asia) and across different sectors (industrial, financial, public and social services).
- At first glance it looks as if privatization was, and is, in fashion across the world .
- Privatization not a competence of the EU (the EU must be neutral on ownership according to the treaties).

- Privatization has **important consequences**:
 1. A change in property (public to private) and in the management of a company (Vickers & Yarrow 1991).
 2. Gave rise to a new role for the state: the Regulatory State (Majone 1996; Glaeser y Shleifer 2001).
 3. It also has indirect consequences related to the internationalization of economies and firms (UNCTAD 2005).

Introduction (III)

- Most economists from the US think there is little to privatize there (Megginson *et al.* 2007).
- In contrast, privatization has been very important for the EU and European countries more generally, as well as for the rest of the world.

Organization of the class

1. Origins and definition of privatization.
2. The three main economic justifications for privatization.
3. Case study: Empirical evidence on privatization in the EU 1960-2005 (all sectors).
4. Evaluation: privatization ¿ideological, inevitable, pragmatic?
5. Consequences of privatization.

1. Origin and definition of privatization

- **Margaret Thatcher: the iron lady** (1979) –sells council houses → becomes an ambitious programme after the sale of BT in 1984– privatization extends to most sectors but not all (NO: BBC; highways, post services; etc.).
- **[Margaret Thatcher on Popular Capitalism \(YouTube\)](#)**.
- **Pinochet, Chile under a dictatorship, in the 1970s.**
Alejandro Foxley (1982): *“Experimentos neoliberales en América Latina”*.
- **Germany, under the Naziss.** Germa Bel (2006): *“Against the mainstream Nazi privatization in the 1930s Germany”*.
<http://www.ub.es/graap/nazi.pdf>.

1. Origin and definition of privatization

- **Most common definition:** partial or total sale of firm shares by the government.
- Privatization is also used to refer to instances of bringing private market techniques into the public sector .
 - P.E.1.** “satisfaction surveys” in the university done on students.
 - P.E.2.** “internal markets” – simulating competition.

These tend to be known as New Public Management.

1. Origin and definition of privatization

- Near global reach of privatization.
- Europe; Latin America, Asia, Africa, Australia & New Zeland, US.
- But this has not been regular by zone, or by sector.

2. Why?: Justifications for privatization

- After reading widely on privatization we can group perspectives into a small number of categories.

For example we can group approaches into three:

1. **The “British paradigm”**: confidence in market forces and private enterprise (Shirley 1999, Banco Mundial años 90, Vickers y Yarrow 1988).
2. **“Multiple Logic”**: the UK is not the model, neither is there a logic in the EU, rather, diverse and complex motivations.
(Parker 1998, Kthenbrger Sinn, Whalley 2006).
3. **The “European paradigm”**: privatization can be understood within the context of EU integration. Market reform and the Single Market.
(Newbery 2000, 2007; Thatcher 2006).

2. Why?: Justifications for privatization

- **Justifications for privatization in the UK:**
 1. Funds for the government.
 2. Increase economic efficiency.
 3. Reduce the role of the state in the economy.
 4. Promote “popular capitalism”.
 5. Promote competition (?).
 6. Improve the management of firms (market disciplines).
 7. Develop national capital market.

Will these be the same for other governments? (H.1)

2. Why? Hypotheses

H.1. British Paradigm.

H.2. No logic.

H.3. European Paradigm.

Evidence:

P.1. Country sequence.

P.2. “Rhythm” – regular or irregular.

P.3. Sector transformation (industrial, financial, public and social services).

3. Empirical evidence: Privatization in the EU 1960-2005

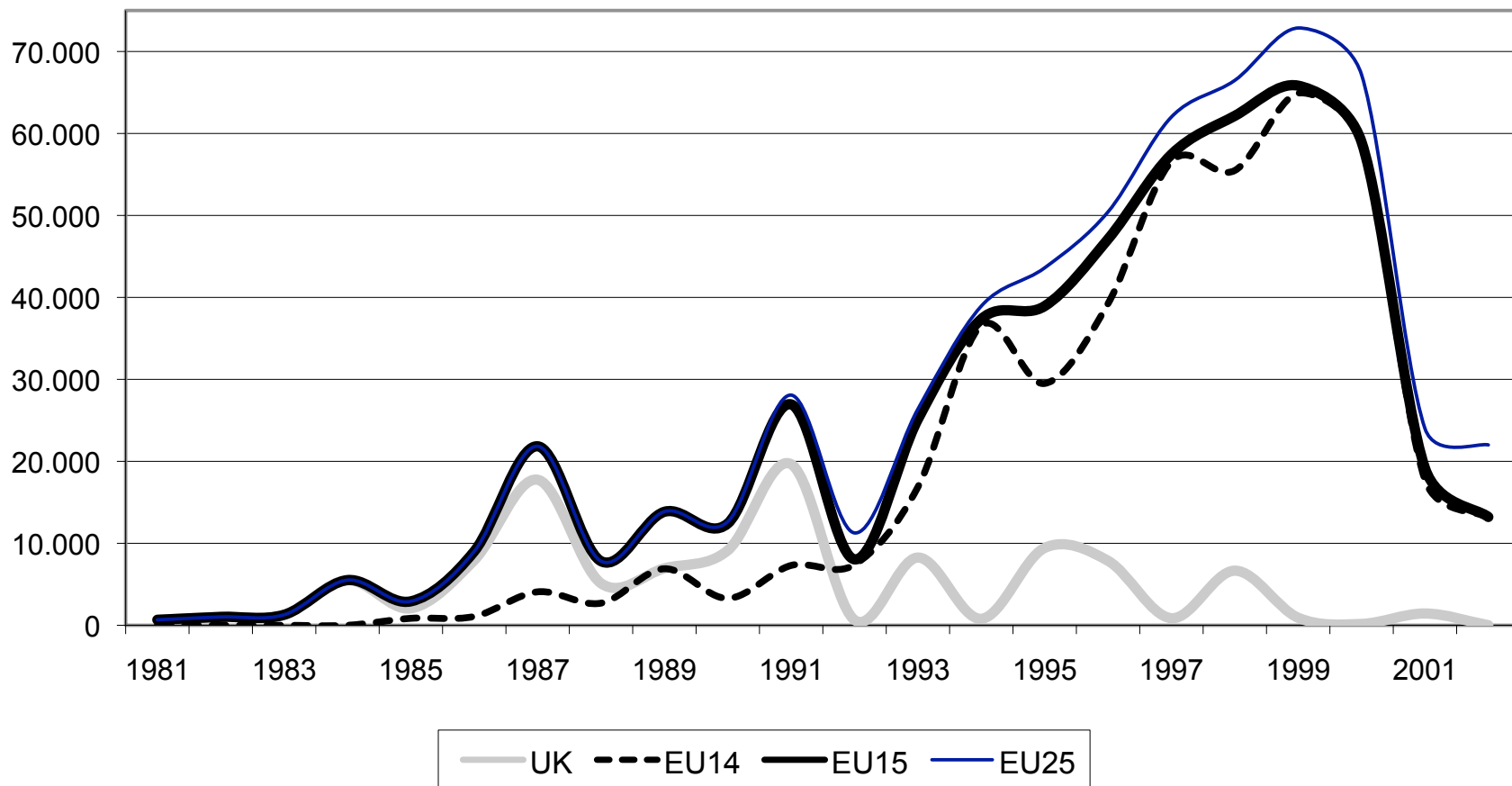
P.1. What was the sequence of privatization?

H.1. UK → rest of the EU.

H.2. No logic.

H.3. A european logic.

Privatization proceeds EU 1981-2002 (millions of dollars)



Source: Clifton, Comín y Díaz (2006).

Partial analysis

- Evidence: **1993 is key.**

- ¿Why?

Consolidation of the Single Market and the Treaty of Maastricht.

3. Empirical evidence: Privatization in the EU 1960-2005

P.2. ¿Was the “rhythm” of privatization – regular, irregular?

H.1. Regular imitation.

H.2. No logic.

H.3. Rhythm related to a European logic.

Public Company and privatization effort 1977-2003

	Tamaño del sector público empresarial (1)		Ingresos por privatización 1977-2003	
	1990	2000	/PIB (2)	por habitante (3)
Alemania	10,0	9,9	3,7	949
Austria	17,8	13,0	6,3	1.726
Bélgica	7,5	11,3	2,0	557
Dinamarca	8,7	7,5	3,8	1.277
España	8,0	3,3	7,6	1.220
Finlandia	19,0	10,5	12,6	3.289
Francia	15,1	11,5	4,6	1.134
Grecia	17,0	13,5	10,2	1.266
Irlanda	20,0	10,0	6,3	1.703
Italia	11,5	9,4	9,7	2.027
Países Bajos	8,0	5,8	5,4	1.416
Portugal	21,5	8,4	23,1	2.627
Reino Unido	4,0	1,9	11,1	2.065
Suecia	14,0	13,7	7,5	2.166
	10,9	8,5	7,1	1.472

Notas: (1) Incidencia de las empresas de titularidad pública en relación PIB corriente, (2) Ingresos por privatización de empresas de titularidad pública generados entre 1977 y 2003 en dólares constantes de 2000 en relación al PIB del mismo año, (3) ingresos totales por privatización en relación a la población del respectivo país.

Source: Clifton, Comín y Díaz (2006).

Resources generated by privatization EU 1990-2001 by country

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	total
<i>Italia</i>			759	3039	9077	10131	11230	23945	15138	25594	9729	2653	111295
<i>Francia</i>				12160	5479	4136	3096	10105	13596	9478	17438	429	75917
<i>Reino Unido</i>	12906	21825	604	8523	1341	6691	6695	4544					63129
<i>España</i>	172		820	3223	1458	2941	2679	12522	11618	1128	1079	741	38381
<i>Portugal</i>	1092	1002	2206	422	1123	2362	3002	4909	4299	1624	3256	353	25650
<i>Alemania</i>	11	351		73	678	191	1421	3125	11357	2754	1750	3342	25053
<i>Suecia</i>			378	252	2313	852	785	2390	172	2071	8082		17295
<i>Holanda</i>	716	179		780	3766	3993	1239	842	335	1481	310	831	14472
<i>Grecia</i>			512	35	73	44	558	1395	3960	4880	1384	1305	14146
<i>Austria</i>	32	48	49	142	700	1035	1300	2438	2537	70	2083	833	11267
<i>Finlandia</i>				229	1120	363	911	835	1999	3716	1827	38	11038
<i>Bélgica</i>				956	549	2748	1222	1842	2288	10			9615
<i>Irlanda</i>		515	70	274		157	293			4846	1458	773	8386
<i>Dinamarca</i>	644			122	229	10	366	45	4502	19	111		6048
<i>Luxemburgo</i>													0
UE 15	15573	23920	5398	30230	27906	35654	34797	68937	71801	57671	48507	11298	431692
OCDE	12537	15579	17663	32469	51482	48961	50962	91827	105135	96754	67230	20583	611182

Source: Clifton, Comín y Díaz (2006).

Partial analysis

- Country size and privatization.
- **Privatization “effort”** (E.g.: high - Finland; low - Germany).
- “Opportunism”. Stock markets and sectors. Response by each country in the face of some structural European changes.

3. Empirical evidence: Privatization in the EU 1960-2005

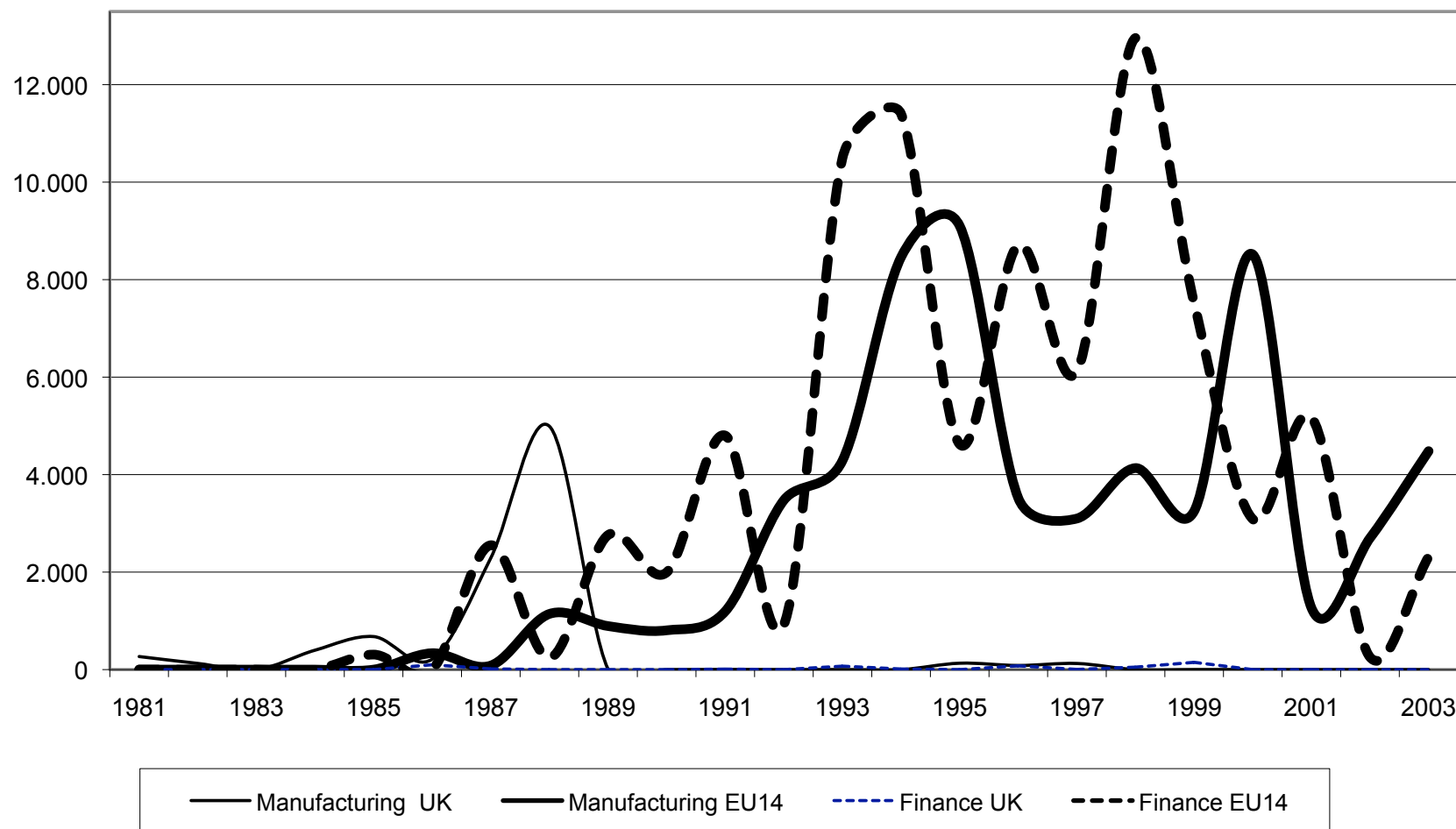
P.3. ¿What about sectoral transformations (industrial, financial, public and social services)?

H.1. As in the UK.

H.2. No sectoral logic.

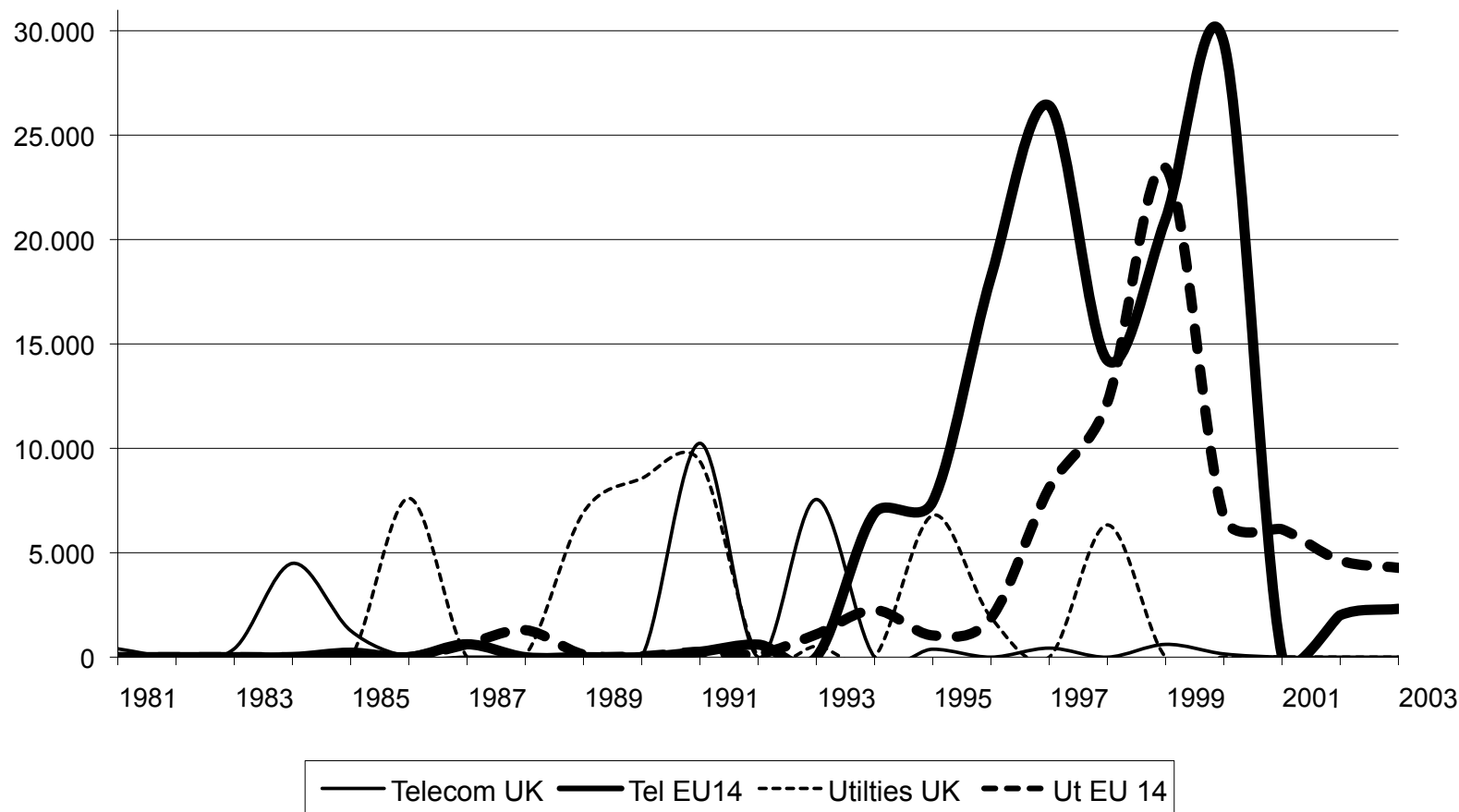
H.3. A EU logic.

Privatization proceeds in the industrial and financial sectors, UK and EU 14, 1981-2002



Source: Clifton, Comín y Díaz (2006).

Privatization proceeds for telecoms and public services, UK and EU 14, 1981-2002



Source: Clifton, Comín y Díaz (2006).

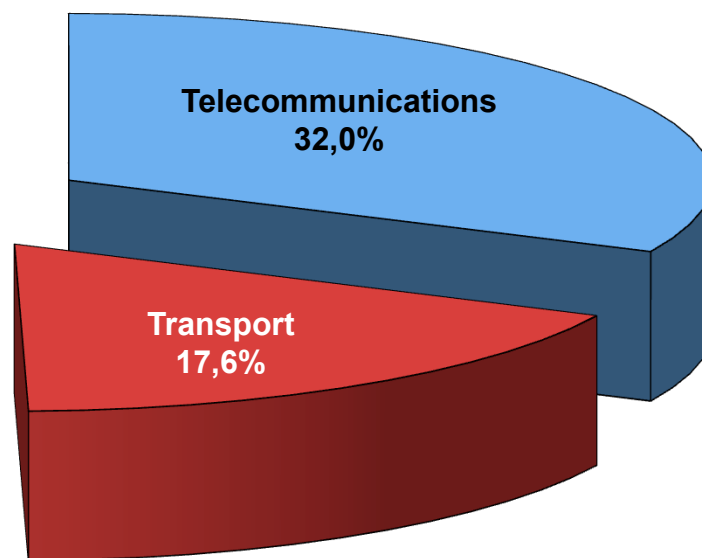
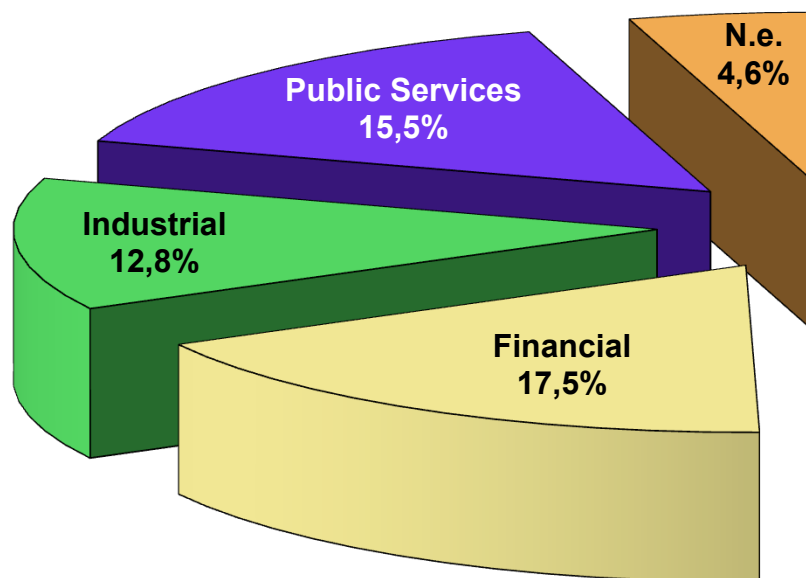
Partial analysis

- We find a sectoral logic.
- But this is not just copying the UK logic.
- Privatization is related to the liberalization directives of the EU.
E.g.: in telcoms and electricity sectors, etc.
- Though liberalization and privatization are distinct policies, in practice there was correlation.
- Conclusion...

4. Public and private firms in the 21 Century

- Is there anything left to privatize
- Is there a reverse privatization?
- What has been the role of privatization during the crisis?

Privatization by sector (share of proceeds) 1960-2001



Corporate Public Sector in the EU 1970-2000

(Percentages of sectoral employment)

	Industrial			Financiero			Transportes y comunicaciones			Electricidad, gas y agua		
	1970	1990	2000	1970	1990	2000	1970	1990	2000	1970	1990	2000
Alemania	5	1	2	19	31	28	76	70	47	60	60	51
Austria	17	4	1	20	17	7	--	65	59	--	85	68
Bélgica	0	2	2	9	8	8	70	64	49	16	24	22
Dinamarca	0	1	0	1	1	0	--	58	39	--	88	67
España	7	4	1	2	3	1	38	32	24	28	41	6
Finlandia	18	23	5	16	15	14	--	54	37	--	33	29
Francia	4	13	3	14	34	10	64	59	57	74	79	75
Grecia	1	1	2	11	31	41	33	45	37	18	62	53
Irlanda	3	1	0	8	13	9	89	80	59	71	71	73
Italia	8	10	2	12	9	4	60	81	63	72	85	41
Luxemburgo	0	0	0	12	10	9	44	46	49	19	33	29
Países Bajos	3	2	0	3	2	1	40	44	11	70	71	64
Portugal	2	7	0	10	95	18	47	69	35	63	57	41
Reino Unido	14	1	0	1	0	0	65	32	16	97	67	9
Suecia	10	6	8	22	21	25	--	52	44	--	62	58
UE-15	7	5	2	11	19	11	62	58	42	66	67	43

Source: Clifton, Comín y Díaz (2006).

4. Public and private firms in the 21 Century

- **Privatization has been extended through other instruments (not only sales):**
 - *Outsourcing.*
 - *Public Private Partnerships, PPP.*
 - *Public procurement.*
- Privatization has come “back into fashion” – albeit controversially, since it has been included as a requirement in the “rescue packages” to ailing EU Member States.

4. Public and private firms in the 21 Century

- The EC, together with the IMF and the ECB (the “troika”), promoted privatization more or less bluntly, to Greece, Ireland, Cyprus and more.
- The most extreme case was Greece:
[The Economic Adjustment Programme for Greece](#)
- The political economy of this has yet to be researched:
 - Did the troika enforce privatization on the ground?
 - The politics of austerity privatization (use of the Troika and experience from previous crises –Latin America–).
 - Consequences of privatization (social welfare, efficiency, etc.).

Basic Readings:

- J. Clifton, F. Comín & D. Díaz-Fuentes (2006): «*La privatización de empresas públicas en la UE: ¿La Vía Británica o la Senda Europea?*». Revista de Economía Mundial.

Advanced Reading:

- G. Bel (2006): «*Against the mainstream: Nazi privatization in the 1930s Germany*». Revisited Journal of Economic Perspectives.
- J. Clifton, F. Comín & D. Díaz-Fuentes (2003): «*Privatization in the European Union: public enterprises and integration*». Kluwer.
- J. Clifton, F. Comín & D. Díaz-Fuentes (2006): «*Privatization in the European Union 1960-2003: ideological, pragmatic, inevitable?*». Journal of European Public Policy.
- E. Glaizer & A. Schleifer (2001): «*The Rise of the Regulatory State*». Harvard Institute of Economic Research. Documento de Trabajo 1934.

Advanced Reading:

- M. Kthenbrger (Editor), H.W. Sinn & J. Whalley (Editores): «*Privatization Experiences in the European Union*». (CESifo Seminar Series). MIT Press.
- Majone (1996): «*Regulating Europe*». Routledge, Londres.
- W. Megginson & J. Netter (2001): «*From State to Market: A Survey of Empirical Studies of Privatization*». Journal of Economic Literature. Vol. XXXIX.
- D.M. Newbery (2003): «*Privatising Network Industries*». CESifo Working Paper Privatisation Experiences in the EU. Munich.
- OECD, Directorate sobre la privatización: www.oecd.org.
- D. Parker (1998): «*Privatization in the European Union: Theory and Practice*. Routledge».
- D. Parker (2003): «*THE UK's privatization experiment: the passage of time permits a sober assessment*». CESIFO Working Paper No. 1126. Category 9: Industrial Organization.

Advanced Reading:

- M. Shirley (1999): «*Bureaucrats in Business*». World Development .
- M. Thatcher (2000): «*The Politics of Telecommunications. National institutions, convergences and change in Britain and France*». Oxford: OUP.
- UNCTAD (2003): «*World Investment Report*».
- J. Vickers & G. Yarrow (1991): «*Economic perspectives on privatization*». Journal of Economic Perspectives (5).