PRIVATISATION IN OECD COUNTRIES: THEORETICAL REASONS AND RESULTS OBTAINED

FRIEDRICH SCHNEIDER*

Introduction

Privatisation has been a key element of structural reforms in most European Union countries, including Austria during the last decade. Governments undertaking privatisation have pursued several objectives: achieving gains in economic efficiency given the extensive prevalence of poor economic performance of public enterprises in many countries and limited success with their reform; and improving the fiscal position, particularly in cases where governments have been unwilling or unable to continue to finance deficits in the public enterprise sector. In addition, budgetary-constrained governments, facing fiscal pressures, have sometimes privatised mainly to finance fiscal deficits with the privatisation proceeds.

The issues of privatisation (and sometimes deregulation) have been reviewed in a large literature on the various aspects of privatisation, and this literature has emphasised the potential efficiency gains.[1] The goal of this article is twofold: Firstly, to provide some theoretical reasoning as to why privatisation is useful and has occurred, and, secondly, to illustrate the extent of privatisation in OECD countries.

Reasons for privatising public enterprises

For at least the last century, economists have employed a positive economic theory to explore the implications of wealth maximisation by private firms operating in private property contexts. Only since the late 1960's have empirical studies dealing

with the behaviour of publicly operated firms been undertaken (e.g. Borcherding, Pommerehne, Schneider, 1982; Boes and Schneider, 1996). Since then a large number of studies of a variety of activities now exists, and their main focus is the question of how public firms differ from their private equivalents.

Basically two methods are employed. The first is the property rights approach. It concentrates on the differences in the ease of captureability of economic surplus of a resource and the rights to direct an asset's use, alter its form or transfer its claims among existent and potential owners. In short, this approach explores the differences in incentives between public and private agencies caused by variation in the ability of owners to monitor management and the problems that emerge when the goals of "owners" and their agents, "managers" diverge.[2] The second is the public-choice approach and concentrates on political coalitions and their effect on input usage and reward and/or product characteristics. The public-choice approach also includes the theory of bureaucracy (see Niskanen 1971 and 1975).

The property rights approach

The property rights approach points out one crucial difference between private and public firms: the practical difficulties in transferring ownership rights among individuals in the public sector and the relative ease of such transactions with private assets which includes, of course, the ability of owners (citizens) to monitor their agents' (elected officials' and bureaucrats') behaviour. By now, this approach, pioneered by Armen Alchian, is well known, but it is useful to recall his predictions: government managers will not organise the inputs under their direction in such a way as to maximise the wealth of the ultimate owners, the general citizenry. Alchian predicts, therefore, that public firms will be less efficient, their management will enjoy "quieter lives" and because of this the public will give them lower levels of discretion than their colleagues in private firms. To put it another way, the property rights approach is concerned with any type of co-operation in which ownership and management are separate. The emerging principal-

[1] Surveys of the privatization literature are provided in Megginson and Netter (1999), Heller (1990), Boes und Schneider (1996), Bartel und Schneider (1991) and a summary for the earlier discussion is given in Borcherding, Pommerehne and Schneider (1982).

[2] The first approach has been developed by Alchian (1961, 1965) and more recently Baron and Myerson (1982), Grossman and Hardt (1983) and MasColell, Winston and Green (1995).

agent problem may be prevalent in private enterprises as well but to a much lesser extent. Numerous studies have been undertaken that have tested this proposition, and the result that public enterprises are less efficient then private one is confirmed in most of them.[3]

To sum up the results so far, the property rights approach seems to indicate that (1) private production is cheaper than production in publicly owned and managed firms and (2) given sufficient competition between public and private producers (and no discriminatory regulations and subsidies) the differences in unit cost turn out to be insignificant. From this one may conclude that it is not so much the difference in the transferability of ownership but the lack of competition that leads to the often observed and less efficient production in public enterprises.

The public choice approach

The public choice approach appears to provide a broader analysis than the property rights one. The public choice approach assumes that politicians, bureaucrats, managers of public enterprises are selfish utility maximisers subject to constraints (cf. Schneider and Frey, 1988, Bartel and Schneider, 1991, Pardo and Schneider 1996, and Schneider, 2002).

In this approach it is, for example, assumed that a politician acts selfishly in order to reach his ideological or personal goals of not losing the next election. Since staying in power is the most important constraint for politicians (or sometimes the only goal), they will also use public utilities for their own selfish goals. One reason for this is evidently the lack of incentives for politicians and taxpayers to exert effective control of public enterprises or efficient use of resources in the economy. This argument seems especially valid for the case of public utilities. Public utilities offer excellent opportunities to reach the selfish re-election goals of governments, like additional employment and the stabilisation of purchasing power of certain regions.[4] If such a "misuse" of public utilities or enterprises leads to full employment and higher

income at least for a certain time span then it is easier for a government to win an election without such a "misuse" of public utilities. The cost of such a policy can be made invisible for several years (or even one or two legislative periods) as the deficit of the public enterprises can be hidden in the general budget deficit.

As the public choice approach is more concerned with micro-economic aspects, De Alessi claimed that public managers are growth not wealth orientated. He argued and found supporting evidence that this leads to larger staffs and higher capital-labour ratios since excess capital makes managers and their subordinates' productivity appear higher to their monitoring agents, the legislature. Already Borcherding, Busch and Spann (1977) argued that public employees effectively coalesce through their organisations and "capture" civil service commissions over time, altering rules in such a way that effective supply of competing labour to public firms becomes less wage elastic than a free market buyer would otherwise face. This public employee market power is enhanced, they claimed, by the fact that public service employees contribute to the election of the ultimate "bosses", definitely not an option for a private-sector union. In some sense then, public employees can alter the position of the derived demand schedule for their services by (a) "nudging" the final demand schedule for public services to the right and (b) by specifying rules which lower both the elasticity of substitution between themselves and rival factors and the elasticity of supply of these close substitutes. Both (a) and (b) will tend to raise wages, but they may raise employment too, since, in effect, the budget and tie-in effects may offset the usual substitution effects one might derive out of the neoclassical models of labour demand in the presence of a simple monopoly. De Allessi (1974) in another paper argued that given the relatively loose monitoring of public enterprises by the political review authorities, a rational position for the latter given the gain-sharing results of assiduous monitoring, managers will indulge their taste for security rather more than in private firms. He found evidence consistent with the risk-avoiding hypothesis. Public managers' tenures are more secure, of a longer duration, and their fluctuations in real wages are lower than their private counterparts.

In conclusion, according to the public choice scholars, governmental agencies and firms have distinct

---

[3] Compare the studies by Boes and Schneider (1996), Schneider (1997, 2002), Schneider and Hofreither (1990). As these results are so well known, they are not reported here.
[4] For Austria, Upper Austria and Styria see Schneider (2002) and Bartel and Schneider (1991).

biases leading to higher production costs, just as the property rights literature suggests, but excessive outputs as well. The latter results because the staff of the bureaucracy can effect demand more readily under monopoly public ownership by the strength of its members' votes and/or lobbying efforts. The absence of a civil service and the constraint on strong unions under more competitive types of supply, public or private, is thought to reduce the ability of members of such bureaucracies to offer their services to the legislature on disadvantageous terms compared to potential competitors. On the other hand, the bureaucracy is not likely to have sole "capture" rights over the bureaus, but share the ownership claims with other interests.

To sum up, the public choice approach not only recognises the differences in behaviour between publicly owned and managed firms and private ones due to the limited transferability of ownership. It also considers the likely oversupply of public services due to the lack of competition in their provision and production. This oversupply is then quite often used for selfish re-election goals of politicians and can result in higher employment and higher wages in certain regions for a certain time.[5]

Summarising the two approaches, one clearly comes to the result that, as already noted in the introduction, there are various reasons to privatise public utilities or enterprises in order to stop the misuse of such policies.

The amount of privatisation in OECD countries

Privatisation and proceeds from privatisation have been substantial all over the world. Even since the beginning of the 1960s, numerous instances of privatisation in market-orientated, industrial countries, but also in transition and developing countries, have been taking place.

A detailed picture of the privatisation proceeds of single countries is given in Table 1.

In the beginning of the 1990s a real wave of privatisation began to develop. In most countries the

wave peaked in the second part of the 1990s. Austria, for example, obtained proceeds from privatisation in 1990/91 of only $80 million, but in 1996/97 it was $3.9 billion. Germany started with proceeds of $325 million in 1990/91, but obtained $14.3 billion in 1996/97. An exception is the United Kingdom, where in 1990/91 already a peak of privatisation proceeds had been reached ($34.7 billion). But also the later revenues from privatisation have been substantial.

If one considers standardised figures of privatisation of state-owned enterprises as a percentage of GDP in the year 2000 (column 9 of Table 1), the figures presented there cover a wide range. Apart from Hungary, which was a non-market economy with a large state sector, it is Portugal which has reached by far the highest amount f privatisation proceeds over the period, namely 20.2 percent of GDP in 2000. Considering some developed OECD countries, New Zealand reaches 13.9 percent, followed by Greece with 8.8 percent, Italy with 8.2 percent and Ireland with 7.2 percent.

If one looks at the highest amounts of privatisation proceeds during the 1990s, Italy ranks first with $98 billion, followed by Australia with $79 billions, by France with $74 billions, the United Kingdom with $64 billion and Japan with $61 billion. In general, Table 1 clearly shows that privatisation in OECD countries of the Eastern and Western type was a major issue in the 1990s.

A special method of privatisation is through public share offerings.[6] In Table 2 figures for a longer time perspective and for a special privatisation issue, namely privatisation of state-owned enterprises through public share offerings, are given.

Over the years 1961-2000, the largest amount of privatisation of state-owned enterprises through public share offerings happened in Japan with $ 146 billion, followed by Great Britain with $ 98 billion, by Italy with $85 billions and France with $ 84 billions. Germany had only an amount of $ 46 billions of privatisation proceeds of state-owned enterprises through public-share offerings.

---

[5] The Austrian type of Keynesian policy used the public enterprises and state owned firms for such purposes quite successfully over the period 1971–1986. See Schneider (2002) and Schneider and Bartel (1992).

[6] For more country comparative information on privatisation, see DICE database (www.cesifo.de/DICE).

Table 1

Privatisation of State-owned Enterprises: Global Amount Raised from Privatisation, 1990-2000

	1	2	3	4	5	6	7	8	9	10	11
	1990/91	1992/93	1994/95	1996/97	1998/99	2000	Total 1990-2000 (sum of 1-6)	GDP 2000	Total 1990-2000 in % of 2000 GDP c)	Investment of SOE in % of total investment 1978-1991	Privatization intensity (9:10)
				– Million USD –				Billion USD			
Austria	80	191	1,735	3,954	2,564	2,083	10,607	266.3	3.9	6.2	0.62
Belgium	n.a.	956	3,297	3,039	2,277	n.a.	9,569	316.1	3.0	8.8	0.34
Denmark	644	122	239	411	4,521	111	6,048	205.6	2.9	13.5	0.21
Finland	n.a.	229	1,529	1,746	5,713	1,827	11,044	165.8	6.6	n.a.	n.a.
France	n.a.	12,160	9,615	13,288	22,460	17,438	74,961	1,755.6	4.2	14.5	0.29
Germany	325	435	240	14,353	7,098	n.a.	29,549	2,680.0	1.1	11.6	0.09
Greece	n.a.	35	117	1,953	8,772	1,384	12,261	138.1	8.8	17.9	0.79
Ireland	515	344	157	293	4,846	1,458	7,613	104.8	7.2	n.a.	–
Italy	n.a.	1,943	13,927	33,984	39,230	9,728	98,812	1,204.9	8.2	12.5	0.66
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24.7	n.a.	n.a.	–
Netherlands	895	780	7,759	2,070	1,816	310	13,630	494.6	2.7	8.1	0.33
Portugal	2,390	2,826	3,557	7,932	5,884	3,256	25,845	128.0	20.2	16.6	1.22
Spain	172	4,043	4,399	15,201	12,582	1,079	37,476	702.4	5.3	10.7	0.50
Sweden	n.a.	630	3,165	1,840	2,243	8,082	15,960	276.8	5.7	16.0	0.35
United Kingdom	34,731	9,127	8,032	12,154	n.a.	n.a.	64,044	1,294.4	4.9	11.0	0.44
EU 15	39,752	33,821	57,768	112,218	120,006	46,756	410,321	9,758.1	4.2	n.a.	–
Norway	73	n.a.	639	695	454	1,039	2,900	170.5	1.7	22.7	0.07
Switzerland	n.a.	n.a.	n.a.	n.a.	4,426	n.a.	4,426	337.0	1.3	n.a.	n.a.
Turkey	730	989	1,973	758	1,816	2,712	8,978	205.1	4.3	35.7	0.12
Czech Republic	n.a.	n.a.	2,282	1,436	1,176	544	5,438	54.0	10.0	n.a.	–
Hungary	508	2,562	4,830	3,123	441	66	11,530	54.4	21.2	n.a.	–
Poland	194	806	1,826	3,485	5,501	5,993	17,805	163.3	10.9	n.a.	–
Slovakia	n.a.	63	1,419	497	n.a.	n.a.	1,979	22.5	8.8	n.a.	–
Australia	1,061	3,950	10,144	36,011	22,366	6,239	79,771	465.2	1.3	16.4	0.08
Canada	2,312	2,004	4,488	1,768	11	n.a.	10,583	694.4	1.5	n.a.	–
Japan	n.a.	15,919	13,773	10,388	21,497	n.a.	61,577	5,639.5	1.1	8.2	0.13
New Zealand	3,912	1,597	293	1,839	1,772	n.a.	9,413	67.6	13.9	n.a.	–
United States	n.a.	n.a.	n.a.	3,650	3,100	n.a.	6,750	9,076.6	0.07	3.7	0.02
Total OECD-30	62,423	107,332	133,873	249,562	275,804	65,063	0.2	27,708.6	0.2	n.a.	–

Note: Column 10: Figures about investment of SOE in % of total investment are not available after 2001. An alternative, to take employment of SOE in % of total employment, is only available for a small group of countries.

See also for privatisation through public share offerings: DICE database Tables "Privatization of State-owned Enterprises Through Public Share Offerings 1961-2000: Issue Size per Country" and "Privatization of State-owned Enterprises Through Public Share Offerings, 1961-2000: Number and Names of Enterprises" (www.cesifo.de/DICE).

Sources: OECD, Financial Market Trends, No 79, June 2001; OECD Main Economic Indicators, December 2001; World Bank, Bureaucrats in Business, 1978-91. CESifo calculations.

Table 2
Privatisation of State-owned Enterprises Through Public Share Offerings, 1961-2000: Issue Size per Country
– Million USD –

	1961-1989	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999	2000 [a]	Total 1961-2000	Total 1990-1999 (only PSO)	OECD [b] 1990-1999 (all priv.)
Austria	662	n.a.	211	1,086	733	n.a.	n.a.	2,692	2,030	8,524
Belgium	n.a.	n.a.	n.a.	2,571	1,100	n.a.	n.a.	3,671	3,671	9,569
Denmark	n.a.	n.a.	n.a.	3,006	n.a.	n.a.	n.a.	3,006	3,006	5,937
Finland	367	n.a.	214	800	285	5,573	1,900	9,139	6,872	9,217
France	15,478	780	9,695	19,263	12,261	24,982	1,770	84,229	66,981	57,523
Germany	4,536	n.a.	n.a.	730	13,300	10,624	17,460	46,650	24,654	22,415
Greece	n.a.	n.a.	33	n.a.	2,365	2,794	n.a.	5,192	5,192	10,877
Ireland	n.a.	136	n.a.	n.a.	n.a.	4,300	n.a.	4,436	4,436	6,155
Italy	1,157	695	2,481	10,220	34,462	36,190	n.a.	85,205	84,048	89,084
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	2,278	n.a.	n.a.	11,632	n.a.	n.a.	n.a.	13,910	11,632	13,320
Portugal	434	1,829	2,375	2,255	6,428	5,998	n.a.	19,319	18,885	22,589
Spain	2,326	n.a.	3,193	3,950	13,432	21,652	n.a.	44,553	42,227	36,379
Sweden	165	n.a.	364	3,765	n.a.	n.a.	8,800	13,094	4,129	7,878
United Kingdom	51,766	27,908	7,360	6,200	5,649	n.a.	n.a.	98,883	47,117	64,044
EU 15	79,169	31,348	25,926	65,478	90,015	112,113	29,930	433,979	324,880	363,511
Switzerland	n.a.	n.a.	n.a.	n.a.	n.a.	5,600	n.a.	5,600	5,600	4,426
Japan	82,402	n.a.	7,312	3,400	6,440	46,500	n.a.	146,054	63,652	61,577
United States	1,650	n.a.	n.a.	n.a.	n.a.	1,425	n.a.	1,425	1,425	6,750

Note: PSO = Public Share Offering.
[a] Till August 2000. – [b] Total Amount raised from Privatisation; these figures are supposed to be bigger than those of the amount raised only from privatization through PSO. This is the case for most countries, but not for all.
Compare with DICE database table: Privatization of State-Owned Enterprises: Global Amount Raised from Privatization (www.cesifo.de/DICE).

Sources: W.L. Megginson, Sample Firms Privatised Through Public Share Offerings, 1961-Aug. 2000, 2000; http://faculty-staff.ou.edu/M/William.L.Megginson-1/; J.D'Souza, B. Bortolotti, M. Fantini and W.L. Megginson, Sources of Performance Improvements in Privatized Firms, 2000; http://faculty-staff.ou.edu/M/William.L.Megginson-1/; OECD-Figures: OECD, Financial Market Trends No. 76, 07-2000; CESifo calculations.

In general, Tables 1 and 2 clearly demonstrate that privatisation was a major issue, especially in the 1990s.

Summary and conclusions

Privatisation has certainly been a key-element of structural reform in the OECD but also in the European Union countries, including Austria, and proceeds from privatisation have been substantial in most of these countries. Gross receipts that can be transferred to the budget are affected by actions prior to sale, the sales process and the post-privatisation regime. An evaluation of the potential uses of privatisation receipts or proceeds should reflect the implications for government net worth and their macroeconomic impact. As far as government net worth is concerned, proceeds from privatisation do not often themselves indicate that the government is better off. Privatisation has longer-term implications in terms of revenues forgone and/or expenditures that will not be made in the future. Government decisions on the use of proceeds should reflect these long-run effects. Government net worth will rise to the extent that private sector ownership leads to an increase in efficiency and the government shares in this gain.

References

Alchian, A.A. (1961), *Some Economics of Property Rights*, Rand Corporation, Santa Monica.

Alchian, A.A. (1965), "Some Economic of Property Rights", *Il Politiquo* 30/4, 816–29.

Baron and Myerson (1982), "Principal Agents Theory", *Econometrica* 50, 911–30.

Bartel, R. and F. Schneider (1991), "The 'Mess' of Public Industrial Production in Austria: A Typical Case of Public Sector Inefficiency?", *Public Choice* 68/1, 17–40.

Boes, D. and F. Schneider (1996), Private Public Partnership: Gemeinschaftsunternehmen zwischen privaten und der oeffentlichen Hand, *Zeitschrift fuer Unternehmens- und Gesellschaftsrecht*, pp. 519–43.

Borcherding, T., W.C. Bush and R.M. Spann (1977), "The Effects on Public Spending on the Divisibility of Public Outputs in Consumption, Bureaucratic Power and the Size of the Tax Sharing Group", in T. E. Borcherding, ed., *Budgets and Bureaucrats: The Sources of Government Growth,* Durham, N.C., pp. 211–28.

Borcherding, T., W.W. Pommerehne and F. Schneider (1982), "Comparing the Efficiency of Private and Public Production: The Evidence from 5 Countries, *Zeitschrift fuer Nationaloekonomie/Journal of Economics* 89 (Supplement 2), 127–56.

De Alessi, L. (1974), "An Economic Analyses of Government Ownership and Regulation: The Theory and the Evidence from Electric Power Industry", *Public Choice* 19/1, 1–42.

Grossman and Hart (1983), "Principal Agents Theory: What is New, What is Old", *Econometrica* 51, 7–45.

MasColell, Winston and Green (1995), *Microeconomic Theory,* Oxford University Press, New York and Oxford.

Niskanen, W.A. (1971), *Bureaucracy and Representative Government,* Chicago University Press, Chicago and New York.

Niskanen, W.A. (1975), "Bureaucrats and Politicians", *Journal of Law and Economics* 18/4, 617–43.

Nowotny, E. (1982), "Nationalist Industry as an Instrument of Stabilization Policy", *Annalen der Gemeinwirtschaft* 51/1, 41-57.

Pardo, J.C. and F. Schneider (1996), *Current Issues in Public Choice,* Edward Elgar, Cheltenham, UK.

Schneider, F. (1997), "Deregulierung und Privatisierung als Allheilmittel gegen ineffiziente Produktion von oeffentlichen Unternehmen?", in *Wieviel Staat, wie viel Privat?,* Sammelband von der Arbeitsgemeinschaft der wissenschaftlichen Wirtschaftspolitik, Vienna, pp. 33–59.

Schneider, F. (2002), "Privatisierungen und Deregulierungen in Oesterreich in den 90er Jahren: Einige Anmerkungen aus Sicht der neuen politischen Oekonomie", in Hartmut Berg, ed., *Deregulierung und Privatisierung: Gewolltes – Erreichtes – Versaeumtes?,* Schriften des Vereins fuer Socialpolitik, Neue Folge, vol. 287, pp. 89–120.

Schneider, F. and M.F. Hofreither (1990), P*rivatisierung und Deregulierung in oeffentlichen Unternehmen in westeuropaeischen Laendern: Erste Erfahrungen und Analysen,* Manzsche Verlags- und Universitaetsbuchhandlung, Vienna.

Schneider, F. and B. Frey (1988), *Political Business Cycles: A Survey,* in Thomas Willet, ed., Influation and the Political Business Cycles, Durham, N.C., pp. 239–75.

Sigmund, U. (1998), *Die Treuhand 1990/1991: Spezialfall, Privatisierungsmonopol und Staatsversagen?,* Universitaet Kiel, Institut fuer Weltwirtschaft, Kiel.