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From private to public to private again: a long-term perspective on nationalization

The article summarizes the main phases of the long-term process of rise and fall of state-owned enterprise (SOE) in the Western world. It focuses first on the waves of nationalization that occurred in the last century, addressing the major motives that explained them. Next, moving from the changing environment that opened the way toward the rush to privatization of the last two decades, it dwells on the quantitative dimension of the de-nationalization phenomenon and offers some thoughts on its consequences.

Keywords: state-owned enterprise; nationalization; privatization; regulation.

De privado a público e novamente a privado: uma perspectiva de longo prazo sobre a nacionalização

Esta artigo sumaria as principais fases do processo de ascensão e declínio a longo prazo das empresas estatais (SOE — *state-owned enterprises*) no mundo ocidental. Começa-se por analisar as primeiras vagas de nacionalizações ocorridas no século passado, bem como os principais motivos que as explicam. De seguida, passando do contexto de mudança que abriu caminho para a corrida às privatizações das duas últimas décadas, o texto centra-se no aspecto quantitativo do fenómeno de desnacionalização e oferece algumas reflexões sobre as suas consequências.

Palavras-chave: empresa estatal; nacionalização; privatização; regulamentação.

INTRODUCTION

Public sentiment toward the role of the state in the economy is quite volatile. Less than ten years ago, when I was organizing a conference in Milan to survey the historical perspective of the state-owned enterprises (SOE) experience in a number of Western countries, the role and even the existence of public enterprise was subjected to strong, often devastating criticism, in both the economic-political literature and the socio-political debate. At the same time, the term and concept of "nationalization", the main process by which SOEs are created, had neatly assumed a negative value

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and was used only in close connection with its opposite term, "privatization". It seems to me that such a sentiment is no longer so clear: the privatization processes have slowed down, doubts about quite a few denationalization initiatives already settled upon are surfacing, the public opinion, particularly in some former socialist countries, looks perplexed, and first-rate politicians and ministers claim the right to intervene once again when sectors or firms appear unable to extract themselves from difficulties.

In this communication I will discuss the main phases of the process of rise and fall of public or state-owned enterprises, focusing especially, of course, on the last century. The first part, devoted to the growth phase, draws widely upon an earlier work (Toninelli, 2000), the second seeks to summarize and interpret the recent international experience of privatization.

Before proceeding, some terminological and conceptual issues need clarification. These concern the levels at which public authorities decide to intervene directly in the economy, as well as the forms that such intervention may take. Generally speaking, and for the sake of simplicity, there are two levels of public enterprise: a central level at which SOEs are created, and a local level at which municipal companies usually operate. In the case of federal states such as Germany and the United States, however, the picture must be completed by introducing a third level, above that of the state, to which national/federal enterprises belong[1]. At the state level, the term "state-owned enterprise" provides only an approximate description of the complexity of forms and organizations that state-companies may assume.

AN OVERVIEW

The declining fortune of public enterprise is explained primarily by its increasing economic, financial and managerial difficulties, which derive from the "public" and "political" nature of SOE activities. The move to autarkic and state-controlled policies in many Southern and Central European countries, the diffusion of collectivism and socialism in Eastern countries, and the progressive growth of mixed economies in Western ones, should be considered as reactions, although profoundly different ones, to the same issue: the deep crisis that struck liberal capitalism in the inter-war period. Different though they were, these reactions shared at least two common features. First, there was a more or less explicit recognition that the free-market economy had grown progressively weaker. Its very nature and viability were

[1] In the case of Germany, for example, national/federal companies are to be found in the railway and postal sectors and industrial activities, state-owned (*lander*) enterprises in infrastructures (also in the railway sector before Weimar), municipal companies in the public utilities, and in savings banks (Wengenroth, 2000)

menaced by increasing failures and the belief that the state could and should play a greater (or, for some, a total) role to overcome these failures. The enlargement of the public sector, mainly through the nationalization of a few strategic activities and/or industries, became a significant part of the new economic policies, even where democracy remained intact.

The dimension of public-enterprise in the majority of mixed economies grew after World War II, both within and without Europe. In Europe it was much larger than in the U. S., especially during their peak in the mid-1970s. According to a survey of more than 70 mixed economies outside the United States, the many initiatives that were classifiable as public enterprise (nationalized enterprises and industries, state-controlled and state-participated firms, managing public concerns and so on, but excluding municipal enterprises), produced on average 10% of gross national product and contributed 16.5% of gross capital formation (Short, 1984, p. 115). However, disaggregating the latter value for industrialized countries (including the U. S) and developing countries, it emerges that gross annual investment of the public sector averaged 27% of overall investment in developing countries, and was still increasing, whereas in the first group of countries public investment averaged no more than 11% of the total.

The poor performance of mixed economies in the 1970s and '80s, as well as the collapse of collectivist regimes in the early '90s, contributed to a reappraisal of the economic role of the state, in the West as well as elsewhere. It also challenged what in previous decades had been perceived as a necessary outcome of the evolution of capitalism: the notion of state-owned enterprise and nationalization policy lost much of the miracle-working power attributed to it by even progressive elites.

THE RISE OF SOES

Motives of public enterprise. Many factors explain the choice of nationalizing previously private activities or establishing state-owned and state-managed enterprises. Sometimes that choice does not pursue a single aim, and sometimes basic motives are not clearly defined or are even contradictory (Zamagni, 1987, p. 122). In a few cases the origin of a public enterprise cannot be fully explained in terms of deliberate choice, but elements of chance must be introduced, such as in the cases of the nationalization of Volkswagen in Germany[2] and in the 1937 transformation of the *Istituto per la Ricostruizone Industriale* (IRI) into a permanent public agency in Italy[3].

[2] In this connection Wengenroth speaks of nationalization by default, as the state was forced to intervene in the sale because of the default of other possible buyers.

[3] This has been seen as "more the result of historical accident than of deliberate political decision" (Shonfield, 1965, p. 178).

At some risk of over-generalization, the motives for nationalization can, however, be grouped into three main categories.

First, there are *political and ideological* reasons for nationalization. These, of course, were fundamental in the policies that led to collectivist economies in communist countries. They also played an important role in the nationalization programs of Western countries in the post-war period. However, their real influence has been downplayed by recent studies with respect to a wide range of activities: transport, telecommunications, oil, coal and other energy activities. Here nationalization seems to have been caused mainly by economic and technological factors, as well as by issues of organization and regulation (Millward, 2000, 2004, 2005). In any case, when ideological reasons prevailed, nationalization programs were based on the belief that enlarging public properties and activities could open the way to a fundamental change in the distribution of power within society, thus engendering a new socio-economic equilibrium based on the diminished power of private capital and the increased power of labor. Furthermore, SOE top-managers should be accountable to the whole community for their decisions, and not just to private shareholders. This ideological and political belief was shared mainly by the progressive parties (Labor, Socialist, and Social Democratic). It was not by chance that the main waves of nationalization occurred in France, Austria, Great Britain and Holland when these parties were in control. A strong ideological bias also characterized the nationalization policies of the fascist regimes in Italy, Spain and Germany. SOEs in these countries were conceived as an instrument for achieving autarky and for forcing both the economy and society toward its "superior" destiny — that is, the power policy of the nation-state.

Sometimes the reasons for nationalization were more strictly political. Post-war nationalization in Austria is to be explained primarily by the desire of both the main parties not to leave former German properties in foreign hands (i. e. allied powers). In the case of France, the nationalization wave of the early 1980s was perceived as a way of protecting France from the globalization of the economy and from competition among EEC firms.

Second, there are *social motives,* such as the desire to guarantee full employment, to offer better working conditions to the labor force, and to improve industrial relations. This social component can be found in French and Italian nationalization after the Second World War "which acted as pioneers in the field of social innovations" (Fridenson, 1987, p. 149). In the case of Austria, SOEs stubbornly resisted pressure to reduce employment in the 1960s and '70s: Kreisky's famous speech stated that he preferred a few billion in budget deficit to a few thousand unemployed (Stiefel, 2000). Sometimes the creation of public enterprises can be directed toward the development of national entrepreneurship, as in the case of the Meiji administration in Japan in the late nineteenth century[4], or to overcome the weakness and "provincialism" of large private enterprises, and their inability to deal with trade unions, as in France (Chadeau, 2000).

Third, there are *economic reasons*. The most commonly discussed in economic theory have to do with market failure. Natural monopoly is the typical case. This can be found in the public utilities sector, where "it is cheaper to produce goods by a monopoly than by many firms, and where potential market entrants can be held off without predatory measures. In such cases unregulated private enterprise would exploit the market" (Bös, 1986, p. 27). Such exploitation would lead to consumers' diseconomies, mainly in the form of increased prices and tariffs, as well as unreliability of supply. Ownership and management by the state or other public agencies of industries and services operating in the field of natural monopolies should guarantee fair tariffs and prices under both the economic and "political" profiles[5].

A second category of economic motives may underlie nationalization policies, those linked to the promotion of economic growth and social transformation in underdeveloped countries or regions (Jones, 1982; Vernon and Aharoni, 1981). In these cases the argument in favor of SOEs can be summarized thus: public enterprise "makes its decisions on the basis of long-term considerations, and these are not or cannot be profit-minded" (Kaldor, 1980, p. 5). Further, the state can foster modernization in the neglected sections of otherwise developed economies, or stimulate growth in strategic sectors of the economy by initiating public activities. History shows that the range of possible initiatives is very wide. It embraces the exploitation of natural resources — e. g. the nationalization of oil companies or the founding of public agencies for the exploitation and supply of energy resources, as in the State Mines in Holland, Agip and Eni in Italy, and Elf-Aquitaine in France. It also includes the construction of infrastructures, as in the case of turn-

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[4] This gave rise to several state activities in a few strategic sectors (railways, iron and steel, shipyards, etc.).

[5] As a matter of fact, up to the 1980s this was the way followed by most Western countries. When the choice was made to leave these activities to private enterprise, as in the United States, severe regulation was introduced over prices, tariffs, quality of supply and level of profits, although close regulation was partially removed by the conservative governments of the '80s. The establishment of special American-type regulatory agencies and authorities appears to be the necessary pre-requisite for the privatization of many sectors of public activities that have been gaining increasing favor in Europe. This favor arises from both a change of mind about the role of SOEs due to their recent poor performance, and the progressive erosion of natural monopolies caused by technological progress — particularly in the communications and electricity sectors.

pikes in the United States, railways in Germany and highways in Germany and post-war Italy. Finally, state intervention may be intended to ensure the cheap supply of inputs necessary for the growth of the national economy in basic industries such as iron and steel. This was a policy followed in several European countries, notably Italy, Spain and France (Clifton, Comín and Díaz Fuentes, 2003, p. 23).

A third economic motive that can explain state ownership is to be found in industrial bail-outs, where the state decides to rescue private businesses affected by deep, sometimes irreversible, economic and financial crises. These rescues have often been aimed at large-scale units in strategic activities, where social concern, in the form of anxiety about employment, influences the decision. This form of nationalization has often occurred in Italy (frequently with perverse political effects), in Spain since the 1950s, and also in the 1931 nationalization of the *Vereinigte Stahlworke* in Germany and the temporary nationalization of Rolls Royce, Jaguar and Rover in Great Britain in the '70s. Actually this type of intervention seems to have become rather popular again as nowadays we are witnessing it on a global scale.

Fields of activity of SOEs. Brief though it is, the preceding review of motives makes it clear that although public enterprises are commonly considered as operating only in a limited number of natural monopolies, *their range of activity* is potentially limitless. R. P. Short has argued that during the early 1980s, 10-25% of manufacturing output was accounted for by public enterprise in industrial countries like Italy, or developing countries like Korea. Many less-developed countries (LDC) however, had more, "and often considerably more" than 25% (excluding public utilities, communications and national resources). The list of industry coverage of public enterprises was indeed impressive. For the sake of clarity, and following the suggestion of professor Bös, all these activities can be classified into four categories: *i*) public utilities, communications and transportation; (*ii*) basic goods industries (coal, oil, atomic energy, steel); (*iii*) banks, insurance, social security; (*iv*) education (public universities) and health (public hospitals) (Bös, 1986, pp. 16-19). These represent the main fields of state entrepreneurship (but see also Clifton, Comín and Díaz Fuentes, 2003).

Phases of the nationalization process. The increased role of the state in the economy as the manager-entrepreneur of scarce resources is a phenomenon with deep roots in the modern age. There are a number of significant historical antecedents concerning direct economic activities of the visible hand of governments. The historical evolution of the phenomenon can be subdivided into three main periods:

i) The first phase, which begins in the Renaissance, and continues until the end of the nineteenth century. It seems more important to emphasize the maturing of a dynamic approach by the state toward economy and society during this period, rather than the depth of intervention. It is especially in the nineteenth century that the economic, political and ideological premises of the changing relationships between state and market, between state and society, or, in other words, between public and private, should be sought out. Those premises would become concrete policies only in the twentieth century. They were mostly nurtured in countries that could be regarded as second comers to industrialization: Belgium, France, Germany and, initially, the United States[6].

In the late nineteenth century it was already obvious that the same premises had given rise to two different patterns of state behavior with regard to the economy. The continental pattern leaned toward more and more massive government intervention in the economy, such as the direct take-over of production activities. The American pattern was characterized by a limited involvement in production but a greater reliance on state regulation of the market through the *ad hoc* establishment of special authorities. In other words, in the first case the entrepreneurial state took priority over the regulative state, and in the second the reverse was true. The American model of the regulatory state emerged in the last quarter of the nineteenth century, after the establishment of the Interstate Commerce Commission in 1887 and the subsequent independent federal agencies for the control and regulation of economic activity. Since then, 47 federal agencies having "social" and "economic" regulatory functions have been created.

ii) The first 40 years of this century, when the traditional mechanisms that had worked so well in the market economy became log jammed — a consequence of the disruptions of the First World War and the Great Depression following the 1929 crisis. Although government and other public agencies had increased their participation in the economy during the 1914-1918 war years, it was in the following 15 years that a real change in climate and approach occurred. This was the result initially of the social and political tensions of the post-war period; and later, of the disastrous aftermath of the 1929 crisis. The working pattern of the capitalist system itself underwent profound

[6] The first champion of this approach was Alexander Hamilton, George Washington's Secretary of State, who prompted the program of the Federalist Party in the U. S., even if this program was launched in a somewhat "hostile" environment and opposed by the Democratic Party. Friedrich List who had been in contact with Federalist circles during his American exile also made an outstanding contribution. Once back in his own country, List strived successfully for the *Zollverein*.

criticism, opening the way to doubt about the soundness of market-economy mechanisms.

As a consequence, in the 1930s a first impressive wave of nationalization was undertaken, particularly in those Western European countries most affected by the recession. The principal aim was that of rescuing firms or whole sectors of the economy. The most original experience was that of Italy's IRI, badly imitated by Spain's *Instituto Nacional de Industria* (INI).

iii) Finally, the period from World War II to the present, covering the apogee and then the decline of nationalization policies, both in advanced Western countries and in less developed ones. The great age of public enterprise and nationalization policies began after the Second World War, when governments took over property and control of large sectors of economic activity, both directly and through government agencies: it lasted until the 1970s. This, together with increasing efforts at economic planning — such as the 1942 Beveridge Report on *Full Employment in a Free Society* in England and Jean Monnet's 1945 *Plan de Modernisation e d'Equipment* in France — became the keystone of reconstruction and development policies in the mixed economies. The intention was to eliminate sectoral imbalance and achieve full employment, as well as enlarge the public sector (in order to down-size monopolistic and rent positions and to build infrastructures to strengthen the interest and welfare of the community).

Therefore, the predominance of the left at the political level was probably not as important as the fact that nationalization and economic planning were the central issues of their political programs (Clifton, Comín and Díaz Fuentes, 2003). In Great Britain the public sector was enlarged during the Labour administrations of C. Attlee (1945-51), H. Wilson (1964-69) and J. Callaghan (1974-76). In France the most intense phases of public enterprise enlargement occurred between 1944 and 1948 and, later, quite anachronistically, in 1982, during Pierre Mauroy's socialist government, when almost 53% of the corporate capital of the country was taken over by the state. In Italy the most significant stages of this process were the creation in 1953 of *Ente Nazionale Idrocarburi* (ENI), which was granted the monopoly on the research and production of hydrocarbons in the Po Valley, later the establishment of the *Ministero delle Partecipazioni Statali* (state share-holding, 1956), and, following the rise to power of the center-left coalition, the nationalization of almost all the electricity sector (ENEL, 1962). After the Second World War the social democrats assumed power in the Scandinavian countries, Belgium and Holland, thereafter prompting a policy of profound structural reform, regulation and/or growth of public enterprises, particularly in the transport, communication, and natural resources sectors. In Austria the state took control of former German properties in the country, which led to the nationalization of 20% of the industrial sector, 85% of the electric power companies and the three leading banks, so that Austria had one of the largest public sectors in the West (Stiefel, 2000). In Portugal, unlike the cases of other authoritarian regimes, during the *Estado Novo* a liberal and non-state intervention policy prevailed, and the SOE sector was a late-comer — the product of a massive widespread nationalization program following the 1974 Carnation Revolution.

The growth of public enterprise after the Second World War was not limited to European countries. Australia and Canada stand out among the industrialized countries, as large sections of the internal transport system and energy sector were taken over by the federal and the state powers. As mentioned above, however, it is in the underdeveloped world that the phenomenon has been more evident. The *Bombay Plan* in India, which was initiated in the mid-1950s by Jawaharal Nehru's reformist government, resulted in the country being "the largest non-market economy outside the Communist world" (Berend, 1994, p. 191). Nationalization strategies in many developing countries expropriated foreign firms operating in their national territories. They were the outcome of autarkic or even dictatorial policies, as in a number of Latin-American countries, Egypt, Indonesia, South Korea, and several Asian and African countries.

Two important exceptions to the general trend, besides the United States, need to be pointed out: Germany and Japan. In the first case, defined as "the neo-liberal variation" of the mixed economy (Van der Wee, 1989) the drive to post-war reconstruction involved the partial dismantling of the huge public structure established under the Nazi regime. As shown by Wengenroth (2000), this was a controversial process. In 1980 almost 11% of German output was still produced by SOEs. In Japan the state also played an important role in the growth of the nation's economy. Intervention was mostly indirect, however, and took the form of economic planning under the direction of the very dynamic Ministry of International Trade and Industry (MITI).

THE PRIVATIZATION PROCESS

Since the late 1970s, the fortune of public enterprise has been in steady decline. In most Western countries (as well as former socialist countries) waves of privatization have led to the progressive erosion of the public sector.

Generally speaking, the belief that denationalizing — or "privatizing" as proposed by Mrs. Thatcher — represents a fundamental means of modernizing the economy arises from the changing public and political attitudes toward the entrepreneurial state that have evolved since the late 1970s. If the theoretical basis of privatization goes back to the founder of classic economics, Adam Smith (1776), the late 20th century revival and practical application of his ideas and concepts have been deeply rooted in recent historical events: namely the increasingly poor performance of the public sector economies in the 1970s and '80s.

As I have done above for nationalization, it is possible to group the motives for privatization into three main categories.

First, of course, there are *economic reasons*: there have been too many cases of government failures, which resulted in very bad performance of both the management and economic behavior of SOEs. Sometimes these were the outcome of government policies too greatly biased toward assigning social instead of economic goals to activities in production; sometimes of an extreme bureaucratization of SOEs' managerial hierarchies; sometimes of the degeneration of the principal-agent relationship, as political parties and lobbies displaced citizens as the main referent of their actions.

Second, we can find reasons related to public finance: privatization can be an important instrument to reduce public debt through diminished outflows, such as subsidies and accrued passive interests, and through an increase of direct inflows from share divestment.

Third, there are political and ideological reasons: these go in the opposite direction to those that had earlier favored nationalization. They are related primarily to the rejection of Keynesian economic policies that renewed the emphasis on the central role of markets, private undertakings and profit, to the detriment of social and redistributive policies. It is no accident that a correlation can usually be found between conservative administrations and an acceleration of the privatization processes, such as in the cases of the UK under the Thatcher government, of France under Chirac, Balladur and Juppè, of Argentina under Menem, of Greece under the conservative New Democracy government, and to some degree of Spain, with regard to the recent wave of privatization under the Aznar government (Carreras, Tafunell and Torres, 2000). To a certain extent Italy constitutes an exception, as the bulk of the privatization initiatives were undertaken under progressive or coalition governments in the late 1990s.

Privatization policies have frequently been associated with the British experience of the 1980s, where they were addressed to both political and economic goals. The first ones were finalized to undermine the traditional support offered to the Labour Party by unions and public employees (Vickers and Yarrow, 1989a, 1989b). The economic goals were quite numerous and complex, and can be summarized as follows (Price & Waterhouse 1989; Megginson and Netter, 1999):

1. To raise revenue for the state;
2. To promote economic efficiency;
3. To reduce government interference in the economy;
4. To promote wider share ownership;
5. To provide the opportunity to introduce competition;
6. To expose SOEs to market discipline;
7. To develop the national capital market.

Certainly these objectives were not completely new, as fairly similar reasons motivated the denationalization policies implemented by Konrad Adenauer in West Germany in the 1960s, and Pinochet in Chili in the '70s. British policy differed from that followed later by other European countries (those belonging to the CEE or later to UE): privatization was strongly recommended by the European Community in order to gain better market integration and to reduce the SOEs' presence within each country, stopping public subsidies to them (Clifton, Comín, Díaz Fuentes 2004). Apart from the reasons outlined above, privatization was favored also by the progressive erosion of natural monopolies caused by technological progress, particularly in communications and electricity (Noam, 1992; Davids and van Zanden, 2000; Clifton, Comín and Díaz Fuentes, 2003).

So far, empirical research seems to have reached a few provisional conclusions (Megginson and Netter, 1999, p. 44):

1. The privatization programs have significantly reduced the role of SOEs in the economic life of industrialized countries, but the same cannot be said of the economies of most developing countries;
2. For large SOEs' divestitures, share issue privatization (SIP) is usually preferred to asset sales. Most governments deliberately under-price initial public share offerings (IPOs) to favor sales; investors who purchase shares at IPOs usually earn significant net returns;
3. Governments frequently retain *golden shares* that give them veto power over control changes, and favor domestic investors over foreign.

Other issues deserve further and deeper analysis: for instance, the property structure and corporate governance that emerge from privatization, how denationalized companies behave in deep economic crisis, and the extent to which the state is tempted to reassert control during periods of economic stress. The recent examples of the outcome of the privatization of power in

California or railroads in Great Britain can be quite instructive. In the latter case the move toward denationalization, strongly opposed by the Labour Party, was completed only in 1996, but the outcome was all but satisfying, particularly with regard to the efficiency and safety of the rail network. Upon its return to government, Labour did not touch ownership, but instead started a special administration for Railtrack, the company that managed the rail network. This has become a type of non-profit society subsidized by the state. At the same time, substantial operations reformed the management of trains. As a matter of fact, this had been the most important move of the reform program of the former public sector, which touched also the water and power sectors. In this program, which has been called "the nationalization of regulation", "the economic agenda of the market incentives, private business methods, etc. has been accepted, while there is a renewed emphasis on the politics of collective needs/demands and a downgrading of the importance of individual choice and personal freedom" (Millward *et al.,* 2004, p. 152)

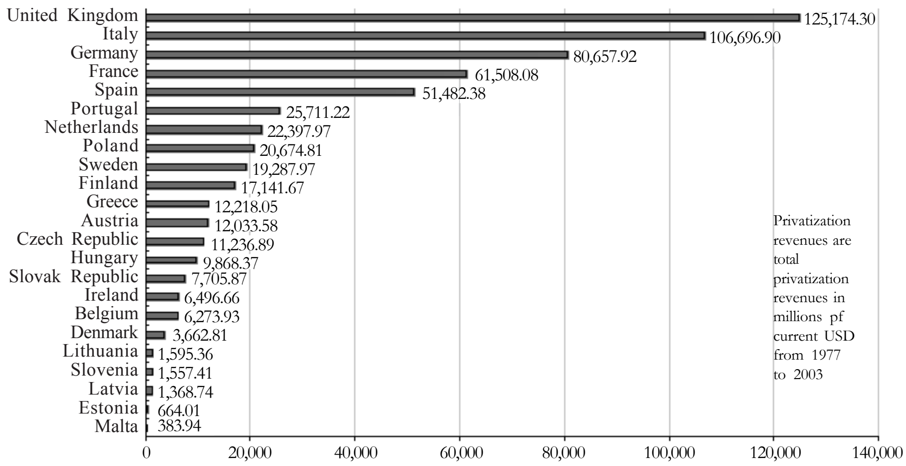
To be successful, the denationalization process is likely to need a few initial pre-conditions (Siniscalco *et al.,* 1999): (*a*) a competitive factors and products market; (*b*) the legal protection of shareholders and savers; and (*c*) a fairly liquid money market where companies are contestable. These prerequisites were rarely satisfied at the beginning of each process — sometimes they developed naturally during the process, as an automatic consequence of privatization, but in most cases they required some institutional reforms. Often in the most industrialized countries the crucial changes were related to the mechanisms of corporate governance (in order to facilitate the diffusion of public companies) and regulation of the public utilities.

The quantitative dimension of privatization. The recent privatization process is usually said to have started with the Thatcher government. In the OECD countries, from 1977 to 2003 it has yielded a total revenue of about 1.2 billion US dollars. The process speeded up in the 1990s, peaking in 1998, when the annual revenue exceeded 100 billion USD, and slowing thereafter (the lowest income was collected in 2001, with 20 billion USD (OECD, 2002, tab. 1). In the following years it recovered slowly. Several reasons explain the trend reversal: the slowing of economic activity all over the world, the unfavorable capital markets, and the fact that many governments had run out of the most advantageous assets. The residual state properties needed to be restructured or regulated, or different selling procedures needed to be implemented.

About half of the revenues collected in the 1977-2003 period came from the enlarged European Union, of which 90% originated in Western Europe, which could exploit existing capital markets, while in Eastern Europe these had to be created from scratch. Telecommunications and utilities were the sectors that benefited most, with 28% and 20% of total revenue, respectively. These were followed by the manufacturing sector (18%), banking and finance (16%), energy (8%) and transportation (7%) (Bortolotti, 2004, p. 12). Only two countries, Great Britain and Spain, have so far completely de-nationalized strategic sectors such as energy, telecommunications and transport, but as mentioned above, for the UK this seems to have had an ambiguous outcome.

Country ranking by revenues

[FIGURE 1]



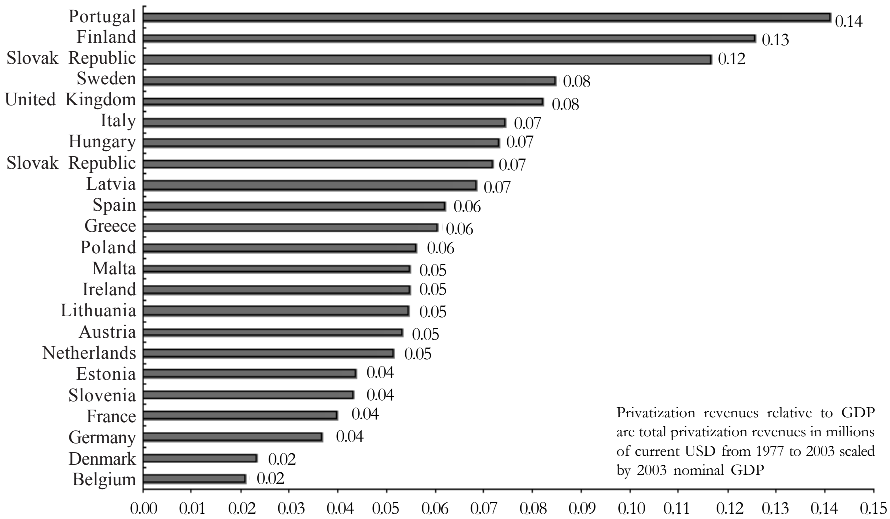
Source: Bortolotti, "Privatization in Europe: a brief historical sketch". *Privatization Barometer Newsletter,* 2004, 1, p. 10.

As shown in Figure 1, Great Britain ranks first among the European countries with regard to total revenue from privatization, with about 125 million USD for the period 1977-2003. Italy ranks second with 107 million USD, in spite of her late start (here, in fact, the real privatization process started only in 1992). In 1999 alone, the country collected about 26 million USD, which corresponded to almost 2% of GNP, and set a world record with the largest initial public offering (Toninelli, 2003). Among the other main privatizing countries we find, in order, Germany, France, Spain and Portugal. However, if total revenues are weighted against the GNP of the year 2003, Portugal ranks first, with a share of 14%, the UK is 5th, with 8%, and Italy is 6th, with 7% (Bortolotti, 2004): see Figure 2.

In the so-called transition economies, which includes the former socialist countries moving toward the capitalistic system, the privatization process started very rapidly almost everywhere — a result of the strong pressure of the World Bank and the IMF. It took the form mainly of "mass privatization", i. e. free distribution of shares, or not infrequently, management-employee buy-outs, in order to install new property rights and to lay the foundations of a market economy (already between 1990 and 1995 about 50,000 former SOEs had been transferred into private hands). However, such haste had an impact on the quality of privatization. It hampered the implementation of a solid corporate governance as the agency chain implied by mass privatization often took too long, which scattered the structure of ownership excessively (Nellis, 2005, pp. 21-22).

Country ranking by revenues relative to GNP

[FIGURE 2]



Source: Bortolotti, "Privatization in Europe: a brief historical sketch". *Privatization Barometer Newsletter,* 2004, 1, p. 11.

The consequences of privatization. In the 1990s, privatization was considered as something of an elixir that would transform the elephantine and lethargic state companies into productive, dynamic and creative subjects able to serve the public interest in the best way. However, in economics there are no miraculous remedies. Too often the problem of public enterprise has been approached in too superficial a way, with the conviction that a simple change of ownership could suffice to recover insolvent firms. The outcome of privatization has not always been satisfactory. A quarter of century after its beginning, an overall evaluation of the privatization policies is not simple.

Generally speaking, the impact of privatization on the performance of firms in Western countries and the transition economies seems to have been positive, although there remain quite a few areas of criticism.

First of all, while it is true that the denationalization programs have significantly reduced the role of SOEs in the economies of the industrialized countries, the same cannot be said of the LDC. In the western countries, between 1984 and 1996 (well before the end of the great wave of privatization) the average share of SOEs in industrial production decreased from 8.5% to 5%, but in 1996 that share in the LDC still stood, on average, above 10%, with the major exception of Latin America.

Second, although the literature usually is inclined to underscore the greater efficiency and economic performance of privatized firms, as compared to those that have remained public, even when these had been restructured and reorganized (see, for instance, World Bank, 1995; Megginson and Netter, 1999; Shirley and Walsh, 2000; Dewenter and Malatesta, 2001), this conclusion deserves some further qualification. First, empirical evidence does not give support to the hypothesis that SOEs are *per se* less efficient than private firms. Moreover, these evaluations seldom take into account features such as certainty and continuity of supply, or environmental impact (Aharoni, 2000). In addition, as far as absolute performance is concerned, the evaluation mostly depends on what one wants to measure: SOEs often are required to maximize social welfare more than profits.

Finally, it is not rare to find cases of public enterprises that have been (and are) able to compete with private firms with regard to both productivity and efficiency. For example, public insurance companies in Germany, public utilities in the UK, railroads and electricity in Canada, energy in France and a few sub-sectors of services in Italy (Finsinger, 1983; Millward, 2000 and 2005; Florio, 2004; Caves and Christensen, 1980; Nelles, 2003; Chick, 2003; Toninelli and Vasta, 2007).

The case of transition economies deserves further attention, as interpretations diverge considerably on their privatization experiences (Nellis, 2005). In these countries, privatization initially created great optimism. However, it was often the case that change of ownership did not generate the social and economic transformation that was expected, and moreover, was not even able to stop the stagnation and decline of a number of economies. Therefore, doubts about the positive impact of privatization are emerging here and there and these are increased by the spread of bad management and corruption. Public opinion is becoming more and more critical. If "economic and financial assessments generally conclude that privatized firms exhibit increased efficiency, profitability and returns to shareholders", citizens "associate privatization with lost jobs, higher prices and shady deals promoting the interests of foreigners, the well connected and the out rightly [sic] corrupt"

(Nellis, 2005, p. 20). But this sentiment is not confined to an increasing part of the population of the former socialist countries. It is also spreading to a number of Latin American countries, the same that up to a few years ago were indicated as an example of successful privatization. For instance, the share of Argentineans who judge negatively their denationalization process increased between 1998 and 2002 from 48% to 90% of the population — in Chile, from 42% to 80% (Kessides, 2005).

CONCLUSIONS

The above examples are not enough to alter the fact that the trend toward a major efficiency and contestability of former SOEs is overall positive, but are useful in showing that the difference between bad and good results is not so much a matter of change of ownership, as it is a set of changes in the socio-economic structure that should accompany the privatization process. This seems to be confirmed by the experience of some Nordic countries, especially Finland and Sweden, where implementing competitive markets has come about more through the creation of specific regulatory agencies than through change of ownership. In these markets SOEs are required to compete in order to add value to the firm, to reach financial stability, and to create transparent and responsible corporate governance (Clifton, Comín and Díaz Fuentes, 2004).

In concluding, my suggestion is that before celebrating the end of an age — that of the active presence of the state in the economy, and the beginning of a new one — that of the ultimate triumph of market, one should think about a caveat of Arnold Heertje, who reminds us that history has always been characterized by the continuous alternation between phases of extreme state activity and reactions in the opposite direction (Heertje, 1992).

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