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Selling off the "Family Silver": The Politics of Privatization in the OECD 1990-2000

by

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Abstract

The 1990s have witnessed unprecedented attempts at privatizing state owned enterprises in virtually all OECD democracies. This contribution analyzes the differences in the privatization proceeds raised by EU and OECD countries between 1990 and 2000. It turns out that privatizations are part of a process of economic liberalization in previously highly regulated economies, as well as a reaction to the fiscal policy challenges imposed by European integration and the globalization of financial markets. In addition, institutional pluralism and union militancy yield significant and negative effects on privatization proceeds. Partisan differences only emerge if economic problems are moderate, while intense economic, particularly fiscal, problems foreclose differing partisan strategies.

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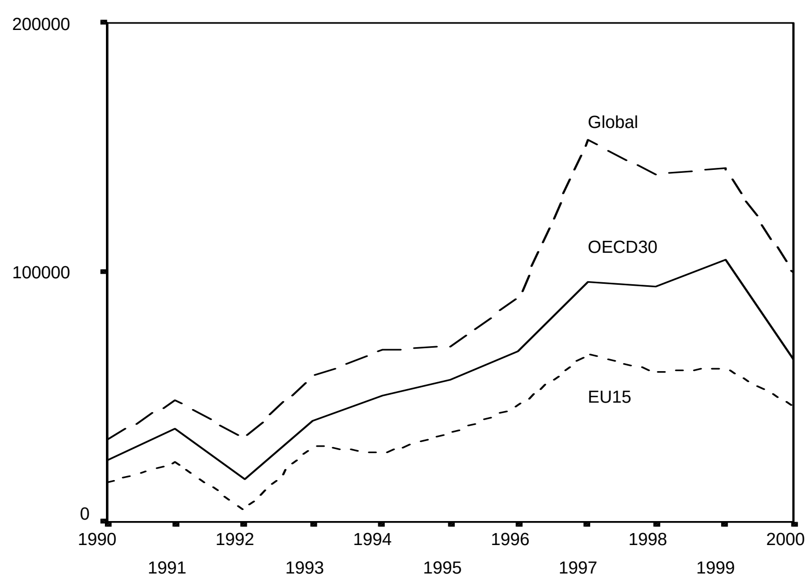
1. Introduction

The last two decades have witnessed unprecedented efforts at privatization around the world, which reached their peak in the second half of the 1990s (figure 1). Between 1990 and 2000, total privatization proceeds in more than one hundred countries amounted to 937 billion $U.S. (OECD 2003: 7) of which about 70 percent accrued in the thirty OECD member states. In turn, 62 percent of OECD members' proceeds were generated by the fifteen member states of the European Union. Table 1 displays two indicators of national privatization proceeds between 1990 and 2000. To guarantee comparability, the absolute privatization proceeds (in million $U.S.) presented in column 1 are expressed in relation to population size (column 2) and as a percentage of GDP (column 3). Both indicators are strongly correlated (r = .94). The last column ranks the countries according to their privatization proceeds in relation to GDP. It turns out that Portugal, Australia and New Zealand have been frontrunners of privatization in the 1990s, while the laggards are Japan, Germany and the United States. Thus, notwithstanding the temporal coincidence of privatizations around the globe depicted in Figure 1, significant differences exist between countries with regard to the revenues raised from privatization between 1990 and 2000. In this contribution, we apply the classical theoretical approaches of comparative public policy research and employ macro-quantitative methods of data analysis to explain these differences and to identify the underlying economic and political-institutional determinants.

Figure 1. Privatization Proceeds 1990-2000 (Mio. $ U.S.)



Source: OECD Financial Market Trends, No. 79 June 2001

In a first step we analyze the determinants of privatization proceeds in those countries that were members of the EU at the end of our period of observation. However, Luxemburg had to be excluded due to data restrictions. Given the very small number of cases (n = 14), we employ a panel design in addition to a cross-sectional regression analysis. In a second step, we extend our sample to the long-term members of the OECD in order to test the robustness of our results. The East European transition economies and the OECD periphery (Mexico, Korea, and Turkey), as well as Iceland, Luxemborg and Switzerland were excluded from the sample.

We omitted the states of the first group because privatizations there were part and parcel of the transformation of centrally planned economies to market economies which took place during the period of observation. The countries of the OECD periphery were not included due to considerable defects with regard to democracy and the rule of law, which would have made a most-similar-cases design implausible. Iceland, Luxemborg and Switzerland could not be considered because of different kinds of data restrictions.

Privatizations may occur in various forms which, however, do not necessarily imply deregulation, since privatization may only change the form of government intervention concerning service provision, regulation and financing (Feigenbaum et al. 1998: 6). In this paper we focus on the sale of state-owned enterprises. We thus neither investigate the methods of privatization (cf. OECD 2003) nor the utilization of the privatization proceeds.

Table 1. Privatization revenues in Twenty-One OECD Countries 1990-2000

Country	**1 Privatization Proceeds 1990-2000 (million $U.S.)**	**2 Proceeds per capita 1990-2000 ($U.S.)**	**3 Proceeds in % GDP (1990-2000) (1/2)**	**4 Rank (Proceeds/ GDP)**
Australia	69,661	3,764	15.94	2
Austria	10,439	1,293	5.87	11
Belgium	9,611	946	4.44	13
Canada	10,583	366	1.64	18
Denmark	6,048	1,146	4.64	12
Finland	11,000	2,137	10.00	4
France	75,488	1,263	6.14	9
Germany	21,711	265	1.22	20
Greece	12,329	1,172	8.50	8
Ireland	7,613	2,046	9.22	5
Italy	108,642	1,889	9.03	6
Japan	37,670	299	1.26	19
Netherlands	13,641	882	4.19	14
New Zealand	9,413	2,656	15.89	3
Norway	2,900	656	2.57	17
Portugal	25,292	2,544	18.24	1
Spain	37,660	957	5.93	10
Sweden	17,295	1,956	8.81	7
Switzerland	6,422	903	3.55	16
United Kingdom	42,808	735	3.92	15
USA	6,750	25	0.08	21
Mean	*25,856*	*1,329*	*6.72*	-

Source: OECD Financial Market Trends No. 82 (2002); Penn World Table (6.1.), own calculations.

The remainder of this paper proceeds as follows: After a brief review of the existing literature (2), the most important theoretical approaches in comparative public policy research are surveyed to generate testable hypotheses (3). Section 4 discusses the measurement of the dependent and independent variables and the respective data sources. In section 5, the empirical evidence is presented, while the last section concludes the study.

2. Previous Research

Most previous research on privatizations in political science has focused on the temporal sequence and regional spillovers of privatizations. Earlier studies emphasized the pioneering role of Thatcherism in the United Kingdom in the 1980s, which was seen as inducing a policy diffusion to many other countries (Abromeit 1988; Wright 1994a: 5; also Bortolotti/Siniscalco 2004). More recent studies are preoccupied with the direct and indirect effects of European integration. Specifically, the liberalization efforts launched by the European Commission in the 1980s and the fiscal policy constraints imposed by the Treaty of Maastricht are discussed as catalysts of privatization (S. Schmidt 1998; Scharpf 1999; Clifton et al. 2003). In addition, there exists a considerable number of edited or single authored volumes which focus on the privatization record in particular countries (cf. Vickers/Wright 1989; Clarke/Pitelis 1993; Wright 1994; Feigenbaum et al. 1998; Toninelli 2000; Mayer 2005).

In contrast, quantitative analyses of the determinants of differences in privatization proceeds are rare. An important exception is the pioneering contribution by Carles Boix (1997). He resorts mainly to political variables to explain the differences in privatization policies in the OECD between 1979 and 1992. According to Boix (1997), parties of the right have a significant positive impact on privatization proceeds, while social democratic governments are more reluctant in their privatization efforts. In addition, the internal fragmentation of the cabinet and the status as minority government inhibit privatizations, whereas a weak economic performance prior to the period of observation was found to stimulate the sale of state-owned enterprises (SOE).

Bortolotti et al. (2003)[1] and Bortolotti/Siniscalco (2004) compare the privatization record of 48 countries between 1977 and 1999. These authors also find evidence that political institutions and political parties significantly influence privatization policies. Specifically, privatization proceeds increase with a governing party of the right (measured with a dummy variable) and are higher in majoritarian democracies than in polities characterized by horizontal and vertical fragmentation of power. Political regime types are also important as privatization revenues in autocracies are significantly lower compared with democracies (Bortolotti/Siniscalco 2004: 55). Furthermore, the authors find a significantly lower propensity to privatize in German civil law countries.[2] Restricting the analysis to the OECD countries only, they still find significant effects of political institutions, but their ten-scale indicator of the partisan complexion of government fails to reach statistical significance. Nevertheless, Bortolotti and Siniscalco (2004: 56) suggest that “a more proper test of the partisan dimension of privatization should be carried out in the context of wealthy and established democracies.” This paper attempts to fill this void by using a new data set measuring the partisan complexion of governments. At the same time, we investigate whether the partisan effects found by Boix (1997) for the 1980s still exist in the 1990s, a period of marked divesture of public enterprises. Finally, in contrast to Bortolotti/Siniscalco (2004), we use alternative indicators to measure institu-

[1] The sample of Bortolotti et al. (2003) is rather problematic. One the one hand, some OECD countries like Denmark, Greece, Ireland, Portugal and the United States are omitted without any justification, while on the other hand a number of developing countries are included.

[2] The theoretical relevance of the variable “legal origins“ is based on the assertion that French and German civil law countries maintain a larger SOE sector than common law countries and that French civil law countries tend to have erected constitutional barriers against privatizations. Moreover, the legal protection for shareholders and creditors is less developed in the latter (Bortolotti/Siniscalco 2004: 49-50).

tional pluralism that map the influence of national constitutional rigidities directly, i.e. not via the detour of legal origins.

3. Theories and hypotheses

To explain the differences in the privatization proceeds of the OECD countries, we rely on the well-established theoretical approaches of public policy research which have been used fruitfully in a number of policy fields (cf. Castles 1998; M. Schmidt 2002). In the following we will concentrate on six approaches which, however, should not be seen as competing with one another. Instead, they complement each other, since every approach has particular shortcomings that can be remedied by the inclusion of variables from other approaches.

3.1 Privatization as reaction to economic challenges?

It can be argued that privatization represents a reaction of governments to pressing economic challenges. Confronted with high unemployment, dismal economic growth and excessive public debt, governments might resort to the recommendations of supply-side economists who have dominated the economic policy discourse since the 1980s (Hall 1993; Boix 1997). According to this view, it is imperative to roll back the state's influence on the economy as far as possible to create incentives for economic activity, which in turn will result in stronger growth and increasing employment. Privatization of SOE plays a key role in this conception since many economists have shown privately owned firms to be more efficient than SOE (cf. Megginson/Netter 2001; Schneider 2003). This is because SOE lack clearly defined goals due to government intervention and are thus confronted with sharp trade-offs between profit maximization and more general objectives of government policy such as employment or industrial policy, which may result in efficiency losses. In addition, the absence of a "hard" budget constraint and the capture of SOE by utility-maximizing politicians and bureaucrats who could exploit public enterprises to secure influence and power can lead to inferior efficiency of SOE. Insofar as privatization is associated with increasing market competition, further efficiency gains of privatization can be expected.

Therefore, many economists suggest that privatizations stimulate economic growth and, in consequence, employment. Governments will most likely be more inclined to follow this advice if they are confronted with unsatisfactory economic performance (Zohlnhöfer 2003). Hence, we expect a negative effect of economic growth on privatization proceeds–low growth will increase a government's willingness to launch growth-stimulating measures, including privatization. By the same token, a positive correlation between unemployment and privatization revenues can be imagined.

The underlying source of these economic problems may well be the general density of state regulation of the economy, which even gains in importance as markets integrate further and governments' competition for investment intensifies. In heavily regulated economies, suffering from low growth, an economic policy approach of deregulation and privatization could help to break up incrusted structures and initiate impulses for growth and employment. We thus expect a positive effect of the initial level of political regulation of the economy on privatization revenues.

Public finance, particularly public debt, may also have direct effects on privatization policies. A government confronted with a high level of public debt or–more importantly–a high budget deficit will search for options to tackle this problem. Most measures that aim at budget consolidation, namely expenditure cuts and tax increases, are unpopular among the voters, however. Therefore, reducing the deficit is politically difficult. Privatization of SOE could help governments to solve this dilemma, at least in the short run, by generating revenues, reducing subsidies for SOE and eliminating the need to cover their deficits (cf. Wright

1994a: 20; Boix 1997: 477). Thus, privatizations can improve the budgetary situation without burdening taxpayers or curbing spending. In sum, privatizations should be positively related to budget deficits.

3.2 Privatizations and the effects of governing parties

The willingness with which governments will adopt basic ideas of supply-side economics varies according to their partisan complexion. As a matter of fact, some of these ideas have been implemented by the conservative governments of Margaret Thatcher in Britain and Ronald Reagan in the United States, but also–even though to a lesser extent–by the bourgeois coalitions which came to power in Denmark, Germany and the Netherlands in the early 1980s. Theoretically, the readiness of center-right parties to sell off state-owned enterprises is highly plausible, since partisan theory essentially argues that these parties favor market solutions in economic policy anyway (M. Schmidt 2002; Zohlnhöfer 2003).

Moreover, parties of the right may have an electoral incentive to implement privatizations: insofar as they succeed in allocating substantial parts of the shares of privatized enterprises among a large part of the electorate, thus establishing some kind of "popular capitalism," the economic interests of many voters may change in favor of more market-friendly policies which might promise to maximize the value of their shares (Bortolotti et al. 2003: 308). This change of economic policy interests would in turn benefit bourgeois parties, which will most likely be seen as the parties delivering these kinds of policies. To secure the broad allocation of shares among the electorate, center-right parties have a strong incentive to issue shares below market value. This is exactly what could be observed in Britain in the 1980s (Abromeit 1988; Richardson 1994: 69).

Social democratic parties, in contrast, for a long time lacked confidence in the stability of the private sector. As a consequence, nationalizations of key industries figured prominently in these parties' economic strategies. SOE were used as "employment buffers" during recessions, as well as important instruments of macroeconomic governance. The importance social democratic parties attached to SOE until the 1980s (and occasionally even longer) can be seen from the nationalization policies of the French socialist government after 1981, as well as from the difficulties the leadership of the British Labour Party encountered when amending the party program's notorious "Clause IV" (cf. Merkel 1993). Besides, social democratic parties also faced electoral incentives to oppose privatization because employees in SOE belong to their core clientele and were most likely to lose some of their privileges in the case of privatization. Thus, we expect bourgeois parties to be positively associated with privatization proceeds, whereas social democratic government participation should result in lower privatization revenues.

3.3. Institutions and Privatizations

The decision to privatize is mostly the result of legislative processes. Therefore, it is likely that political institutions are of major importance for the politics of privatization. According to veto player theory (Tsebelis 2002) it can be argued that a change in the status quo will become more difficult if the number of veto players increases. The reason is that the transaction costs increase with the number of veto players involved in policymaking and, in addition, it becomes more likely that at least one of the actors will veto the privatization decision, either because of programmatic dissent or because important political allies, interest groups or decisive parts of the electorate oppose a privatization. Empirically, one could think of powerful second chambers, strong presidents or direct democracy as veto players. For example, French president François Mitterrand vetoed a privatization decision of the bourgeois government under Jacques Chirac in 1986, compelling the government to modify the reform (Dumez/Jeunemaitre 1994: 93). In Switzerland, many efforts aiming at privatization and deregulation have been disapproved by the people at the cantonal level recently and Swiss voters also vetoed the liberalization of the electricity market at the federal level in September 2002 (Wagschal et al. 2002: 92).

The procedures for changing the constitution may affect the politics of privatization, too, because SOE were protected by the constitution in some countries. For instance, the Portuguese constitution prohibited the sale of SOE until 1989 (Corkill 1994: 219-20), while the French constitution banned privatization of public utilities (Feigenbaum et al. 1998: 108-9). Until the early 1990s, the German Basic Law stipulated that the railways as well as postal services and telecommunications be operated as public administrations (Zohlnhöfer 2001: 314). Thus, it can be hypothesized that privatization proceeds will be inversely related to the number and power of veto players like second chambers, presidents and referenda. In addition, the more difficult it is to amend the constitution, the lower privatization proceeds will be. The fragmentation of governments might also be hypothesized to have an effect. The direction of impact is not entirely clear, however. According to the logic of veto player theory discussed above, the following correlation should hold: the larger the number of parties in a government coalition the more difficult privatizations become (cf. also Boix 1997: 481f.). Nevertheless, there are also arguments making the opposite hypothesis plausible: if coalition governments aspire to reduce budget deficits–which many of them have to, given the Maastricht criteria in the EU–they could resort to a "lowest common denominator solution," i.e. they might agree on the most uncontroversial consolidation path available. Given the political problems associated with expenditure cuts or tax increases, privatization might in fact be that path.

The distribution of competencies between different levels of government may also be relevant for the politics of privatization. SOE are not necessarily owned by the central government in federal states. It has been widely noted, for example, that in Germany most of the potential for privatization was at the level of the states (Länder) and the local authorities (König 1988: 535-42). This might lead to low privatization proceeds of central governments keen on privatizing if SOE are held by local or regional authorities reluctant to sell their holdings. However, this effect might be just as likely run the other way round: a central government hostile to privatization could also be incapable of preventing regional or local authorities from selling their SOE. Therefore, this effect of federalism is theoretically indeterminate. A consistently negative effect of federalism on privatizations can only be expected if a central government intends to sell off an enterprise of high regional significance but is facing regional authorities who are opposed to the privatization and have formal or informal ways of influencing the decision-making process at the federal level. Examples abound in the politics of privatization in Germany in the 1980s. The prime minister of the state of Bavaria, Strauß, initially resisted the partial privatization of the national air carrier Lufthansa because he feared that the strong links between the airline and the German aircraft industry, which was mainly situated in his state of Bavaria, would loosen after privatization. For similar reasons the prime minister of Lower Saxony opposed the Federal government's sale of shares of Volkswagen (Zohlnhöfer 2001: 169f.). Therefore, a weak negative effect of federalism on privatization proceeds can be expected.

3.4 Privatizations and the role of interest groups

The interests of the associations of capital and labor concerning privatization policies diverge sharply. Most enterprises will probably support the privatization of public utilities like telecommunication, energy and transportation because they can hope for lower charges resulting from efficiency gains. In addition, they might act as buyers of shares of privatized formerly SOE. Nevertheless, due to diverging interests on the part of these associations, they are unlikely to show strong dedication in favor of privatization policies.

In contrast, labor unions, particularly those of affected employees, are likely to oppose privatizations. This is because employees of SOE enjoy particularly safe and well paid jobs along with exemplary working conditions (cf. Schwartz 2001). Moreover, union density is much higher in the public sector compared with the private sector. Privatization seriously challenges the privileges of the SOE's employees, as can be seen from the experiences of the telecommunications sector, which was liberalized and privatized throughout Europe in the 1980s and 1990s: In the former SOE, an enormous number of jobs was shed, which the newly established competitors failed to compensate for. What is more, the new jobs were less secure and worse paid than the ones lost (Héritier/Schmidt 2000). Unions therefore had every reason to mobilize against the privatization of SOE and it is likely that privatization revenues decrease as union strength or militancy increases.

3.5 External challenges as movers of privatization

Privatization might also be influenced by developments beyond the national borders, most notably European integration and the internationalization of markets, particularly financial markets. It is often argued that the economic policies of nation-states are increasingly monitored, and eventually punished, by international financial markets under the conditions of high capital mobility. As a consequence, credibility becomes a major goal of governments (Freitag 2001). Thus, governments may feel obliged to switch to orthodox economic policies, which in turn might include the selling of SOE. Moreover, privatizations improve a government's budgetary position, which is of central importance for the actions of international capital markets (Mosley 2000). Hence, privatization proceeds should be positively related to the level of a country's economic integration.

European Integration can also yield an impact on privatization policies, as can be seen from the example of southern European countries in particular (Lavdas 1996). At least two ways of influence can be distinguished: first via the single market program, which led to the liberalization of many sectors (S. Schmidt 1998; Clifton et al. 2003). Many of the respective services were provided by SOE prior to liberalization. Once liberalization had taken place, the legitimacy of state ownership vanished. Thus, privatization became the natural option, if it wasn't required for the success of the liberalization in the first place. Increasing competition in these markets provided another rationale for privatization: If the enterprises that had controlled or monopolized the national market prior to liberalization were to succeed under conditions of more intense competition on the home market, or as a "global player" in world markets, they had to be freed from the restrictions to which public enterprises more often than not are subject for political or administrative reasons (Wright 1994a: 4; Schmidt 1996).

Secondly, the Maastricht deficit criteria played an important role. European governments aspiring to join monetary union had to present a public deficit of less than 3 percent of GDP and public debt below 60 percent of GDP in 1997. Since the latter criterion allowed for some exceptions, European governments above all focused on the deficit in the 1990s. Therefore, the deficit criterion (and its follow-up in the stability and growth pact) put at least those governments under intense fiscal strain that ran the risk of failing. These governments in turn seem likely to resort to privatizations. For these reasons, a positive association between EU membership and privatization proceeds is expected.

3.6 The Legacies of the Past

Finally, one variable has to be discussed which is certainly a necessary, but not a sufficient, condition for the explanation of privatization policies: the level of state ownership at the beginning of our period of observation. A multiplicity of reasons exists for the differences in the size of the SOE sector and thus the potential for privatization at the disposal of the governments in the 1990s. Some nationalizations were pursued for military reasons, others were ideologically motivated, whereas still others were based on economic or industrial policy considerations. Finally, national industries emerged in the context of historical junctures such as the Great Depression, the Second World War or the transformation from authoritarianism to democracy (cf. Toninelli 2000: 10-21). In Austria, for example, the nationalizations of the late 1940s attempted to safeguard Austrian industry from Soviet reparation claims. In contrast, Portugal only saw a wave of nationalizations in the wake of the revolution of 1974 (Corkill 1994: 215; Clifton et al. 2003: 21, 70).

Irrespective of the diverging reasons for their emergence, the differences in the pre-existing stock of state ownership are likely to define the policy leeway a government enjoys with respect to privatization policies. Obviously, a government can only privatize as many SOE as it owns in the first place. Therefore, privatization proceeds will be particularly low in countries where the government traditionally owned few enterprises (e.g. the U.S., Germany) or sold most of them before 1990 (e.g., the United Kingdom).

4. Measurement, Data and Method

The dependent variable of this study is the sum of the privatization proceeds raised in each of twenty OECD member-states between 1990 and 2000. The data are taken from the OECD's Financial Market Trends No. 82 (2002). Unfortunately, the statistical series does not go back further than 1990. Therefore, earlier privatizations cannot be accounted for. In some cases this results in a significant underestimation of privatization proceeds. A case in point is Great Britain, where the Thatcher government implemented a large scale privatization program as early as the 1980s (Abromeit 1988). Similarly, Japan started privatization early on, yielding almost $80 billion from the sale of the state-owned telecommunications enterprise NTT in 1987-88 (Megginson/Netter 2001). Nevertheless, for the better part of the OECD, privatization only started to play a major role in the 1990s. Therefore, our data capture the relevant developments quite accurately. Since the revenues from privatization vary according to country size, standardization is necessary, however. Thus, the privatization proceeds of each country are divided by that country's average GDP in the period between 1990 and 2000.

To minimize the bias resulting from the missing data on privatization proceeds in the 1980s, one needs to control for the stock of state-owned enterprises at the beginning of our period of observation. This is not easy to measure, however. The "European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest" (CEEP 2000) provides an index that includes the number of salaried employees, gross added value and gross capital formation of enterprises with majority public participation in the non-agricultural merchantable economy. This indicator seems to be well suited to depict the level of state ownership. It is only available for EU member states, however, and equivalent data for the other OECD countries are lacking. For the analysis of the OECD sample we used the indicator "Government Enterprises and Public Sector Investment as a share of the economy" of the "Economic Freedom of the World Report" (Gwartney/Lawson 2000) instead.

The data for the partisan composition of governments is taken from Schmidt et al. (2000). These data provide the cabinet participation of ten party families on a daily basis. We use two different indicators of partisan complexion of government: the cabinet share of left parties and that of center-right parties. Social democratic, socialist and (post-)communist parties were classified as left parties, while liberal, conservative, Christian democratic and right parties, as well as parties of the center that are not Christian democratic, were categorized as bourgeois parties. Note that these indicators do not consider the cabinet shares of agrarian, regional and green parties, as well as unaffiliated cabinet members. The same source has been used for the indicator of government fragmentation, namely the number of coalition partners in a given government.

For the institutional variables, the indicators developed by Huber et al. (1993), Colomer (1996) and Schmidt (2000) are employed to check for the effects of institutional barriers against privatization (source: Schmidt 2000). In addition, the impact of specific institutions like federalism, bicameralism and constitutional rigidity is of interest. To test their effects, data compiled by Lijphart (1999) are used. Moreover, his indices of federalism, bicameralism and constitutional rigidity were standardized and, on that basis, two additive indices have been calculated.

The indicators measuring economic problem pressures are taken from the OECD's Economic Outlook Database except for the economic growth data, which are taken from Maddison (2003). Regarding public finance, both public debt and the budget deficit are considered. With respect to budget deficits, we constructed an indicator reflecting the number of years between 1990 and 1995 in which the country's deficit exceeded 3 percent of GDP.[3] The 3 percent threshold has played an enormous symbolic role in the EU member-states since the adoption of the Maastricht Treaty and its convergence criteria, but may also have diffused to countries outside the EU as a benchmark. To measure the impact of economic growth performance, two variables have been calculated: first the deviation from the mean of the OECD countries during the period of observation, second an indicator which takes into account the diverging catch-up potential of nations emphasized by neoclassical growth theory. Thus, the residuals from a regression of the log of GDP per capita in 1985 on the average economic growth between 1985-95 were employed to map the relative growth performance (for the theoretical background, cf. Obinger 2004).

As a further indicator for economic challenges, we test the general level of state regulation of the economy at the beginning of the period of observation, measured by the Economic Freedom Index developed by Gwartney/Lawson (2000). This index had to be modified, however, since in its original version it included the variable "Government Enterprises and Public Sector Investment as a share of the economy," which is already used as an indicator of the original level of state ownership.

The strength and militancy of labor unions is measured via union density at the beginning of the 1990s (data from Castles 1998) and the number of working days lost per 1,000 employees due to industrial conflicts respectively (data from Armingeon et al. 2004). The hypotheses concerning the international determinants of privatization policies are tested with an indicator that reflects the number of years between 1990 and 1995 a country's deficit has exceeded 3 percent of GDP and by using an indicator of economic openness provided by Armingeon et al. (2004), which depicts different aspects of financial openness. In addition, we included a dummy variable to estimate the effects of EU membership.

In the following statistical analysis, the hypotheses generated in section 3 are tested with simple cross-sectional regressions. We use two samples, first the member-states of the EU, and second the long-term members of the OECD. Unless mentioned otherwise previously, all independent variables are averages over the period of observation. In order to increase the number of observations we also estimated a panel model for the EU sample. For that purpose, the period of observation was split into three sub-periods (1990-1994, 1995-1997, and 1998-2000). This periodization is for two reasons. On the one hand, the CEEP's (2000) data for the level of state ownership are only available for 1991, 1995 and 1998. On the other hand, this periodization allows for identifying temporal effects connected to the convergence criteria of the Maastricht Treaty and the European Stability and Growth Pact. For the OECD sample, data of similar quality for the size of the public enterprise sector do not exist which precludes the estimation of panel regressions. Nevertheless, given the larger number of cases, a panel design does not necessarily seem to be required.

[3]The restriction to the first half of the 1990s rules out problems of endogeneity since, other things being equal, privatizations reduce budget deficits.

5. Empirical findings

5.1. European Union

Table 2 summarizes the regression results for the fourteen EU member states. Specifications 1 and 2 report the findings of the cross-section analysis. In both models the influences of political and economic variables are jointly estimated. As expected, the coefficient of the initial level of state ownership shows a negative sign and is significant at the 5-percent level. The same is true for the indicator measuring the effect of bicameralism, federalism and constitutional rigidity. The partisan complexion of government, in contrast, does not gain statistical significance. The signs of the coefficients show the theoretically expected direction of influence but both coefficients remain statistically insignificant (1 vs. 2). In contrast, the variables measuring economic challenges and labor militancy have a major impact on privatization revenues. While it turns out that a high level of industrial conflict significantly decreases privatization proceeds, a high level of regulation of the economy at the start of the period of observation and a frequent violation of the 3 percent deficit criterion yields a catalyzing effect on privatizations. Thus, other things being equal, privatization proceeds tend to increase the more often a country's budget deficit exceeds 3 percent of GDP, the more heavily the economy was regulated at the beginning of the period of observation,[4] the larger the public enterprise sector was at the beginning of the 1990s, the fewer working days were lost due to industrial conflict and the larger the institutional leeway for a government was in a country. All other variables discussed above did not gain statistical significance in the cross section analysis (not reported). This applies for economic openness, economic growth, unemployment, public debt at the beginning of the period of observation, union density and government fragmentation.

[4]Note that higher values of the index indicate a lower level of regulation of the economy.

Table 2: Determinants of Privatization proceeds in Fourteen EU member states

	Dependent Variable: Privatization proceeds in % GDP (Period means)					
	Cross-section (1990-2000)		*Panel (1990-94,1995-1997, 1998-2000)*			
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	40.11*** (8.62)	43.09*** (8.60)	1.63 (1.49)	2.64* (1.41)	1.65 (1.62)	2.37 (1.65)
Initial size of SOE sector	.23** (.08)	.21** (.08)	.14** (.06)	.14** (.06)	.14** (.07)	.17** (.07)
Cabinet share of bourgeois parties	.04 (.03)		.007 (.010)		.007 (.01)	.009 (.01)
Bicameralism, federalism & constitutional rigidity	-2.80** (.88)	-2.85** (.93)	-1.58*** (.52)	-1.66*** (.51)	-1.59*** (.52)	-1.69*** (.54)
Budget deficit > 3% of GDP	.65** (.25)	.55* (.23)	.40** (.18)	.38** (.17)	.41** (.18)	.52*** (.19)
Economic freedom 1990	-4.48*** (.99)	-4.34*** (1.03)				
Number of working days lost	-.006*** (.002)	-.006*** (.002)	-.002** (.001)	-.002** (.001)	-.002** (.001)	-.003** (.001)
Cabinet share of left parties		-.03 (.03)		-.012 (.01)		
Unemployment rate					.006 (.09)	
Government debt as % GDP						-.015 (.01)
Dummy (1995-97)			.10 (.74)	.16 (.73)		
Dummy (1998-00)			2.25*** (.79)	2.36*** (.77)	2.20*** (.67)	2.37*** (.68)
R^2	.92	.91	.47	.49	.47	.51
Adj. R^2	.85	.84	.36	.37	.35	.39
N	14	14	39	39	39	38

Notes: Unstandardized regression coefficients, OLS-standard errors in parenthesis. * p≤ .10; ** p≤ .05; *** p≤ .01; **Cross section:** cabinet share of parties = Mean 1989-2000; Number of working days lost = Mean 1989-2000. Budget deficit = number of years between 1990 and 1995 in which the 3-percent criterion of the Maastricht treaty has been violated.
Panel: On the basis of a Langrange-Multiplier test a classic OLS-regression has been computed. With the exception of the level of public debt and the size of the SOE sector, which are measured at the beginning of each period, all independent variables are averages over the periods 1990-95, 1995-1997 and 1998-2000. The budget deficit variable is lagged by one period (for the first sub-period [1990-1995] the period 1989-1991 was used) to avoid endogeneity problems.

Admittedly, the number of degrees of freedom has been strained in these two models. To inflate the number of observations and to check for the robustness of the findings, we estimated a panel model (specifications 3-6). Due to multicollinearity we did not jointly estimate the Economic Freedom index and the initial size of the public sector[5]. To identify temporal-specific effects, we have used dummy variables for each period. In particular, we expect a positive effect for the period 1995-97 because the pressures on the member states to consolidate their budgets were particularly high during the run up to the reference year of the Maastricht criteria in 1997.

The regression results are consistent with the findings of the cross-sections analysis. Again, there are no significant partisan effects, while the coefficients of the other independent variables show the theoretically expected signs and remain significant. With respect to the economic pressures, we did not find any significant effects for the rate of unemployment (5), the level of public debt at the beginning of the period (6), economic growth and trade openness (not reported). In contrast, the significant positive effect of high budget deficits on privatization revenues remains robust. Surprisingly, only the dummy of the final sub-period turns out to be significant. One reason for this could be that, in contrast to the two preceding sub-periods, significant partisan differences have appeared in the period 1998-2000. This interpretation is supported by the results of cross-section regressions for each of the three sub-periods. While the effects of the other variables discussed remain robust in all three regressions and the partisan complexion of the government fails to reach statistical significance in the first two sub-periods, we estimated a significant positive impact of bourgeois parties on privatization proceeds for the period 1998-2000 (not reported in table 2).[6]

5.2. OECD

We were not able to replicate the empirical findings for the EU members in a cross-section analysis of twenty OECD countries. Only the negative effects of a heavily regulated economy on privatization proceeds remained significant, whereas neither the political nor the other economic variables reached statistical significance (not shown in table 3). However, this result is exclusively driven by the Australian case and we were able to identify the partisan complexion of government as the variable causing the model to collapse. In Australia, just as in neighboring New Zealand, the Labour Party adopted rather far-reaching market-oriented economic policies since the 1980s. The programmatic stances of the antipodean Labour parties regarding economic policy in the 1980s cannot be regarded as typical for other social democratic parties, however. "Australia and even more New Zealand were the only OECD nations in which Labour/Social Democratic governments sought to actively transform society and economy toward a 'more market' model on a scale comparable with the ambitions of the right" (Castles et al. 1996: 2). The reasons for the singular path chosen by these Labour parties lie in the remarkable crises both political economies experienced in the early 1980s, which were not resolved by the respective conservative parties that governed both countries for most of the 1960s and 1970s (cf. Schwartz 2000: 92.; 110). Since Australia and New Zealand belonged to the most heavily regulated economies in the OECD, a turn to even more state intervention may not have seemed plausible. Therefore, both the economic situation and party competition incited the left parties to adopt liberal economic policy stances (cf. Castles et al. 1996; Quiggin 1998). The New Zealand Labour Party (NZLP), however, was voted out of office in 1990 and suffered a split in its right wing around the former Finance Minister, Roger

[5]The correlation between the size of the public enterprise sector and the level of regulation of the economy is r = .65.

[6]The sign of the coefficient of the dummy for the period 1998-2000 might also suggest that after the inception of the European stability pact the efforts at privatizations have been further intensified, possibly to prevent sanctions and to increase credibility in the context of EMU. This interpretation does not seem too plausible, though, given the amelioration of the budgetary situation throughout the EU in the second half of the 1990s.

Douglas. When the NZLP resumed power in December 1999, its economic policy position had come close to the social democratic mainstream again, and its singular programmatic position in the 1980s thus does not pose a problem for our analysis. The Australian Labour Party (ALP) in contrast, remained in power until March 1996 and its deviant programmatic position thus heavily influenced the politics of privatization in Australia.[7] Therefore, we excluded Australia from our sample.[8]

The empirical findings for the thus modified model are summarized in table 3 and largely coincide with the results for the EU sample reported in table 2. Nevertheless, for the OECD sample we find significant partisan influences on privatization proceeds which failed to reach statistical significance in the EU sample: right parties opted for privatization more extensively than left parties did (cf. equations 7 vs. 8). Regarding the other variables, the estimations for the OECD sample resemble the ones of the EU sample. We again find a positive relation between the initial size of the SOE sector and privatization proceeds. In line with the EU findings, an initially high density of regulation of the economy and high levels of industrial conflicts exert highly significant effects on revenues from privatization. While strikes tend to inhibit privatizations, a low level of economic freedom at the beginning of our period of observation operated as a stimulus for privatizations. In addition, we again find that high budget deficits are pertinent to privatizations. Regarding political institutions, we find the same negative effect of institutional pluralism on privatization proceeds we already reported for the EU. All indicators used to measure institutional pluralism, i.e. the index of bicameralism, federalism and constitutional rigidity adopted from Lijphart (7-12), Colomer's (1996) index of institutional pluralism as well as the indicators developed by Huber et al. (1993) and Schmidt (2000) (not presented in table 3) turn out to be significantly and negatively related to privatization proceeds. We also tested Lijphart's indices of federalism, constitutional rigidity and bicameralism separately and again detected a statistically significant negative impact (not presented in table 3).

[7]The ALP committed itself to privatization comparatively late (Quiggin 1998: 87). Nevertheless, the party acted as a pacemaker for Australian privatization policies, which had consequences far beyond its own term of office. Particularly the conservative Howard government's extensive privatization program benefited from the ALP's previous liberal economic policy stance for two reasons. First, the "National Competition Policy Act" adopted by the ALP government laid the groundwork for further liberal reforms, particularly in the SOE sector (Quiggin 1998: 81). Second, given the previous policies of the ALP, the Howard government's privatization program appeared without alternative. Thus, the tempering effects which the competition with a traditional social democratic party might have yielded on Howard's privatization program failed to materialize (cf. Greenfield/Williams 2003: 295f.). A more detailed study of Australian privatization policies is needed, which is, however, beyond the scope of this paper.

[8]The results reported below do not change substantially if Australia is included and the ALP is coded as a center party (for this kind of procedure cf. Siegel 2002).

Table 3: Determinants of Privatization proceeds in Twenty OECD member states

	Dependent Variable: Privatization proceeds in % GDP *Cross section (1990-2000)*					
	(7)	(8)	(9)	(10)	(11)	(12)
Intercept	45.36*** (7.96)	51.86*** (8.41)	46.90*** (7.74)	44.57*** (9.14)	41.94*** (8.14)	58.15*** (9.45)
Initial size of SOE sector	0.21** (0.08)	0.16* (0.08)	0.20** (0.08)	0.22** (0.09)	0.24** (0.08)	0.17** (0.07)
Economic freedom 1990	-5.39*** (0.97)	-4.82*** (1.05)	-5.76*** (0.97)	-5.47*** (1.08)	-5.24*** (0.95)	-6.85*** (1.12)
Cabinet share of bourgeois parties	0.11*** (0.03)		0.11*** (0.03)	0.11*** (0.03)	0.11*** (0.03)	0.10*** (0.03)
Bicameralism, Federalism and Constitutional Rigidity	-5.06*** (0.90)	-4.95*** (0.98)	-4.82*** (0.89)	-5.10*** (0.96)	-5.22*** (0.88)	-4.47*** (0.85)
Budget deficit > 3% of GDP	0.72*** (0.20)	0.58** (0.22)	0.72*** (0.19)	0.72*** (0.21)	0.69*** (0.20)	0.64*** (0.19)
Number of working days lost	-0.01*** (0.002)	-0.01*** (0.002)	-0.01*** (0.002)	-0.01*** (0.002)	-0.01*** (0.002)	-0.01*** (0.002)
Cabinet share of left parties		-0.09*** (0.03)				
Fragmentation of Government			0.49 (0.35)			
Openness (1989-2000)				0.10 (0.49)		
Government debt as % GDP 1989					2.16 (1.63)	
Economic growth 1985-1995 (Deviation from OECD-Mean)						-1.08* (0.53)
R^2	.92	.90	.93	.92	.93	.94
Adj. R^2	.87	.85	.88	.86	.88	.90
N	19	19	19	19	19	19

Note: Unstandardized regression coefficients, OLS-standard errors in parenthesis. * p≤ .10; ** p≤ .05; *** p≤ .01.

Finally, the variables which yielded insignificant results in the EU sample (unemployment, public debt, union density, economic openness, and the number of governing parties) also turned out to remain insignificant in the OECD sample. Equation 9 reports the results for the fragmentation of government. In contrast to Boix (1997), we find a positive but insignificant effect of government fragmentation on privatization proceeds. In terms of economic openness, in line with our expectations, the estimated coefficient suggests that open economies, other things being equal, show greater propensity to sell off public enterprises (10). The coefficient is highly insignificant, however. The same is true for the EU dummy, which is also positively but highly insignificantly related to privatization proceeds (not presented). These findings might lead to the conclusion that globalization and European integration do not catalyze privatizations per se, but that both phenomena only exert effects on countries that are confronted with considerable economic problem loads.

The coefficient for public debt also displays the expected sign[9], but remains insignificant (11). Finally, unlike in the EU sample, a dismal growth performance, measured as the deviation from the average growth rate in the OECD between 1985 and 1995, turns out to be significant at the 10-percent-level in the OECD sample. According to the sign of the respective coefficient, countries with below average growth rates have privatized more than economically flourishing countries (12).

6. Conclusion

What conclusions can be drawn from the empirical evidence? Apparently, the differences in privatization proceeds of western democracies can primarily be traced back to the varying economic problem loads these countries face. But political variables also help to explain the national variations in the revenues from the sales of state-owned enterprises. At least the findings for the broader OECD comparison suggest that the partisan complexion of government still plays a role. In this respect, the findings of Boix (1997) could be replicated in principle. Remarkable differentiations have to be introduced, however. Our analysis did not uncover significant partisan differences in the EU, while Australia had a substantial leverage on the estimated impact of political parties in the broader OECD comparison. Therefore, our findings suggest that the impact of the partisan complexion of government on privatization policies has become more fragile in recent years.

Specifically, partisan differences seem to have become conditional; they only occur if economic problems are controlled for. That is to say, parties which are confronted with intense economic, particularly fiscal, problems adopt similar policy responses–at least in the case of privatization policies. We have identified three economic challenges which have prompted privatizations irrespective of the partisan orientation of the government of the day, namely an initially high regulatory density, a frequent violation of the (symbolic) deficit threshold of 3 percent of GDP and–only in the OECD sample–an inferior growth performance. Privatizations thus can be seen as part of a policy of economic liberalization in previously highly regulated economies as well as a reaction to the fiscal policy challenges imposed by European integration and the globalization of financial markets. This result underscores the growing importance of supranational and transnational influences on national policymaking and could also provide a clue for the explanation of the differences we found between the EU and the OECD samples. Apparently, the single market program and particularly the Maastricht criteria have set in motion a strong process of convergence within the EU which has leveled partisan differences in this policy field. The interpretation that partisan differences disappear if governments are exposed to substantial economic problem pressures could also explain the positive effect of bourgeois parties on privatization proceeds we found for the EU in a cross-sectional regression for the period 1998-2000. In the second half of the 1990s, the budgetary situation has improved in all EU member states and after 1997 the decision concerning membership in EMU had finally been taken. As a result, there might have emerged some leeway for partisan differences at the end of the decade.

Boix (1997) holds that parties, unable to pursue distinct macroeconomic policies anymore because of international financial markets, now turn to diverging supply-side policies. This claim has to be modified. Possibly, in times of austerity even social democratic parties prefer the political advantage of gaining extra revenues without major political conflicts via

[9]Note that we estimated a negative coefficient in the EU panel regressions (cf. table 2).

privatization to the opportunity of employing the public sector to improve productivity of capital and labor as Boix (1997: 479) would argue.

This run into privatization induced by economic challenges irrespective of partisan control of the government might also explain why we were not able to replicate the impeding effect of multi-party coalitions reported by Boix (1997).[10] It seems that the tensions resulting from a privatization decision within a coalition have dramatically decreased during the last twenty years, possibly also as a result from converging party platforms. According to the logic of blame avoidance, coalition partners might indeed find as many arguments for as against a given privatization.

In addition to the increasing importance of transnational and supranational influences on national economic policies, domestic institutional settings like federalism and constitutional rigidity remain important. Our empirical evidence is not only in accordance with the results reported by Bortolotti/Siniscalco (2004), who identified majoritarian democracies as a catalyst for privatizations, but also corroborates veto player theory claiming a status quo bias of countries with many veto players. Finally, severe industrial conflicts reduce privatizations. Apparently, it is not the unions' organizational strength but their conflict behavior that is decisive for the successful implementation of privatization programs, as can be seen from the fact that the number of working days lost due to strikes, and not union density, has statistically proven to be of decisive influence.

[10]Note that we used a different indicator of government fragmentation. Boix (1997) employed the Rae index whereas we used the number of parties in government. The fact that we were not only unable to replicate the findings with our indicator but that even the sign of the respective coefficient changed seems to put the robustness of the effects of government fragmentation on privatization proceeds seriously in question. This is not too much of a surprise, however, since the effect is indeterminate at the theoretical level as well (see above).

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