
Judith Clifton
Daniel Díaz-Fuentes
Francisco Comín

Available at: https://works.bepress.com/j_clifton/1/

Judith Clifton, Francisco Comín and Daniel Díaz Fuentes

ABSTRACT Privatization, recognized as one of the most important economic policy reforms from the 1970s, has attracted significant attention from scholars, and the literature on the topic is now vast. Yet there is little agreement on the reasons why governments privatized. Three dominant paradigms explaining European Union (EU) privatization put forward distinct motivations. The ‘British paradigm’ assumed that market-friendly ideology played a significant role in a path towards a global programme inspired by the UK experience. The ‘multiple logics’ approach observed that the UK was an anomaly, not a leader, and that EU privatization was so diverse that there were few, if any, common logics. The ‘European paradigm’ emphasized the importance of Europe in the context of a changing world and placed EU privatization in the context of economic and political integration. This article tests all three paradigms using comparative data on EU privatization by country and sector. Pragmatic concerns connected to European integration requirements, particularly in sectors such as telecommunications, transport and utilities, were of the utmost importance in motivating governments to privatize from the 1990s. Europe is thus a powerful explanatory factor when considering ongoing EU privatization.

KEY WORDS European Union; Europeanization; global trends; integration; privatization; public enterprises.

1. INTRODUCTION

At the end of the 1970s, the prospect of privatizing the public enterprises that operated in sectors such as water, energy, telecommunications, railways or air transportation seemed a thoroughly unappealing one in political terms. Not even the future privatization ‘champion’, the British Conservative Party, envisaged this kind of reform when it came to power in 1979. Only two decades later, however, privatization programmes had been implemented by dozens of governments across the globe. In the EU, by the end of the 1990s, privatization promoters complained that, so deep had been its reach, there was scarcely
anything left to privatize (Privatization International Yearbook 1999). Casual observers could be forgiven for thinking that privatization had been accepted wholeheartedly by governments worldwide as a kind of global remedy for business ills.

Privatization increasingly attracted analysts’ attention and the literature on the subject is now vast. There remain, however, important unresolved questions. First, some analysts share a ‘privatization euphoria’ (which was often motivated by an interest in the financial success of the operations) and paint an upbeat, homogeneous picture of the process, thereby disguising its complex and uneven effects (Privatization International Yearbook, various years). At the beginning of the twenty-first century, important inter-sectoral and inter-country differences remain. Even in the telecommunications sector, which is often held to be the privatized sector par excellence (Levi-Faur 2004), state ownership continued to be dominant in many EU countries (Privatization Barometer 2005). Second, while much of the literature focused on the financial side of privatization, its social consequences were often ignored. Thus, even the firmest advocates of privatization were at a loss to explain its unpopularity in its birthplace: the United Kingdom (UK) (Megginson 2004). Third, though privatization has been recognized as one of the key economic policies of the twentieth century, there is still relatively little agreement about what drove the process.

This article seeks to identify the motivations for privatization across the EU-15. Few scholars of European integration or Europeanization have isolated privatization for study, instead analysing it together with other, distinct, but associated, policies, such as liberalization or other policy reforms. This may be because privatization is not, and must not be, EU policy: the EU must be ownership neutral, and restrict its remit to ensuring effective competition and public service delivery. The quest to understand EU privatization is approached by enquiring which of the existing dominant paradigms in the literature best explains this process. There are several steps involved before arriving at the conclusions. In the second section, the dominant paradigms in the literature are briefly described. For simplification, the literature is subdivided into three dominant paradigms and, in order to explore which paradigm best explains privatization motivation, three hypotheses are constructed based on the major assumptions of each paradigm. Data on EU privatization were collected and analysed in order to test these hypotheses (section 3). There already exists quite a large body of secondary literature on EU privatization, which was thoroughly reviewed. Since there was little homogenized, comparative data on public enterprises and privatization across countries and sectors, this was developed here using Centre Européen des Enterprises à participation publique (CEEP), Organization for Economic Cooperation and Development (OECD) and Privatization Barometer (PB). Further qualitative analysis was obtained through interviews with policy-makers, governmental reports and other primary sources. The fourth section contains the conclusions. While the ‘British paradigm’ was useful to explain early EU privatization (which was dominated anyway by the UK experience), it is much less useful to explain EU privatization
during the 1990s. Although the ‘multiple logics approach’ is rich in historical
detail, it fails to identify common privatization trends. The findings here thus
concur with variants of the ‘European paradigm’: Europe was indeed an import-
ant force for privatization. European integration, both in its positive and nega-
tive forms (Scharpf 2002), helped filter and shape privatization experiences.
This is demonstrated through common trends in the programmes, such as
country sequence, proceeds, and rhythm and sectoral patterns.

2. PRIVATIZATION: THREE DOMINANT PARADIGMS

For the purposes of this article, privatization literature is divided into three main
paradigms: the ‘British paradigm’, the ‘multiple logics approach’, and the ‘Euro-
pean paradigm’ (for literature syntheses see Megginson and Netter 2001; Parker
and Saal 2003).

The ‘British paradigm’ stresses the British privatization experience by empha-
sizing characteristics such as an ideological preference for ‘market solutions’,
individual ownership and a distaste for state intervention. This is often associ-
ated with the right-wing ideology of Margaret Thatcher. Many authors who
adopt the ‘British paradigm’ also assume a pro-privatization position them-
selves, and hold that all countries should embrace the logic of privatization if
they are to be included in the modern global market economy. Although
there have been different routes chosen to privatization across the world, in
terms of timing, motivation, rationale, scale and scope, this perspective inter-
prets privatization as a single, homogeneous process that can be implemented
in diverse countries and yet have the same kinds of results. One of the main
reasons for the emergence of this paradigm was that much of the early privatiza-
tion literature was ‘reactive’ to contemporary experiences. For instance, the
British and French experiences strongly marked the literature of the 1980s,
such as Vickers and Wright (1989) and, consequently, some of the hallmarks
of these experiences were engraved into the literature. Kay and Thompson
(1986) and Vickers and Yarrow (1988) criticized the pro-privatization approach
in this early literature, observing that it contained an inherent belief in the super-
iority of private ownership; that is, that profit-maximizing behaviour of new
owners would, in itself, ensure efficiency and adequate social provision of ser-
vices, neglecting other concerns such as strengthening competition, public
service obligations and re-regulation (particularly of network industries).
Parker (2003), in retrospect, confirmed the importance of competition and
regulation for post-privatization UK. The ‘British paradigm’ is alive and well
in the contemporary period. It characterizes much of the contemporary policy
prescriptions by the World Bank and the International Monetary Fund,
where recommendations insist on the superiority of private ownership for effi-
ciency and the need to avoid the ‘deadly disease’ of public ownership (Kikeri
et al. 1994; Shirley 1999). In order to test the explanatory power of the
‘British paradigm’, it is claimed that: Governments sought to emulate the UK pri-
vatization experience. Privatization was driven largely by ideological preferences for
private ownership, with a corresponding distrust of the state, and by the belief that efficiency gains would be reaped (hypothesis 1). This hypothesis could be proved/disproved in several ways. First, if there is substantial evidence that individual EU governments launched privatization programmes as a response to the UK experience (country sequence), and that they implemented privatization across time as in the UK (volumes generated, rhythm), hypothesis 1 would be strengthened. If no logic in programme launching is detected, or the pattern cannot be explained by the UK experience, the hypothesis is weakened. The radical UK privatization experience affected all four principal sectors in which public enterprises operated. If EU governments followed this UK sectoral logic, this hypothesis is strengthened, but, again, weakened if not.

From the end of the 1980s, cross-country comparative work on privatization emerged in response to the take-up of privatization. The lineal and monomotivational perspective of the ‘British paradigm’ was gradually rejected by many scholars as new experiences and unfolding practices were analysed. A more nuanced understanding of privatization resulted. Clarke and Pitelis (1993) and Feigenbaum et al. (1998) all pointed to the complexity of privatization experiences in practice. Parker (1998) went further, challenging the linearity of the ‘British paradigm’ by highlighting the different practices around Western Europe. The UK was not a privatization leader but an anomaly. Experiences were highly diverse, and there was no single, common rationale or objective for privatization in Western Europe, but ‘a confusion of rationales in search of a common policy’ (Parker 1998: 6). Moreover, the neoliberal ideology associating private ownership with optimum performance which underscored the ‘British paradigm’ was contested by post-privatization results. Stiglitz (2002) critiqued the belief in private ownership as ‘market fundamentalism’, and sectoral studies showed that, once other performance indicators beyond the financial were considered, evidence on performance was unclear (Hérïtier 2002). In order to test the utility of the ‘multiple logics’ approach: the motivations behind privatization in the EU are so diverse and complex that it is not possible to identify one or several common logics (hypothesis 2). This hypothesis is proved if no common trends are identified in EU privatization and disproved if they are.

A third main approach to privatization is the ‘European paradigm’. Here, there is a consensus that Europe, located in a changing global context from the 1970s, characterized by economic crises, technological change and an emerging network society (Castells 1996), is an important force for policy reform, including deregulation and privatization. This paradigm includes a diversity of approaches including neofunctionalist and intergovernmentalist approaches to integration, as well as the newly emerging body of literature on Europeanization. Among the contributions to the ‘European paradigm’ are those that foreground the role of the European Commission (EC), which implements market reforms at a global juncture amidst economic, political and technological change (Sandholtz 1993). Majone (1994, 1997) argued that, in Europe, a ‘regulatory State’ was replacing a ‘positive State’. Privatization was a key part of this new regulatory state, along with the creation of independent regulatory agencies.
and new rules putting an end to public monopolies. This was leading to changes in state functions focusing on correcting market failures and promoting competition via rule-making rather than budgetary allocations. There was thus a general trend across Europe, with cross-national variations, which would require further analysis. Thatcher (2002a, 2002b) took up Majone’s challenge, refining the argument to claim that several ‘regulatory regimes’ were emerging, rather than a single regulatory state, since countries and sectors responded to reform in distinct ways. Attention was then directed to explaining these differences (Genoud and Varone 2002; Richardson 1982; Schmidt 2002; Thatcher 2000). Europeanization scholars are further enriching the theoretical debate by building models in order to identify the variables that explain a diversity of outcomes (Featherstone and Radaelli 2003). Indeed, so much attention is being placed on the power of Europe to transform that there is a danger of underplaying the importance of external pressures to which Europe is subject (Radaelli 2003). By analysing diversity in policy outcomes, such as different outcomes of sectoral reform, analysts seek to separate out the role of Europe, the consequences of technical change and the impact of global forces (Bartle 1999; Levi-Faur 2004). Of course, the Europe–global dilemma should not be understood as a zero-sum game; rather, the locus of change needs to be traced to its origins and may well include the confluence of various, overlapping, perhaps mutually reinforcing, pressures. With this in mind, the ‘European paradigm’ may be tested by the hypothesis: Privatization in the EU has its own defining features, patterns, hallmarks and ‘values’. Developments in the EU have acted as catalysts or filters and may be used to explain the development of EU privatization (hypothesis 3). This hypothesis may be disproved if no common patterns can be identified in the EU privatization programmes, or if the trends noted in the EU are identical to privatization programmes outside the EU, indicating that the forces driving privatization are purely global in origin, or at least, that Europe played no significant role shaping these forces. The hypothesis may be proved, however, if it can be shown that there are distinctive patterns and hallmarks in the EU, and that aspects of the privatization programmes, such as country sequence, volumes generated through time, rhythm and sectors affected can be directly connected to developments in Europe, such as EC Directives to liberalize specific sectors, though response to EU developments would not necessarily be mechanical but mediated by other complex factors.

3. EMPIRICAL EVIDENCE ON EU PRIVATIZATION

Selected findings on EU privatization are analysed in order to determine which of the three frameworks best explains the processes. Since there is overlap in the analysis required to test the three hypotheses, findings will be organized around the results and then related back to the hypotheses. First, the timing of the launching of privatization programmes by EU governments is analysed (country sequence) in order to determine whether the UK acted as a catalyst or model (hypothesis 1), whether there are no apparent trends (hypothesis 2),
or whether EU developments were important (hypothesis 3). Second, comparative analysis of proceeds generated through time and privatization rhythm will be presented considering the same questions. Third, the influence of privatization by sector is analysed with the following questions in mind: Did EU privatization by sector follow the UK pattern (hypothesis 1)? Are there no clear patterns (hypothesis 2)?, or: Are there consistent patterns that can be explained by EU developments (hypothesis 3)?

Country sequence

In what sequence did EU governments embark on privatization programmes? The timing of the launch of privatization programmes is usually measured by proceeds generated. The ‘British paradigm’ associates privatization with the UK Conservative Party (1979 to 1997), though this premise is largely a myth, since Europe’s real privatization pioneer was Adenauer’s Germany, where a majority share in Volkswagen was sold by public share offering in 1961. Moreover, the UK Conservative Party did not include privatization in its 1979 manifesto, but expanded the programme after successfully selling off council houses (Parker 1998). Nevertheless, the British programme has become a point of reference due to its radical, ambitious and experimental nature, as well as the scope of its broad application. The policy of confrontational privatization pursued by Thatcher represented a rupture with the tradition of post-war tripartite consensus (Heald 1989; Hulsink 1999). The Conservative government was enthusiastic in its condemnation of public enterprises and this attack was highly ideological (Millward 2000; Yergin and Stanislaw 1998). There was also a mix of pragmatic economic and political aims behind the privatization programme: to ease fiscal pressure, create ‘popular capitalism’, and roll back the power of trade unions and political opposition.

Most other European governments embarked on privatization programmes before the 1990s: Mitterand (re)privatized (1986–88); the Spanish Socialist government privatized some firms from 1985 (Comín and Díaz 2004); there was also some activity in Italy (Segnana 1993); and even the UK Labour Party sold a stake in British Petroleum in 1977 (Vickers and Yarrow 1988). Yet these combined sales did not represent a continuous or highly significant political programme. In fact, until the late 1980s, the only significant instance of privatization in the EU was the UK. The French privatization programme (1986–88) is best understood as a reaction against the nationalization programme undertaken by the previous Socialist government. Privatization in France really became significant only during the 1990s in line with the rest of Europe. During the second half of the 1980s, many countries, such as Austria, Denmark, the Netherlands, Spain and Sweden, started to define their programmes and privatization strategies, in particular through the restructuring and corporatization of public entities.

It was not until 1993 that most EU countries undertook ambitious programmes, principally through public share offerings of public enterprises
Indeed, the year 1993 marks an unequivocal landmark for the launch of most EU privatization. To return to the hypotheses, hypothesis 2 is rejected since there is a common trend in country sequences; moreover, hypothesis 3 looks more convincing than hypothesis 1, since the programme launches coincided with the consolidation of the Single Market and the Treaty of Maastricht (1992).

**Proceeds generated and privatization rhythm**

As EU governments implemented privatization programmes during the 1990s, particularly from 1993, were there common trends in terms of volumes generated, and in privatization rhythm, that help point to an emulation of the British experience (hypothesis 1), are no common trends visible (hypothesis 2), or are there trends that can be related to developments in the EU (hypothesis 3)? Proceeds generated will be measured in two ways: first, by global annual proceeds per country, and second, by global proceeds per country according to the size of the economy. This latter method helps avoid biased versions of privatization that ignore smaller economies.

On examining the financial trends of resources generated by EU privatization during the 1990s, there is a pattern of almost continuous growth, from US$13 billion in 1990 to US$66 billion in 1999, followed by a decline to US$13 billion in 2002 (Figure 1). The UK constituted 72 per cent of all EU privatization revenue generated between 1977 and 1992. Between 1993 and 2002, however, as privatization spread to the other EU countries, the UK made up for only 8 per cent of the EU-15 total privatization proceeds. During this period, Italy, France and Spain each generated more than the UK. The UK gradually became less significant, though, in specific years (1993, 1995 and
1996), it was still the second most important EU privatizer. Thus, the UK was the pioneer that became gradually less important as the process started to take off in the rest of Europe from 1993. Between 1994 and 2002, the single most important programme was the Italian one, which generated one-third of total proceeds. Next in importance was France, followed by Spain. In 1999, as privatization proceeds peaked, smaller countries such as Greece and Ireland made significant contributions. In eleven EU countries, revenue peaked between 1997 and 1999. The dominance of the UK in privatization proceeds during the 1980s, and the ‘big privatizers’ (Italy, France, the UK, Spain and Portugal) during the 1990s, helps to explain the numerous studies on privatization in these countries (particularly the UK, France and Italy) as well as the dominance of the ‘British paradigm’.

Privatization proceeds should also be considered in proportion to the size of an economy and also in terms of the size of the public enterprise sector prior to the onset of privatization. This helps evaluate ‘privatization effort’. Using these analytical lenses, the results are quite different (Table 1): in addition to the UK, large privatization efforts were made by Portugal, Finland, Sweden, Italy, Austria and Ireland, since all generated significantly more than the EU average financial income. Greece also made a big effort, with privatization

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<td>Austria</td>
<td>1,222 (1977–92) 12,606 (1993–2003)</td>
<td>1,726</td>
<td>6.3</td>
<td>17.8</td>
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<td>Greece</td>
<td>1,265 (1977–92) 12,099 (1993–2003)</td>
<td>1,266</td>
<td>10.2</td>
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<tr>
<td>Ireland</td>
<td>346 (1977–92) 6,149 (1993–2003)</td>
<td>1,703</td>
<td>6.3</td>
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<tr>
<td>Netherlands</td>
<td>1,891 (1977–92) 20,651 (1993–2003)</td>
<td>1,416</td>
<td>5.4</td>
<td>8.0</td>
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<tr>
<td>Spain</td>
<td>2,636 (1977–92) 46,784 (1993–2003)</td>
<td>1,220</td>
<td>7.6</td>
<td>8.0</td>
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<tr>
<td>Sweden</td>
<td>1,151 (1977–92) 18,058 (1993–2003)</td>
<td>2,166</td>
<td>7.5</td>
<td>14.0</td>
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Source: Elaborated by the authors based on Privatization Barometer Database for privatization revenues, CEEP for public enterprises and OECD for GDP and population.
revenues over 10 per cent of gross domestic product (GDP) (Table 1). Despite this, much less attention has been paid to these countries, except for the UK and Italy. Countries generating amounts around the EU average (US$1,472 per capita) included the Netherlands, Spain and Denmark. All had a smaller public enterprise sector relative to GDP before the 1990s, and made significant efforts to de-invest. Finally, countries generating the lowest amount of capital per head, making the least privatization effort in the 1990s, were France, Germany and Belgium. Not only did Belgium generate the lowest proceeds; the size of its public enterprise sector actually increased.

Uniting both perspectives and returning to the hypotheses, it becomes clearer that certain EU governments were more committed to privatization than others. Once privatization effort is considered, the uneven effort to privatize across the EU is highlighted. There is little evidence, thus, of a monolithic common decision across the EU to emulate a radical privatization programme UK-style (hypothesis 1). The question remains, however: Is there a logic to EU governments’ behaviour, and can this be attributed to Europe?

To answer this question, an examination of privatization rhythm is useful, since this reveals whether privatization activity was smooth, continual and long term, or otherwise. This sheds light on whether privatization was part of a long-term and far-reaching policy objective (as it became in the UK under the Conservative administration) or linked to specific company sales, or other political or market opportunities. In the EU there were various scenarios in terms of privatization rhythm from 1993. In Italy, France, Austria and Portugal, privatization rhythm was steady, with annual proceeds never exceeding 23 per cent of the accumulated national resources for the period 1990 to 2002. These countries had some of the largest public enterprise sectors in the EU at the beginning of the 1990s. In smaller economies with relatively large public enterprise sectors, such as Finland, Greece and Ireland, extensive privatization programmes were delayed until the end of the 1990s; in Finland, 75 per cent revenue was accumulated between 1997 and 2000, in Greece, 92 per cent was earned after 1997, and in Ireland, nearly 85 per cent after 1999. A third group includes Belgium, the Netherlands and Spain, which had a relatively small public enterprise sector at the beginning of the 1990s, and where privatization was rapid and concentrated in an early period.

Governments’ motivations to privatize become clearer once findings on proceeds and rhythm are combined. In Italy, France, Portugal and Austria, important and continuous privatization programmes were launched from 1993. Smaller countries, such as Finland, Greece and Ireland, made relatively huge efforts to privatize. These were not long-term, wide-ranging programmes, however. In Greece and Ireland, delays in and restrictions on privatization were closely linked to the postponement of the opening up of designated activities for the EU market, particularly telecommunications. In Finland, public enterprises were historically associated with independence, efficiency and flexible management (Kalliomaki 1999; Tapio 1997). Here, privatization was driven by European integration requirements, specifically in the telecoms (Sonera), energy
(Neste) and airline (Finnair) sectors. In Belgium, the Netherlands and Spain, privatization was relatively early and concentrated; the EC Directive (EC 96/19/EC) on the liberalization of basic telephony by 1998 is the key explanatory factor. In the Netherlands, 62 per cent of proceeds from public offers was generated between 1994 and 1996 (mainly by the sale of 52 per cent of Koninklijke PTT); in Belgium, 89 per cent was generated between 1993 and 1996 (dominated by the sale of Belgacom which accounted for 47 per cent of the total), and in Spain, where 84 per cent was generated between 1993 and 1998. The sale of Telefonica accounted for 20 per cent of this total, a significant percentage given the important previous presence of private capital in Spanish telecoms. Finally, Germany and Sweden, which had a relatively large public enterprise sector, generated proceeds in an irregular, sporadic manner. Privatization is best explained here by a ‘tactical’ or ‘opportunistic’ strategy, whereby tranches of large companies were sold when financial market conditions were attractive. Privatization programmes in these last two groups were guided by the relative importance of public offerings of telecommunications companies and by tactics to maximize revenue.

The complexity and unevenness of EU privatization becomes apparent: governments’ actions were far from mechanical, monolithic or homogeneous (again disproving hypothesis 1). Despite this complexity, there is logic in their actions that can be explained by European developments (hypothesis 3). This is particularly clear in the six countries whose privatization activity was clustered around the opening up of certain sectors at the EU level. Some analysts confuse the different phenomena of privatization, liberalization and deregulation: it should be stressed that no mechanical relationship is being posited here. There was, however, a clear correlation in practice between the opening up of the sectors and governments’ decisions to privatize during the 1990s. Smaller economies were under more pressure to privatize in the face of European market liberalization of, first, telecoms and, later, energy (electricity and gas). The threat of takeovers by larger firms (possibly from larger national markets) was considerable. So, while France Telecom and Deutsch Telekom were hesitant and opportunistic privatizers, telecoms firms in smaller economies, such as Denmark, sought active strategic alliances with American and Asian companies so as to reinforce their competitiveness in Europe as well as globally; in a similar way, Finnish and Swedish telecoms firms sought joint ventures to expand in Denmark, Norway and new EU Member States such as Estonia, Latvia and Lithuania. Thus, though varied, response to common structural factors in the EU is a key explanation in the logic of EU privatization.

**Sectoral trends**

Privatization in the UK was radical in nature, and significantly impacted upon all industries. To evaluate the impact of privatization by sector we follow the standard classification accepted by OECD, CEEP and PB, and distinguish four principal activities performed traditionally by public enterprises: industrial,
financial, transport and communications, and other network utilities including water and energy. The sectoral analysis of privatization sheds further light on the usefulness of the three hypotheses. In order to do this, the Centre Europeen des Enterprises a participation publique (CEEP) database was reconstructed and homogenized (Clifton et al. 2003), since it is the only long-term source that measures size and transformation of public enterprises by salaried employees and sector. This approach enables an understanding not only of what has been privatized, but also what was available for privatization by country and sector.

Industry
Traditionally, governments oversaw various manufacturing activities, including steel-making, shipbuilding, automobiles, aircraft and communication systems, based on arguments such as market failures, natural monopolies, strategic interests, technological innovation and defence. Moreover, in certain countries, specific industrial companies were established and/or controlled by the state for fiscal purposes, such as tobacco and alcoholic drinks. Industrial enterprises practically disappeared in all EU countries at the end of the twentieth century, representing a mere 1.7 per cent of employed wage earners (Clifton et al. 2004: 42–7). Most countries that, in 1990, had over 4 per cent of employment in public enterprises (France, Italy, Portugal, Greece, Austria and Spain) had reduced this by half by 2000. The only countries over the EU average in 2000 were the two Nordic EU latecomers, Finland and Sweden, whose governments followed a different approach based on deregulation and a strategy of value creation with the state as ‘active owner’. When these governments emphasized the value generated by the public investment portfolio they flew in the face of the general EU trend (Timonen 2003).

In terms of country sequence, industrial privatization started slowly, both in the UK and the rest of the EU-15, from the mid-1980s, accelerated in the light of the Single Market Programme in 1987, and reached its peak in the EU-14 in 1995, before the stock-market high in 1999 (Figure 2). The UK constituted less than one-third of total proceeds in this sector until 1993 (fourteen operations), and less than 1 per cent from 1994 to 2004. This contrasts with the EU-14, where there were 115 operations in the same period. There is an undisputable sectoral logic here (disproving hypothesis 2); however, the reasons for this trend go beyond the UK (disproving hypothesis 1). In the EU manufacturing sector, competition policy and deregulation for the Single European Market Programme (SMP) eroded barriers to trade and investment as well as the justifications for fiscal or institutional monopolies. These changes were reinforced by a global trend towards trade liberalization of manufacturing goods in the World Trade Organization (WTO) as well as by regional and interregional integration agreements. Competition was thus reinforced while public ownership in these industries became untenable. The timing of European liberalization thus shaped governments’ behaviour, and European forces were reinforced by global changes (hypothesis 3).
By the end of the 1990s, public enterprises in the financial sector had declined dramatically in most EU countries (Clifton et al. 2003: 117). In the majority of countries that had a significant specialization in certain financial activities (France, Portugal, Italy, Austria, Finland and Ireland), banks and insurance companies were among the first important enterprises to be privatized. In other countries, such as the UK, the Netherlands, Denmark and Spain, the state had played a minimal role in the financial sector. The weight of financial public enterprises in countries in this first group approximated the second: in the EU-15, the participation of employment in the public financial sector during the 1990s declined by 8 per cent. The exceptions were Germany, Belgium, Sweden and Greece. In the first two countries, this was related either to the fact that the entities belonged to regional authorities which restricted privatization, or to the smaller relative size of the economy that maintained tight corporate control over these financial institutions. Again, in Sweden, a different approach of value creation was pursued, through the diversification of the state’s investment portfolio and the supervision of financial markets under competition. Greece’s financial privatization programme is still ongoing in 2006. Financial privatization started in continental Europe, led by Italy (1985), followed by France (1987, with the reprivatization of six banks), and then extended to other countries, totalling 67 operations, generating US$24 billion until 1993. In the UK, privatization was minimal and developed simultaneously with the rest of EU privatization. Financial privatization was thus a relatively early, continental experience (Figure 2), and there was

*Figure 2* Privatization proceeds in manufacturing and finance in the UK and EU-14, 1981–2002 (million dollars)

*Source:* Elaborated by the authors based on Privatization Barometer (2005).
no emulation of the British paradigm (disproving hypothesis 1). The best explanation of the decline of the public financial sector is capital market deregulation in the light of EU integration from 1992 (hypothesis 3). The Single Market facilitated capital movement in a common financial system and the development of a supranational public bank with monetary surveillance functions (the European Central Bank). Increased competition and capital movement at the European and global level have, therefore, eroded the justification for public ownership based on capital restrictions. Again, Europe, mediated by other country variables, reinforced by global trends, was an important force in shaping policy decisions.

Transport and communications

Traditional justifications for state control of transport and communications were defence and strategic interests, compounded by networks reflecting elements of a natural monopoly. Here, the average participation of public enterprises fell from 58 per cent to 42 per cent between 1990 and 2000 (Clifton et al. 2005a: 163). The overall contribution of privatization in this sub-sector to overall proceeds from 1980 to 2002 (nearly 39 per cent) contrasts with the fact that public enterprise participation is still significant. According to the data available, public enterprise participation was stable from 1970 to 1990. The UK was the only country where there was a significant reduction from 1980. In the 1990s, all countries reduced public enterprise participation but, even by 2000, half the EU-15 still had majority public participation, and only in the Netherlands, the UK and Spain was this level below 25 per cent. Participation persistence may be explained partly by the fact that railways were still publicly owned in most countries. The UK result should be considered in the light of the renationalization of the rail network from 2001. Since this sector is extremely complex and heterogeneous, for lack of space, attention will be focused on two sub-sectors where trends are particularly clear: air transportation and telecommunications. Of all sub-sectors, telecommunications were by far the most important, contributing 28 per cent of total proceeds.

General transportation was an important sub-sector for privatization, making up 9 per cent of total EU proceeds from the 1980s. The UK dominated this process until 1993, constituting 70 per cent of EU revenues. Air transportation privatization, however, which constituted 60 per cent of total transport revenue, started across continental Europe in the 1980s, with partial privatizations of Alitalia (1985, 1998), KLM (1986), British Airways (1987), Austrian Airlines (1988, 1999), Lufthansa (1989, 1994), Sabena (1990, 1995), Finnair (1995), Air France (1999) and Iberia (1999, 2000). Since the UK did not lead (disproving hypothesis 1), and there was a clear sectoral trend (disproving hypothesis 2), the best explanation is to understand this trend as a response to the Single European Act, which called for an end to the pooling arrangement, fixing fares and subsidies, and the creation of a Single Market by 1992, as well as the liberalization package that demanded a progressive opening up of cabotage rights from 1993 to 1997 (hypothesis 3).
In the telecommunications sector from the 1980s, most European countries transformed the direct regulation by bureaucratic public operators (typically post, telecommunications and telegraph (PTT)) of state-owned enterprises (such as BT, Deutsche Telekom or France Télécom), while the EC introduced modest reforms to open up certain segments of national markets (terminal equipment in 1988, public procurement in 1990). It was not until the 1990s that a new regulatory framework for liberalization and independent regulation of the sector with a series of EC Directives was established. EU telecoms privatization followed two main stages. First, between 1981 and 1993, the UK dominated, generating US$24.4 billion (90 percent from BT), while the EU-14 accounted for only US$2 billion. From 1994, as the liberalizing Directive (EC 96/19/EC) was passed, EU-14 countries started to dominate (Figure 3), with fifty-five operations generating US$124 billion (some 97 per cent of the proceeds in the period under consideration, and 82 per cent of the total from the 1980s). There was a clear correlation between the establishment of independent re-regulatory agencies, liberalization and privatization in this sub-sector, again reinforcing hypothesis 3. The median year of establishing independent regulatory agencies was 1993; telecoms privatization was 1996; and full liberalization of services and infrastructure in most countries was 1998 (in Ireland and Portugal it was 2000, and Greece, 2001). Despite the importance of telecoms privatization in the EU process, in 2003 there remained a lot to privatize. With the exception of the UK, fully private dominant operators could only be found in Spain, Italy, Portugal, Ireland and Denmark, while state ownership remained dominant in Austria, Germany, Finland, France and Sweden.

Figure 3 Privatization proceeds in telecommunications and utilities in the UK and EU-14, 1981–2002 (million dollars)
Source: Elaborated by the authors based on Privatization Barometer (2005).
Again, the superior explanation for transport and communication privatization is Europe. Rather than emulating the UK (hypothesis 1) or lacking a logic (hypothesis 2), there are clear sectoral privatization trends that correlate closely with EC liberalization Directives. Proceeds were enormous, but much remains in public hands. Competition is still limited, even in the UK, where BT remains the dominant operator. Moreover, privatization in many other sub-sectors is cautious or non-existent, such as in broadcasting (apart from the anomaly France), due to the complex re-regulatory processes required.

**Gas, electricity and water**

Utility privatization was, after telecommunications, the most important sector in EU privatization, constituting 22 per cent of total proceeds. However, privatization was partial and uneven. In terms of country sequence, the UK accounted for 90 per cent of proceeds between 1986 and 1993, while the EU-14 generated 82 per cent of proceeds between 1994 and 2002. Most transactions occurred between 1998 and 1999, when stock-markets were strong (Figure 3). Again, though no mechanical relationship is posited between privatization and liberalization, there were correlations between the two.

EU internal energy market liberalization developed in parallel to that of the telecoms industry during the 1990s, with the first measures taking place in 1996 (92/EC) and 1998, but was subject to delays and reforms (Directives 2003/54/EC and 2003/55/EC). Some electricity privatization occurred before this legislation. In England and Wales, electricity privatization commenced in 1988, and finished in 1996. In Belgium and Spain, electricity had historically been mostly privately owned. Electricity privatization also started early in Germany (during the 1960s), and Austria and Spain in 1988. Most EU-14 countries started to privatize from the 1990s: Sweden (1991), Finland (1994), Portugal (1997), Italy and the Netherlands (1999), Denmark (2000) and Greece (2003). France deliberately resisted liberalization, privatization and transformation of electricity in order to protect the incumbent operator (Cenoud and Varone 2002).

At the beginning of the twenty-first century, the UK still stands alone as regards utilities privatization. Water continues to be largely characterized by public or mixed ownership in the EU-15, with the exceptions of England and Wales, and the partial exceptions of France and Spain. In other sectors, such as electricity generation, transmission and distribution, or natural gas transmission and distribution, ownership also remains mainly public or mixed. The UK was the only country in which all of these companies were privatized. In Germany, Austria, the Netherlands, Belgium, Denmark and Sweden, regional or local public companies still fully or partly control these activities. By 2000, public enterprises in electricity, water and gas represented less than 25 per cent of public enterprise employment in Belgium, Spain and the UK. However, in the EU as a whole, this represented 43 per cent of sectoral employment in 2000 (Clifton et al. 2003: 124). Although this has fallen by 24 per cent in terms of the EEC-12 average in 1990, the basic fact remains that these
activities have not been deeply privatized; moreover, many are still publicly owned in most EU countries. The UK is an anomaly (disproving hypothesis 1), but the best explanation is that European Directives were an important force stimulating electricity and gas privatization, while there remains a generalized trend of modest privatization (hypothesis 3).

4. EXPLAINING PRIVATIZATION IN THE EU

Findings on EU privatization analysed by country sequence, proceeds, rhythm and sector are used to return to the three hypotheses to underline the conclusions. Hypothesis 1 is rejected for the following reasons. First, EU governments did not embark seriously on privatization until 1993, and, more than copying a British model at various points in time, EU governments implemented privatization programmes for a set of common reasons. Second, in terms of proceeds generated, some EU governments tried much harder than others to privatize: there was no monolithic, even effort across the board, though there was a general trend to privatize mainly telecommunications, transport and utilities during the 1990s in the light of sector liberalization directives and EMU targets. Third, in terms of privatization rhythm, some programmes were continuous and long term (e.g. the UK), while many others were not. Some countries acted in an opportunistic fashion, while others privatized in specific sectors in the years prior to their expected liberalization. This was particularly apparent in the telecommunications and electricity markets. Fourth, the UK was an anomaly in its exposure of nearly all sectors to privatization; few other EU countries have followed suit.

Hypothesis 2 is also rejected. First, the marked country sequence of privatization constitutes a common trend. Second, though proceeds and rhythm across the EU differed, many larger and smaller economies made serious efforts to privatize from 1993 to 1999. Not all programmes were long term and continuous, however. Some governments focused their efforts on the years running up to the liberalization of particular markets, while other governments acted in an opportunistic fashion, taking advantage of strong financial market conditions. This behaviour is far from illogical. Third, there are clear sectoral logics.

Hypothesis 3 is the most convincing of the three options. First, serious privatization programmes took off from 1993, immediately after the consolidation of the Single Market and the signing of the Treaty of Maastricht. Second, EU countries adopted different approaches to privatization, in terms of extent and rhythm. France and Italy implemented long-term, continuous programmes, like the UK in the 1980s, while other countries focused their efforts on privatizing particular sectors in the years prior to liberalization, or on specific financial market opportunities. Differences in approach may be partly explained by economy and sector size, since smaller economies were more vulnerable to takeovers than larger ones, and were thus more prone to privatize and seek alliances. Structural pressures, in particular those that liberalized certain sectors in preparation for European market integration, were important factors in explaining
the privatization of public enterprises. Liberalizing directives acted as catalysts in the privatization of key sectors in the EU-14, such as telecommunications, transport and electricity, which represented around 80 per cent of the proceeds from the 1980s. The timing and sequence of liberalization by country and by sector thus sheds light on explaining the EU privatization experience.

Privatization was far from homogeneous, and claims about its effects have sometimes been exaggerated. In the EU, privatization went much further in competitive sectors (industry and finance) than in less competitive sectors such as the network industries (Newbery 2003), or services requiring social regulation. This is partly because the less competitive sectors required industrial restructuring and corporatization and, later, the establishment of a regulatory framework. Thus, despite the fact that telecoms are often used as a sector par excellence for privatization, even in 2005, telecoms companies in Finland, France, Germany, the Netherlands and Sweden were still predominantly publicly owned. Electricity is a similar case. Although the historical and legal importance attached to public services differs across EU member states, public services have played a central role in all EU economies, in contrast to the United States’ tradition. EU privatization was accompanied by the ‘uploading’ of concerns about public service obligations to the EU agenda (Héritier 2002) in the form of demands for a Charter for Services of General Interest (Clifton et al. 2005b), and the EU’s recognition that its strategies need careful rethinking in the electricity sector (OECD 2004). Privatization, liberalization and deregulation are still ongoing in many of these sectors. Finally, privatization was not a EU policy but, paradoxically, an unintended consequence of the process of EU integration, since, though privatization is distinct from liberalization and deregulation, in practice, many EU governments used privatization as a tool to facilitate and accelerate liberalization in the face of European legislation. Member states’ reactions to integration were not mechanical but mediated by complex factors such as economy and sector size, historical legacy of public enterprise, political system (centralized or otherwise), the degree of pressure placed upon the governments by external forces, the institutional model and capital markets development. Yet despite all these differences, commonalities between EU countries, such as timing and sectoral trends, point firmly to hypothesis 3.

Hypothesis 3 claimed that Europe, located in a changing global context from the 1970s, played an important role in shaping EU privatization. Whilst technological change and liberalizing measures introduced by the WTO constituted generalized, external forces pushing for change, common hallmarks that characterized EU privatization experience (country sequence, proceeds, rhythm and sectoral trends) can be connected to EU developments, such as timing of sectoral liberalizing Directives. The EU thus acted as a filter, shaping the outcome of privatization, at times limiting its reach, at times acting as a catalyst by providing impetus to the programmes. The EU model of integration has therefore a set of particular characteristics, both with respect to the traditional European model of public regulation through public enterprises, and also with respect to the
traditional US regulatory state model, which has been presented as a model for globalization (Majone 1997). These differential features of the European regulatory model that seek to defend public services may be useful in the face of the consolidation of other regional integration agreements such as the North American Free Trade Agreement as well as towards the definition of an international regulatory framework for public services and network-structured services in the OECD.

**Biographical notes:** Judith Clifton is Ramón y Cajal Research Fellow at the Universidad de Oviedo, Spain, and Visiting Researcher at the Open University, UK. Francisco Comín is Professor of Economic History at Universidad de Alcalá de Henares, Spain. Daniel Díaz Fuentes is Professor of Applied Economics at the Universidad de Cantabria, Spain.

**Addresses for correspondence:** Judith Clifton, Departamento de Economía Aplicada, Universidad de Oviedo, Campus del Cristo, Oviedo, Asturias 33006, Spain. Tel: +34 985 103737. email: cliftonjudith@uniovi.es/ Francisco Comín, Departamento de Fundamentos de Economía e Historia Económica, Universidad de Alcalá de Henares, Plaza de la Victoria 3, 28802, Madrid, Spain. Tel: +34 91 8854218. email: COMINCO@telefonica.net/Daniel Díaz Fuentes, Departamento de Economía Aplicada, Universidad de Cantabria, Av de los Castros s.n., Santander, Cantabria 39005, Spain. Tel: +34 942201624. email: diazd@unican.es

**ACKNOWLEDGEMENTS**

The authors are grateful to Spain’s Foundation for Public Enterprises, Institute of Fiscal Studies, National Plan for Scientific Research (SEC-2002-00278), Ramón y Cajal co-financed by the European Social Fund, the Universities of Alcalá, Cantabria, Leeds, Manchester and Oviedo, and the two anonymous reviewers and the editor for their insightful comments.

**NOTES**

1 During the nationalization of Spanish telecommunications in 1945 the state retained 41 per cent and the Bank of Spain 12 per cent of shares but, in the 1960s, the state share fell to 38 per cent and, in 1987, the government sold off another 6 per cent through a public offering listed on international markets. In 1995 the government sold off another 11 per cent and, two years later, the last 21 per cent, making it wholly private.

2 OFTEL was established in the UK in 1984, the Autorité de Régulation des Télécommunications in France in 1997, the Regulierungsbehörde in Germany in 1998, and the Autorità per le garanzie nelle comunicazioni in Italy in 1998.
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Final version accepted for publication 15/03/06