Privatisation in Austria: Response to Internal and External Pressures

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

The issues of privatisation (and sometimes deregulation) have been reviewed in numerous studies that have emphasised the potential efficiency gains.[1] Hence, the goal of this paper is twofold: first, to provide some theoretical reasoning why privatisation is useful as well as profitable for an economy and, second, to empirically present the extent of privatisation in Austria and other European Union countries. Therefore, in the next section, the reasons why privatisation is necessary are elaborated. In the following part, the specific pattern privatisation proceeds for Austria relative to other EU and OECD countries is presented. A final section concludes.

Reasons for privatising public enterprises

For at least the last century, economists have employed a positive economic theory to explore the implications of profit maximisation by private firms operating in private property contexts. It is only since the late 1960s that empirical studies have been undertaken dealing with the behaviour of publicly operated firms.[2] Since then a large number of studies on a variety of activities of public or private enterprises now exists, and their main focus is the question of how public firms differ from their private equivalents.

Basically two approaches are employed. The first is the *Property Rights* approach. It concentrates on the differences in the ease of captureability of economic surplus of a resource and the rights to direct an asset's use, alter its from or transfer its claims among existent and potential owners. In short, this approach explores the differences in incentives between public and private agencies caused by variation in the ability of owners to monitor management and the problems that emerge when the goals of "owners" and their agents, "managers", diverge.[3] Numerous studies have been undertaken, which have tested this proposition. The suggestion that public enterprises are less efficient than private ones, is confirmed in most of them.[4] The second one is the *Public Choice* approach and concentrates on political coalitions and their effect on input usage and reward and/or product characteristics. The Public Choice approach also includes the theory of bureaucracy (Niskanen, 1971, 1975). The Public Choice approach appears to provide a broader analysis than the Property Rights one. The

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[1] Surveys of the literature on privatisation are provided in Megginson and Netter (2001), Boes and Schneider (1996), Bartel and Schneider (1991), and a summary of the earlier discussion is given in Borcherding, Pommerehne and Schneider (1982).

[2] See e.g. Borcherding, Pommerehne and Schneider (1982) and Boes and Schneider (1996).

[3] The first approach was developed by Alchian (1961, 1965) and more recently by Baron and Myerson (1982), Grossman and Hart (1983) and MasColell, Winston and Green (1995).

[4] See the studies by Boes and Schneider (1996), Schneider (1997 and 2002), Schneider and Hofreither (1990). As these results are so well known, they are not reported here.

Table 1

Privatisation proceeds in small open economies in the years 1993, 1995, 1997, 1998 and 2000

Country	Privatisation proceeds in small open economies														
	1993			1995			1997			1998			2000		
	$ million	In % of total	Rank	$ million	In % of total	Rank	$ million	In % of total	Rank	$ million	In % of total	Rank	$ million	In % of total	Rank
Austria	142	4	7	1,035	9	4	2,020	17	2	2,935	12	5	2,083	11	3
Belgium	956	29	1	2,681	22	2	1,562	13	3	1,467	6	7	–	–	–
Denmark	122	4	8	10	0	9	45	0.5	8	4,502	18	2	111	1	8
Finland	229	7	6	363	3	7	835	7	5	1,999	8	6	1,827	10	4
Ireland	274	8	4	157	1	8	293	3	7	4,864	19	1	1,458	8	5
Island	10	0	9	6	0	10	4	0	10	129	0.5	10	–	–	–
Netherlands	780	24	2	3,993	33	1	831	7	6	335	0.5	9	310	2	7
Norway	–	–	–	521	4	6	35	0,5	9	28	0	11	1,039	6	6
Portugal	500	15	3	2,425	20	3	4,968	43	1	4,271	17	4	3,256	18	2
Sweden	252	8	5	852	7	5	1,055	9	4	172	1	8	8,082	44	1
Switzerland	–	–	–	–	–	–	–	–	–	4,426	18	3	–	–	–
Total	**3,265**	**100**		**12,043**	**100**		**11,648**	**100**		**25,128**	**100**		**18,166**	**100**	

– = zero or insignificant.

Source: Own compilations. Source for the years 1990-1996 is the Worldbank and SBC Warburg; for the year 1997 the source is IFR Securities. All other sources: National statistics, and OECD Financial Market Trends, No 72, (1999), Paris.

Public Choice approach assumes that politicians, bureaucrats, managers of public enterprises are selfish utility maximisers subject to constraints.[5] In this approach it is assumed that a politician, for example, will act selfishly in order to reach his ideological or personal goals under the constraint of winning the next election. Since for a politician to stay in power is the most important constraint (or even sometimes goal), he will also use public utilities for his own selfish goals.

The amount of privatisation in Austria and other OECD economies

Privatisation in small open economies

If one first considers eleven small open economies in Europe, of which one is Austria, the results presented in Table 1 and in the Figure emerge. Table 1 shows that the amount of privatisation was quite moderate at the beginning of the 1990s with the exception of Belgium. The Belgium government privatised in 1993 public utilities with proceeds of USD 956 million, which is roughly 30 percent of all privatisation proceeds of the small open economies in Table 1 and the Figure. The second highest privatisation proceeds in this year were achieved by the Netherlands with USD 780 million, followed by Portugal, which had a quite ambitious privatisation program over the years 1993–98, with privatisation proceeds over USD 12 billion. A lot of well known public utilities in Portugal were privatised like the power plant EDP, the highway system BRISA and cement factories ZINPOR. Also in Austria the privatisation proceeds were quite large. In 1998 the Austrian government privatised firms with proceeds of USD 2.94 billions. In Austria the selling of 25 percent of the public Telecom was the biggest deal, where proceeds of USD 2.33 billion were achieved. Starting with rank seven in 1993, Austria improved its performance in percent of total privatisation

[5] Cf. Schneider and Frey (1988), Bartel and Schneider (1991), Pardo and Schneider (1996) and Schneider (2002).

proceeds among small open economies steadily with a peak in 1997 and at the end of the sample ranks number three out of eleven. However, one should not overemphasize this pattern, since the amount of privatisation proceeds in small open economies increased in general over 1993–98. In the year 1993 it was USD 3.26 billion and in 1998 USD 20.246 billion.

In the Figure, the privatisation proceeds of small open economies are shown in relation to GNP. One clearly realises the dominant position of Portugal over time, followed by the Netherlands and Belgium, which display enormous privatisation proceeds in the years 1993 and 1995. In Austria, privatisation proceeds in percent of GDP amount over the years to the average of the small open economies under consideration. However, we cannot detect any systematic correlation between the degree of openness of an economy and its privatisation intensity. In general, this makes external impact on the speed and intensity of privatisation less plausible.

However, in Belke and Schneider (2003, 2005) we show that this was not the case for Austria. At most, the (announcement of) the launch of the euro seems to have speed up the privatisation wave in Europe. In general, one realises that the privatisation issue and the proceeds from privatisation have been a considerable and policy-relevant issue in the 1990s also for the small open economies.

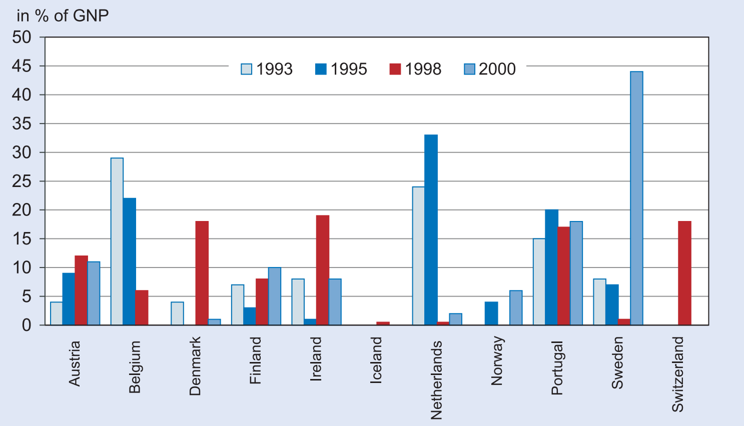
Privatisation in Austria

Among those industrialised countries now awaiting further privatisation, Austria is special in that historically it is characterised by strong governmental intervention. Large parts of the manufacturing and the electricity sector were nationalised after World War II, in part to safeguard the country's economic independence after German occupation and in part in order to finance the rehabilitation of large-scale industries that were destroyed. Jointly with public ownership in telecommunication, transport, and banking this generated one of the largest public sectors in Europe.[6]

Seen on the whole, Austria's economy has been characterised by a relatively important state-owned industry, a lack of own capital funds due to the comparatively small company size, and a predominantly bank-based investment system. In 1998, Austria was characterised by 17 percent market capitalisation relative to GDP, i.e. an even lower valuation ratio than Italy (30 percent) and Germany (39 percent; Boutchkova and Megginson, 2000, p. 9, Table III). Globalisation and Austria's accession to the EU have revealed the structural problems of this system. Those sectors of the Austrian economy which have been protected from international competition such as, above all, telecommunication, energy supply and the food industries had to be integrated in the internal market. As a consequence, restructuring programs have recently been launched focusing on liberalisation and the privatisation of Austria's economy. In addition, joining the European Union represented a structural break for Austria with respect to the incentives to delay necessary deregulation and privatisation measures.[7]

The Austro-Keynesian era of stabilisation policy which lasted from the beginning of the 1970s to the mid 1980s can be viewed as an attempt at "direct employment policy" in the public utilities and the public industrial sector, mainly in the basic (e.g. steel) machinery and chemical industry. In a sense, relatively large budget deficits and a continuously increasing debt-to-GDP ratio have in the past often been excused by pointing at the fight against

PRIVATISATION PROCEEDS IN SMALL OPEN ECONOMIES



Source: Compilation of the authors.

[6] See among others Aiginger (1999). Nowotny (1998), pp. 39 ff., discusses different meanings of "privatisation" more deeply in the context of Austria.

[7] See Clemenz (1999) and Nowotny (1998), pp. 37 ff., on Austrian public enterprises as instruments of economic and social policy as a means of avoiding labor market hysteresis (Theory of Co-operative Economics or "Gemeinwirtschaft").

unemployment. The primary goal of this type of short-term policy in private goods markets was to stabilise employment and real income in the nationalised industry and, by means of the Austria-specific industrial relations, in the private sector as well. To achieve this political target various steps were taken by public management: the maintenance of the greatest possible level of production in the face of diminishing prices and demand; the greatest possible hoarding of employees even in situations when rationalisation measures (dismissals) were required (resulting in unemployment on the job); an over-dimensioned propensity to invest (primarily with regard to the income effect of investment); an expansionist wage and fringe benefits policy with respect to buying power (causing high labour costs); and the financing of the firms' deficits out of the federal budget.

With regard to social and re-election problems arising from unemployment and low incomes, the direct employment policy in public industrial firms intended to smooth the inevitable adjustment process to the rising requirements of global competitiveness in the long run. Naturally the pursued type of stabilisation policy immediately caused substantial effects on the public industrial firms' productivity, thriftiness and profitability, thus reducing international competitiveness and augmenting deficits in the short run (Nowotny 1982). Nonetheless, production and employment could not be maintained permanently at a high level, because the rationalisation measures could not be postponed any longer. Since the mid 1980s, the Austro-Keynesian stabilisation policy has been increasingly criticised with respect to its long-term efficacy. Finally, the troubling rise in the financial losses of the state-owned firms in the iron and steel, chemical, machinery and vehicle industry caused a turn in public opinion and economic policy.

The amount of subsidies to public industrial firms with the aim of covering the deficits and financing investment was limited to a fixed total and to the period until 1989. This change of policy emerged when the government realised that, due to the critique of the opposition, mass media and private entrepreneurs as well as to the people's fear of tax increases, a majority of voters would not tolerate further subsidies to public industrial firms any longer. In this sense, the feedback from the voters to the government worked quite well in Austria. Prior to this change in opinion, politicians had formed coalitions with the management of the relatively large and locally concentrated public firms in order to secure the subsidies which rendered inefficiencies possible and served their local constituency. Moreover there were powerful shop stewards who were also members of the legislating National Council and therefore succeeded in financing the expansionist enterprise policy from the federal budget.

From the end of the 1980s there was a turn around in Austrian policy with respect to the public industrial sector and public utilities. Not only did quite a considerable privatisation take place in the 1990s but also these enterprises where much less used for re-election purposes partly due to the fact that – as emphasised above – after joining the European Union and the deregulation of former monopolies into competitive markets it was much less attractive to use the public utilities and industries for re-election purposes, mainly due to increasing public budget problems induced by fierce tax competition within the EU context. But also Austrian voters reacted to political business cycles, their voting behavior was more and more in line with the Ricardian equivalence theorem. In the 1990s the privatisation of Austrian state-owned industrial firms and state-owned utilities reached USD 6 billion (compare Table 1) between 1993 and 1998.

These dramatic changes in Austrian policies, which gained momentum in the 1990s led some authors even to speak of "New Austrian Public Policies" (see, e.g., Clemenz, 1999, p. 1). Although a substantial privatisation took place, the privatisation potential in Austria is still quite large. In most cases, the Austrian government kept substantial shares of partly privatised enterprises. Taking into account the federal, state and community level and including all public utilities, there is a privatisation potential of 45 billion euro from which the federal government owns 62 percent, the city or state of Vienna 13 percent, all other states (e.g. Upper and Lower Austria) 14 percent and the communes (without Vienna) 11 percent. The latest privatisation proceeds of the federal government over the years 1999 up to 2001 are presented in Table 2.

In 1999 a part of the Austrian tobacco (9.4 percent) was privatised, which brought 6.8 billion euro. On 28 February 2000, the Austrian Federal Government authorised the Minister of Finance to issue the privatisation mandate to the Österreichische Industrieholding AG (OeIAG), the Republic of

Table 2

Latest privatisation proceeds in Austria (Federal government) over 1999-2001

Year	Public enterprise	Proceeds € million
1999	Privatisation of 9.4% of the Austrian Tobacco AG	6.8
2000	100% PSK (Postal Bank) 24.4% Telecom (to Telecom Italia) 100% State Printing Office	969.5 763.8 2.2 **1,742.3**
2001	17.38% Airport Vienna AG 41.1% Austrian Tobacco AG 100% Dorotheum 100% Strohal Rotary Printing	54.1 582.2 55.6 21.1 **713.0**
Sum	**1999–2001**	**2,455.3**

Source: Ministry of Economic Affairs (2002).

Austria's holding and privatisation agency at the annual general meeting on 17 May 2000. In accordance with the mandate, OeIAG was required to transfer 100 percent of the following companies or interests in companies to completely new shareholders, strategic partners or the general public: Österreichische Staatsdruckerei GmbH, Dorotheum GmbH, Print Media Austria AG, Flughafen Wien AG, Österreichische Postsparkasse AG, Telekom Austria AG, and Austria Tabak AG.

In carrying out this privatisation mandate in the interests of the Austrian people, the OeIAG had to "obtain the maximum revenue possible, taking into consideration the companies' and Austria's interests" (OeIAG 2003). It is important to note that the OeIAG depends on the instructions issued by the Republic of Austria. A second phase was envisaged at that time, which involves examining the possibility of even further privatisation. In the meantime, the OeIAG has already privatised further companies or parts of companies like Österreichische Staatsdruckerei GmbH, Dorotheum GmbH, Flughafen Wien AG (17.4 percent), Österreichische Postsparkasse AG, Austria Tabak AG, Print Media Austria AG, and Telekom Austria in compliance with the privatisation mandate of the federal government. In the year 2000 100 percent of the Postal Bank was privatised, and the proceeds amounted to EUR 970 million. Also 24 percent of the state owned Telecom utility was privatised with proceeds of EUR 763 million via an initial public offering. In total in the year 2000 EUR 1.742 million privatisation proceeds were acquired by the federal government. In the year 2001 41.1 percent of the Austrian tobacco state-owned utility was privatised, which brought privatisation proceeds of EUR 582.2 million. In total, from 1999 to 2001, privatisation proceeds amounted to EUR 2.455 billion. This is quite sizeable and helped the Austrian government reduce its federal debt. However, some Austria-specific features deserve more attention.[8]

Policy lessons from Austrian privatisation experience

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

The macroeconomic effects of privatisation depend, in part, on whether receipts/proceeds are from domestic or foreign sources, the degree of capital mobility and the exchange regime. Broadly the effects of a decrease in the deficit financed by privatisation receipts would be similar to those resulting from a debt-financed fiscal expansion. Both the economic recovery and privatisations lead to receipts which can be used to lower the deficit. The use of proceeds to reduce external debt provides for an automatic sterilisation of what may be substantial capital inflows associated with privatisation. The reduction of domestic debt may impact on domestic stability.

This contribution has shown that there are good reasons for privatisation in general although this strategy raises some opportunity costs and that the privati-

[8] An additional comprehensive and informative source on the history of privatisation in Austria is Clemenz (1999), pp. 5ff. For economic consequences of privatisation in Austria in terms of performance measures, see in detail Belke and Schneider (2005).

sation proceeds are able – under certain circumstances – to enhance the welfare of these countries. With regard to Austria we are skeptical about whether Austria's privatisation potential has been exploited up to now and whether the speed of privatisation, although quite sizeable, has really been sufficient. However, future prospects for quick and full privatisation in Austria are rather gloomy although economic theory (Alchian and others) and also empirical evidence suggest that only full as opposed to partial privatisation is successful with respect to a better economic performance in the long run (Boardman and Vining 1989, 1991). However, as long as politicians interfere with this process, there will be no unhindered development towards full privatisation. This assessment is all the more valid when considering the Austrian habit of appointing former members of the Austrian government as CEOs of the Austrian privatisation agency OEIAG, in which the state is still determined to keep a strategic stake.

In Belke and Schneider (2003), we elaborate on some further idiosyncratic extensions for the Austrian case. Especially in the Austrian case, any discussion of privatisation cannot be reduced to observing cash flows, employment performance and the stock-exchange ratings of the privatised, formerly state-owned, enterprises (SOEs). Polito-economic aspects relating to income distribution and ideology play an important role in explaining the manner, extent, speed and the economic effects of privatisation and must also be considered.

The *Maastricht debt criterion*, one of the conditions for EMU entry was a likely incentive for privatisation. Already in 1998 Germany and France were said to have sold their "family silver" in order to push their debt below the 60 percent of GDP threshold. However, there was a considerable accumulation of privatisation efforts towards the end of the1990s. Hence, it appears logical to also ask how much of Austria's privatisation efforts in the 1990s was enacted in order to fulfil the Maastricht debt criterion and later on to obey the stability pact, or at least was sold to the public as such.[9] In this sense, governments were tempted to use privatisation receipts in order to reduce their public debt in order to meet one convergence criterion.

We already pointed out that in France privatisation activities were highest in 1998, the year before the launch of the euro, due to the privatisation of France Telecom. Based on similar motives, the current Austrian government has generally pursued a (in economic terms) liberal and market-oriented economic policy, which has focused on privatisation and a reduction of state influence on business. In line with this, the electricity sector was opened to competition in September 2001 leading to lower prices for customers and more competitiveness of Austria's electricity industry. In addition, bureaucratic procedures in doing business in Austria have been simplified. One of the government's main concern, however, has been to achieve a balanced budget in order to satisfy the EU's Stability and Growth Pact (SGP).[10]

In 1999, Austria's budget deficit exceeded the EU-set Maastricht criterion of a maximum deficit of 3 percent, which drew severe criticism from the EU. (The irony of history being that at the end of 2003 Austria was legitimised to accuse the large euro area countries of disregarding the rules of the Stability and Growth Pact). While aiming to reach a zero budget in 2002, the Austrian finance minister Grasser was able to announce achievement of this goal in November 2001. In our understanding, this was primarily due to an unexpectedly sharp increase in Austrian tax revenue in 2001, as revenues from corporation tax and income tax rose significantly and debt-servicing costs decreased. In addition, the states and municipalities assisted in balancing the federal budget as they accrued budget surpluses. The need to lower the budget deficit, however, also served as a strong (but only indirect) stimulus for privatisation efforts in order to raise additional revenues by increasing the efficiency of the Austrian economy.[11]

It is important to note, however, that privatisation proceeds are only allowed to have an impact on the public debt but not on the public deficit. Privatisation proceeds may not be included in the

[9] This question was raised by Aiginger (1997), p. 351, with respect to the very early second privatisation wave in Austria in the second half of the 1980s, which he answered as follows: "Sie war durch den Regierungseintritt der ÖVP initiiert und wohl wegen der Budgetengpässe durchsetzbar" [It was initiated when the ÖVP took over the government and enforceable because of the budget shortage]. Analogously, Jeronimo, Pagan and Soydemir (2000) analyze whether deficits and indebtedness in the 1990s in Spain, Italy, Portugal and Greece were associated with a shift from privatisation as a tool of economic restructuring, to privatisation as a tool of European monetary convergence. Their empirical results suggest that privatisation funds accruing from the sale of state-owned enterprises in southern European countries might have been used to tackle budget deficits and meet the stringent debt criterion for monetary integration.

[10] See, among others, Clemenz (1999), p. 1.

[11] However, even under the "New Austrian Public Policies" the EU commitment could not prevent the emergence of a political cycle. Even shortly after the Maastricht Treaty came into force, the Austrian government deficits and debt increased systematically for three consecutive years before the general elections of 1994. See, e.g., Clemenz (1999), p. 4.

public deficit in Maastricht definition according to the EC directive 3605/93 of the Council from November 22, 1993. This is a point often neglected by authors writing on Austrian privatisation and the fiscal Maastricht criteria and also not always clear in Austrian political circles (see, e.g., Nationalrat der Republik Österreich 1996, p. 19). Seen on the whole, thus, the Austrian case is a good example of how external constraints can discipline a "consensus-oriented" country. It seems fair to state that without EU-membership and the strive for meeting the Maastricht criteria, the evidence in favour of "New Austrian Public Policies" and increasing privatisation activity would have been much weaker than it already is.

Although beneficial it itself, the main aim of privatisation should not as a rule primarily be to finance and lower the public debt for political purposes. Otherwise privatisation would tend to serve short-run objectives instead of promoting long-run goals, such as fostering productivity. In this case, the standard purpose of privatisations, the improvement of competitiveness and profitability of former SOEs is under-emphasised in favour of repaying outstanding debt which, however, is not necessarily welfare enhancing. However, the latter was given a high priority in recent Austrian laws and directives (Austrian Parliament 2000). Instead, the revenues from privatisation should only be used for the creation of new assets in the areas of education, R&D, technology and infrastructure (Katsoulakos and Likoyanni 2002, p. 13, Schneider 2002).

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