ROUTLEDGE

PRIVATISATION IN THE EUROPEAN UNION

THEORY AND POLICY PERSPECTIVES

Edited by **David Parker**

4 The privatisation experiment in Austria

Karl Aiginger

THE SPECIFIC EXPERIMENT AND ITS BACKGROUND[1]

The term 'privatisation' can refer to three broad types of policy: first, asset transfer from the public to the private sector, generally through sale; second, deregulation or liberalisation of statutory monopolies (with or without the sale of assets), with particular emphasis on the removal of entry restrictions; and finally, franchising or contracting out the provision of marketable goods and services to private sector firms.[2] We could add corporatisation as a fourth method of privatisation; this is transferring the supply of goods and services from the governmental sector to a separate company according to corporate law, while the government remains the owner.[3] And we can label activities to promote efficiency and competition within the government as a fifth mode of privatisation. The motives for privatisation fall in general into one or more of the following categories: financial motives of the seller (gaining revenues or balancing losses), increase of productive efficiency (reducing average costs), and the pursuit of allocative efficiency (increasing consumer surplus). It is well known that the first goal can be achieved only in combination with an increase in the second, because otherwise the selling price would equal forgone future dividends.

We can observe in Austria examples of all these policy types and motives. The single largest cohesive experiment ever performed, however, was the privatisation of the former nationalised industry in the 1990s. Up to the late 1970s, publically owned manufacturing firms ('Verstaatlichte') together with firms belonging to nationalised banks accounted for 25 per cent of Austria's manufacturing sector.[4] In the 1990s, the majority of all large industrial firms was sold in a specific attempt to realise the first type of privatisation (transfer of ownership). The motive was primarily financial, namely the attempt to limit the financial losses, which were remunerated by the public budget. The method of privatisation had specific, interesting features, which were different from the strategies applied in other sectors in Austria and in other countries.

The paper is structured as follows: in the next section we describe the extent and background of public involvement in Austria's economy. Then we report on the successful privatisation experiment in the nationalised industry during the 1990s. In contrast, we also report on the decade long struggle to privatise a large bank, which received worldwide attention, and stress the differences between the two strategies. Finally we report on the lag in reforms in Austria as far as the second type of privatisation (the liberalisation of sectors with natural monopolies) is concerned.

THE HISTORY AND STRUCTURE OF PUBLIC INTERFERENCE

The public sector has traditionally played a strong role in the Austrian economy, as well as in issues of education, culture and law. One reason for this may be the positive and progressive impact of the enlightened monarchy in the nineteenth century ('aufgeklärte Monarchie'), which at this time led to the development of a rather efficient bureaucracy in Austria. On the other hand, Austria did not produce a large stratum of innovative and dynamic entrepreneurs during the second half of the nineteenth century, but in contrast, experienced a lacklustre phase of liberalism. More recent roots the high level of government interference involve the wide-ranging bureaucratic structures of the former Austro-Hungarian Empire that were concentrated within the small Austrian Republic following the First World War, and the economy stagnating between the two wars. After 1945, Austria needed and engineered a strong government in the form of a stable 'grand coalition' uniting the conservative and socialist parties, and – parallel to the two blocs – highly centralised 'social partners'. Both institutions helped to counterbalance economic backwardness, helped to regain Austrian sovereignty, and protected the property of former German firms from the grip of the Allied Powers, during Austria's period of limited sovereignty, from 1945 to 1955.

There are estimates that near the end of the 1970s, 25 per cent of the gross national product was produced by publicly owned firms.[5] The lack of large private companies and a very underdeveloped capital market characterised the other side of the coin. All the major banks were owned by the government, specifically the two largest, the Creditanstalt and the Länderbank.[6] These banks had considerable stakes in big manufacturing and construction firms. Electricity, the post and telecommunications, broadcasting and large parts of the transportation sector (highways and railways) were owned by central or local governments. The share of value added provided by the government bureaucracy (as measured by the payroll of the civil servants) amounted to about 20 per cent.

While public ownership in infrastructure had long been a common feature of European economies, maintaining a large share of public ownership in manufacturing up to the 1990s was, it seems, peculiar to Austria among Western market economies.[7] The larger part of the nationalised sector – specifically firms doing business in mining, oil, chemicals, steel, and aluminum – was nationalised in 1946. Socialists had, to some extent, favored nationalisation for ideological reasons. The People's Party supported nationalisation, in part because no potential Austrian owners were available, and partly because nationalisation reduced the grip of the Allies on former German firms. German ownership existed in Austria in 1945, since some of the larger firms were founded by the Nazi regime to help supply their war machine. Other firms were expropriated during the Nazi period.

In sectors in which natural monopolies traditionally were supposed to exist, or in which the possession of a central facility enabled one large firm to dominate the national markets, it is well known that there are two alternative methods of dealing with market failure. Continental Europe, as well as the UK and Australia, usually established public ownership, while the US chose to regulate private firms. Instead of choosing between these two options, Austria installed a double grip: ownership plus a regulatory process embedded in the bureaucracy of a ministry (also allowing the trade union and employers' organisations to play supporting roles). This tactic led to a predominance of political over economic goals. In the first stage, this governance structure implied a rapid rebuilding and expansion of capacity, which proved extremely important in Austria's recovery process. Later on, the selection of managers not only according to their ability, but according to their political orientation became the norm. Initially prices were fixed with the goal of sheltering low income consumers from unaffordable expenses; later on, prices were set with an eye on the next election date.

Many of the well-known inefficiencies of cost-plus regulation became apparent; investment decisions were made according to regional demands and political lobbying, increasing capacity became a more important goal than innovation and service orientation, regulators were to some extent captured by the monopolies. These judgements are, of course being made with the benefit of historical hindsight. It has to be stressed that this negative assessment evolved only after the system had operated successfully for three or four decades. The first twenty years after the war was a period of remarkable recovery in Austria. The efficient infrastructure provided by the national champions, as well as the inexpensive and high-quality products produced by the state-owned basic goods industry were two pillars of that process. Equally important were the low prices for heating and transportation, which helped Austrians with lower incomes to catch up with the middle class. But, as the system continued over decades, the potential increase in the productive efficiency of large firms, and their Schumpeterian potential for innovation, were more than outweighed by Leibenstein's 'x-inefficiency' and allocative inefficiencies. Rent-seeking managers, firms and political parties decreased the incentive to equate resources with demands (leading to allocative inefficiencies), while cost-plus regulation inhibited the search for low-cost technologies and innovation and promoted organisational slack.

SOME INTERMEDIATE STEPS TOWARDS REFORM

We should mention that several attempts to reduce public interference were made. As far as privatisation is concerned, there was a limited wave of privatisation in the late 1950s. Several firms, located in eastern Austria, had been German-owned, and later managed by the Russians during the occupation period. In the late 1950s, the need for restructuring was unavoidable. Some firms were sold to private owners, and some were privatised by a stock offering, specifically targeted at employees and middle-income investors ('Volksaktie'). Minority shares in the two large nationalised banks (Creditanstalt and Länderbank) were also offered to the public, although the government retained the voting rights. This experiment is considered today to have been moderately successful. No broad capital market existed in Austria and there was no popular, widespread attitude favouring investment in stocks. Only a limited number of small-income investors had the patience to wait for stock prices to rise, so that the lion's share of the broadly distributed shares was, in a short period, acquired by large or institutional buyers.

Many examples exist of cases in which reforms were implemented in an attempt to insulate the daily management of agencies or firms from direct bureaucratic grip, through the formation of quasi independent agencies or independent companies under corporate law (corporatisation). In this form of restructuring, the government is still the owner, deciding in principle upon the goals, strategies and activities of the firm, selecting and monitoring the management. However, decisions regarding daily operations, financial details, and personnel are made at the level of the firm and operation is according to the rules of the private sector. The minister cannot give direct orders (Weisungsrecht) and the employees have no lifelong job guarantee.

Examples of this type of 'privatisation' are available at all government levels and involving a huge diversity of legal and operational constructs. At its very beginning, the Austrian Central Bank (OeNB) was established as a quasi public agency with majority ownership by the central government, but free from any direct state interference in monetary affairs. Here we see that it is even legally possible to transfer an inherent public responsibility (hoheitsrechtliche Aufgabe) to an independent company. Another early example is the Austrian Broadcasting Company (ORF), which was transferred to a separate agency in the late 1960s. The Austrian Railways were organised as a separate company in 1993; the post and telecom company in 1996. Several funds for industrial support (ERP, Buerges, FFF) were organised as companies at arm's length, as was the labour service organisation in 1994. Air traffic control was corporatised in the same year.

The 1980s was associated with a new wave of privatisation, in the sense of ownership transfer. The motives were mixed. Efficiency was among them. The People's Party joined the government and supported privatisation as a political goal, but the potential of the revenues for reducing the federal budget deficit was the driving force. In the majority of cases, ownership changed from one public agent to another. The largest single action was the transfer of the Hauptmünzamt (the central mint) from direct ownership by the central government to the Austrian Central Bank (OeNB) in 1989. The second largest was the privatisation of 49 per cent of the electrical utilities company, a state-owned monopoly,[8] and the sale of specific producers of electricity in 1987. The largest portion of the shares was bought by other public companies or local governments; only some of the shares were purchased by the broad public. The state travel agency was sold to a private investor in 1990; state-owned residential flats were sold to their tenants; and minority shares in the Austrian Airlines (AUA) were purchased by the public and other airlines. State ownership shares in the two largest banks were reduced in 1987 and 1989. All in all, the volume of 'privatisation' in the 1980s may have amounted to ASch 30bn, but two-thirds constituted a restructuring from one public owner to another and therefore was not true privatisation. The main objective was to reduce the federal deficit, a secondary issue was the increasingly fashionable idea that efficiency and innovation would be promoted by private ownership.[9]

HOW TO PRIVATISE FIRMS: SELLING THE MAJORITY OF FIVE LARGE INDUSTRIAL FIRMS

The governing structure of the public firms in manufacturing has changed several times over the last four decades.[10] Sometimes the firms were directly governed by a ministry, sometimes separate agencies were installed with limited freedom in strategic and operational decisions. In the early 1970s a stock company (ÖIG, then ÖIAG) was created as a holding company for individual firms; 100 per cent of the shares remained in government hands. Different steering methods were tested within the conglomerate of firms; sometimes the holding company was designed as a loose financial holding. Later, it was transformed into a holding according to Austrian business law, which implied that it could implement strategic goals and extract dividend payments from the individual firms and reshuffle them between industries. At the beginning of the 1970s, all the firms within an industry were integrated into a branch holding: the big steel companies and those in the non-ferrous metals industry were merged. A planned oil/chemical merger was prevented by the firms and regional lobbies, though the law also called for this merger ('Branchenzusammenführung').

Following the large losses suffered by the firms during the 1980s – centred around the steel company and its unsuccessful diversification into, for example, mining and oil speculation – a new step towards reform[11] changed the rules of management rather dramatically in 1987. One specific feature was the increased independence of the nationalised firms from the government: the choice of management was de-politicised, a large subsidy (ASch 33bn) was injected to stop losses and facilitate active strategies. The government announced that this was the last injection of government money that could be expected; any further losses would have to be covered by privatisation. The leverage of the holding organisation over individual subholdings and firms was increased by defining a newly created holding company, Austrian Industries (AI), under Austrian corporate law. The vision was to form a large, professional, Austrian, multi-industry conglomerate, with plans to go public within three to five years.

Positive restructuring took place during the following years. The quality of decision-making processes and management was upgraded and the firms invested in active internationalisation. Minority stakes in the oil company were sold in 1987 and 1989, but afterwards, privatisation via stock offerings in individual firms was forbidden by the holding organisation, which eventually wanted to place its own shares. A bond option as a means of going public was issued in 1990, offering a preferential swap into stocks in five years time. However, the attempt to restructure the firms failed. One reason was the unfriendly business climate in the steel industry at this time, another was a mismanaged internationalisation campaign by the large aluminum company (AMAG). This resulted in a loss of ASch 12bn in 1993. In addition to these unlucky events, the conglomerate proved to be too large and the interests of the firms too different. In this situation the strategic interference and control potential of the holding company was, in various cases, simultaneously too strong and too weak. In the globalising world economy, the time for large diversified conglomerates had passed. Competitors had opted for cost reduction, leanness, flexibility, and flattened hierarchies.

The final stage of Austrian nationalised industry and the privatisation experience started in 1993. The old holding structure was dissolved.[12] A new capitalisation of ASch 7.5bn was provided and combined with a binding demand to sell all the majority stakes. The new holding organisation (ÖIAG) was explicitly stated in the law as being not a holding company according to Austrian corporate law (Konzerngesetz). It could give no orders to its subsidiaries, except those which were necessary for the promotion of the privatisation process. For some of the firms, explicit deadlines for privatisation were set (e.g. 51 per cent of the technology group should be privatised by June 1994), while for others, the method of privatisation was indicated (the steel company should be offered to the public). The law used the term 'should', which meant that the legislation stopped short of enforcing the time and method of privatisation. Instead, an indicative guide was created which did not have to be followed if there were strong arguments against it, but otherwise the expectation was that it would be followed.

The law declared that the goal of privatisation – and therefore the criteria for choosing between alternative offers and methods – was the amount of revenue gained by the seller. But the law added that the selling agency also had to 'to consider that Austrian manufacturing firms and the value added in Austria should be maintained, if economically feasible'. This clause had to be realised and was made operational in the so-called 'privatisation concepts', which were to be developed by the new holding organisation and approved by the owner (the central government). In these 'concepts', the detailed time schedule and method of privatisation, as well as the restructuring intentions, were fixed by the ÖIAG management, and approved by its supervisory board and finally the new owner. The character of the privatisation concept can be assessed as equivalent to a strategic plan, which is based on targets set down in the law but which makes them more concrete. An 'Austrian clause' was made operational by establishing a 'privatisation checklist'. This included an assessment of the long-term business plans of the potential buyers regarding investment, employment, research activities and the location of headquarters; the probability that the firms would continue to exist or even be upgraded; the role of the Austrian firms as a centre of competence; and the consequences for Austrian suppliers and consumers. The final purpose of the checklist was to assess whether the buyer would strip the firm, eliminate an unwanted competitor, use the acquired firm as a low-cost supplier, or whether the bidder had a strategic interest in a quality partner with own core competencies. The checklist did not contain a preference for the nationality of the buyer, as such.

By mid-1997 the majority of all of the five large holding organisations had been privatised. In each case a different method, speed or process had been applied and in all cases the headquarters remained in Austria.

The oil and gas company, OMV, found a strategic partner in IPIC, a company in Abu Dabi. Today, the holding organisation owns a 35 per cent share of OMV, which is syndicated with IPIC, so as to guarantee the joint strategic dominance of these two partners. The remaining shares were offered to the public. The attempt to win other Austrian energy groups as partners failed, due a to competitive attitude and personal jealousies. IPIC was chosen because it guaranteed a long-term strategic interest, the company wanted to integrate forward and to diversify geographical interests. Finally, it is not linked to one of the major multinational oil companies. The potential interests of the large multinational oil companies did not fit into the privatisation strategy chosen. There was a fear that the Austrian firm would be acquired by one of the large multinational oil companies, in order to eliminate an independent competitor and to downsize it to being a regional network of gas stations. Further attempts to decrease the shares held of the holding organisation are to be expected, but are limited by the necessity to find a reliable partner acceptable to the syndicate.

The Austrian Technology group, VA-Tech, is a success story. It started as a collection of several small engineering firms in the energy and environmental industry, to which the engineering divisions of the largest steel firms were added. Now VA-Tech is a large international engineering conglomerate with subsidiaries all over the world. Specifically, the firm has a lead in technologies for the reduction of production costs in the steel industry (KVA technology). Fifty-one per cent of the shares of VA-Tech were offered to the public with 20 per cent to be held by VA-Stahl (the largest steel firm) and 24 per cent remaining with the holding organisation. Out of the 51 per cent sold, a slight majority is held by international investors (most of them are very small shares held by investment and pension funds, a 5 per cent share was bought by General Electric), 43 per cent of the shares sold were bought by Austrian investors. Originally, 27,000 Austrian investors bought stocks, although more than half of them sold their shares after one year (Goldmann, 1996).

The privatisation of the two steel firms was performed via the stock market. The VA-Stahl (which concentrates on flat steel and basic products in the long steel sector) was sold in 1995. The holding organisation kept 38.8 per cent, but plans to sell more shares later. The VA-Tech has a considerable cross ownership, so that majority ownership by Austrians is well established. In addition, out of the publicly offered stocks, 56.5 per cent were bought by Austrian investors. Since VA-Stahl has traditionally been one of the largest and best-known Austrian firms, the ownership of this firm is a sensitive issue in the country. During the 1950s, VA-Stahl developed the path-breaking LD steel technology and today concentrates on high-quality products for the car industry.

BUAG is a company which produces special steel products, and which has leading positions in high-quality tools. It is the result of a merger of Austrian and Swedish firms and is under Austrian management. Its international qualities, with respect to location, employees and sales, made its sale to the international public possible and advisable. This was done in two offerings, in 1995 and 1996. The ÖIAG currently retains a 25 per cent stake.

AMAG is Austria's largest aluminum firm and made heavy losses in 1992 stemming from an unsuccessful internationalisation strategy. Too many firms, some of them ailing and some of them at extremely high prices, were purchased. No middle management existed capable of keeping track of the reorganisation and AMAG's assets were too small for a firm in a risky and volatile field. Earlier, a strategic internationalisation programme, orientated towards the future, had been delayed by long discussion as to whether the firm's outdated primary aluminum capacity should be rebuilt with the help of a large public subsidy. Political leaders had specifically promised the subsidy at election time and the management had concentrated on lobbying for low energy prices to make primary aluminum production competitive. But competitiveness is a tough problem in a high-income country which lacks the necessary raw materials and has expensive transportation. The firm finally had to be restructured before it could be sold. AMAG was sold in 1996 at a negative price to a joint venture consisting of the management and a large, private Austrian company (Constantia).

Many smaller firms have also been sold, some via management buyouts, some to foreign firms with larger stakes in the industry, and some to Austrian entrepreneurs. No ownership form has been accepted as ideal on ideological grounds. Instead, the privatisation checklist is always used to add non-financial parameters when choosing between offers.

The privatisation experience is now considered to have been successful. The revenues achieved of ASch 23bn, have been much higher than anticipated. The holding organisation still owns a strategic investment in four of the five large firms privatised, which is valued by the market at ASch 28bn, and the headquarters of the privatised firms remain in Austria. The sales of the five firms are rising and the stock market evaluation has outperformed the general index. Employment has declined in the firms, but not much faster than in other parts of manufacturing.[13]

To sum up the results, we can recognise the following specific features of the privatisation process of manufacturing in Austria:

- Privatisation was rationalised by the experience that neither variant of public ownership tried could control a large and diversified conglomerate. The only way to stop pouring money into the firms was to subject the firms to private ownership and stock market control.
- The former holding company, which initially was a financial holding and then a holding under corporate law exerting a strategic influence on the individual firms, was transformed into a privatisation agency with the objective of relinquishing majority stakes. For that purpose, but only for that purpose, it could intervene in the firms, with the stick being the necessity to pay back old loans and the carrot being an incentive contract for the management with a 50 per cent bonus if privatisation revenues exceeded planned revenues. To a great extent, the firms were restructured before privatisation, which helped considerably to increase the revenues from privatisation.
- The maximisation of revenue was the main criterion for choosing the time and type of privatisation, since only high revenues would allow the paying back of more of the old debt. The time schedule in the privatisation law was indicative and could be changed if the holding organisation demonstrated that postponement for restructuring would increase the revenues.
- A second criterion for choosing among potential buyers was continuing operation of the privatised firms and the value added created by them in Austria. This criterion nearly equates to a national preference clause. But the careful use of words and the nature of the objective allowed the law to pass the scrutiny of the EU competition agency. Preferring a buyer who can plausibly contend that he will continue the production in the same country and use the plants as the headquarters for international expansion is not unreasonable. The alternative, by which the plants would be shut down since they are one of many in an industry faced with overcapacity with the headquarters of the acquiring firm located in a faraway country which is itself coping with excess capacity, would in any case probably have been shunned by potential private investors. The privatisation checklist and the privatisation strategies adopted definitely pre-selected the potential buyers. In the oil industry, it was quite clear that no large multinational firm would be accepted. In the aluminum industry, the offers made by three buyers were very close as far as revenue alone was concerned. In the case of BUAG and VA-Stahl, large share purchasing by a competitor would probably not have been accepted.

Privatisation succeeded insofar as all five companies were sold and the strategic ownership of all of them remains in Austria. This was achieved in a non-discriminatory fashion, no single question of fairness was raised in Brussels by a competitor.

The success of this process induced the Austrian government to use the holding organisation, and respectively its management team, in further privatisation plans. The holding organisation was asked to privatise the Austrian

Salt Company (Salinen AG) and the Austrian Tobacco Industry. The management team chairs the Austrian Post and Telekom Holding (PTBG) which has two goals, to repay old debts and to make the operating company (PTA) fit for competition and privatisation in 1999.

HOW NOT TO PRIVATISE A BANK

In contrast to the successful privatisation of the manufacturing firms, the privatisation of the two largest banks has become a long-lasting nightmare. Specifically, the Austrian government has been planning to give up its majority stake in the Creditanstalt (CA) ever since 1987. The type of privatisation selected was to find a buyer who would purchase a stock package, which would give strategic control of the bank. The process of selling was directly managed by the Minister of Finance. Offers had to be made to him; he assessed the adequacy of each offer. An agreement between the two parties of the ruling coalition declared that privatisation was a sensitive issue in which the Minister of Finance had to consult the Minister of Economics. There was no definite agreement as to what objectives the sale should follow – for example, whether the maximisation of revenues was the overriding goal or whether it was a necessary or warranted condition that the purchaser be of Austrian nationality. At least implicitly, the latter was the case. In addition there was an understanding that the CA had always been a bank within the sphere of the conservative party, so that buyers from that party had priority.

Several offers came in over time. A serious offer was made by a large Swiss bank, but it was publicly rebuffed by the Austrian People's Party, and therefore withdrawn (in 1993). Another offer came from a group representing an agro-industrial bank, which was rejected by the Minister of Finance due to its imprecision. For a long time, the favourite bidder was a consortium which included a conservative bank, an Italian and a German group, as well as several Austrian manufacturing firms. Their offer was accepted with varying degrees of enthusiasm on the right and the left of the government, but the financial offer was rather low and the decision-making structure within the consortium remained unclear. Finally, a public offer was issued in the London *Financial Times*. Although it did not mention a preference for Austrian offers, a few days later the head of the Austrian government declared that Austrian buyers would have priority. The result was – apart from angry comments in the international press – that the offer made by the Austro-Italian-German consortium remained the sole bid. This was discussed for many months and then the Minister of Finance decided that it was too low. He issued another, final tender, stating that the size of the offer, its strategic effect on reform in the Austrian financial sector, and unspecified Austrian interests would be the decisive criteria for acceptance. Three offers were received: one made by the consortium; one by a private Austrian citizen who had sold Austria's largest retail company some months earlier; and a surprise offer by Bank Austria, the CA's main competitor. Through a merger some years earlier, Bank Austria had become Austria's largest bank. Its ownership structure is difficult to explain, but essentially its boards are appointed by the local Viennese government. The last offer was by far the one offering the largest financial contribution.

Now a political quarrel began between the coalition partners. The socialist party had for a decade implicitly accepted that the CA should remain within the conservative sphere of influence, but this assumption was never expressed explicitly and was, of course, not one of the conditions in the tender. Officially, the People's Party claimed that the offer should be rejected because Bank Austria had, itself, received public support to prevent bankruptcy 12 years earlier. Furthermore, Bank Austria had asked for exemption from the obligation to meet the compulsory banking standards for its own assets, as recently required by EU law. It was also claimed that this offer would not result in a privatisation, since the majority share of Bank Austria belonged (in a rather indirect way) to the Viennese local government. Experts also questioned the synergies between the two banks which would be derived from a merger; others decried the loss of options for large firms, especially firms wanting to issue stocks, since together the two banks made up 80 to 90 per cent of newly issued equity in Austria. On the positive side, many observers agreed that the merger of the two banks would create a large player in the European finance industry and one highly competent in Central and Eastern Europe. Austrian ownership of CA would result, while the value to the restructuring of Austria's overcrowded financial sector was considered to be mixed, although judgements were leaning towards the positive side.

The Minister of Finance permitted the bidding to enter a second round. The Bank Austria and the consortium increased their bids, but the relative ranking of the bids remained unchanged. Before finally awarding the CA to the Bank Austria, the coalition partners reached several side agreements, which to some degree will soften the links between Bank Austria and the Viennese local government and which will temporarily shelter the CA from radical stripping and downsizing. After ten years of irresolution, the story has ended with a financial success for the Minister of Finance and a strategic triumph for Bank Austria over an indecisive consortium. The EU Commission agreed the merger with minor amendments.

What is to be learned from this story? The main conclusion is that the Minister of Finance cannot privatise a firm by himself. His attention to the problem of privatisation fluctuated over time. When budgetary problems or Maastricht criteria became urgent, the attention towards privatisation altered. In addition, he is a member of a political party and as such is confronted with a great amount of pressure from his own party and from his coalition partner. The task of the owner is to specify in advance the goals, a rough time frame, and maybe the type of privatisation. Then, he needs to delegate the process to an agency or company, which can make decisions professionally, according to the rules stated. The agency should have some temporary leverage over the firm to be privatised, the minimum being a close cooperation with the firm's supervisory board. Several times, the management of the CA actively interfered to attract or thwart offers from potential bidders. It preferred a public placement because this type of privatisation would have permitted the largest manoeuvring capacity for the management and, of course, their continuation in office. Finally, the incentives for the privatisation agency should be such that payment directly depends on the fulfilment of the criteria for privatisation as declared by the owner. All these rules were fulfilled in the privatisation of the nationalised manufacturing firms, while none was evident in the privatisation of the CA.[14]

LAGGING DEREGULATION IN AUSTRIA

The system of regulating natural monopolies has already been described as a 'double grip', consisting of public ownership and a rather strict regulatory policy for entry, prices and technical rules (the precise system varies for electricity, telecommunications, railways, and gas). Pressure to change the system has originated from the rules issued by the European Community (see chapter 2), but deregulation or liberalising entry is lagging in all sectors. Only a few steps were and are being taken to meet the requirements of the new rules and to facilitate the entry of new competitors.

Posts and telecommunications is still in public ownership in a traditional PTO. The creation of a separate company and the necessity to make cross-subsidisations public through an explicit cost statement for the organisation's divisions, 'yellow post', buses and telecommunications, were delayed up to 1996. The first non-public telephone supplier was permitted in the mobile phone business late in 1996, well after the PTO was allowed to start its own mobile phone line. Five decades of regulation and government-backed policy to prevent entry have resulted in high prices for telephone lines, data transmission and the lack of a service sector and content providers. Specifically, in Austria the variable costs of telephoning are high, long distance and international calls are expensive, while the fixed charges for installing new capacity are somewhat lower.

The PTO was separated from direct government control in 1996. Plans to privatise the operating company, starting in 1999, were forced upon the unwilling company on the initiative of the People's Party in a coalition agreement. The original plan to nominate retired senior members of the PTO to the supervisory board (and the holding company PTBG) were luckily given up at the last minute. Retired managers from the old public system would have effectively colluded with the new management and its employees to prevent the privatisation efforts of the owners.

Electricity can be imported and exported only by the nationalised company 'Verbundgesellschaft' (Verbund). In addition it is the Verbund that has the general responsibility of providing as much capacity as needed. Electricity is, however, generated by several layers of independent units, some owned by regional governments, some by large cities, while a very small amount is produced by private generators or by industrial firms. The Verbund owns 'Sondergesellschaften' which help buffer demand, if other plants are not able to provide enough electricity. The system has resulted in large reserve capacity. The regulation has been a mixture of cost-plus type and restrictions on the return on capital, both are known to lead to low cost-efficiency and to over-investment. The electricity firms pay by far the highest per capita wages in Austria, and most clashes with environmentalists originate in unreasonable capacity enlargements. By law, the large firms must be public (2. Verstaatlichungsgesetz, 1947), although it is expected that this law will soon be changed. There is no agreed strategy as to how the future of this industry will look. A unanimous opinion is that the relations between the various layers should be restructured so that the lowest-cost producer will be the supplier. There is a suggestion that the losses involved in the possible contracting of large firms with foreign suppliers should be spread (the so-called 'cooperative solution') among Austrian firms, but this does not comply with EU law. A strong Austrian company able to compete internationally would be an obvious option, but it is a very unlikely one. It looks as if privatisation will come very late and only a few companies will retain positions as important players in the liberalised market.

The privatisation of the railways is not on the agenda in Austria, though the central railway was separated from direct government influence in 1994. Its efficiency and service quality are rated as disappointing by both external analysts and business firms. Several steps towards reform have been attempted and have resulted in marginal changes for the better, but the closest the railway has come to privatisation has been an attempt to allow local government to influence the closure of regional services. If the local government pays and declares its specific interest, it can influence the schedule and extend the service of local lines originally planned to be closed. Some minor examples exist in which a local line has been privatised.

One feature common to the PTO, electrical utilities and the railways (the same holds true for the publicly owned banks) is that, historically, the pursuit of ownership interests and regulation has not been separated. The ownership rights of the PTO and of the state railway are both allocated to the Ministry of Transportation; formerly, this ministry was also the regulator. The ownership of the electrical utilities is monitored by the Ministry of Economics, as is their regulation. The ownership of the banks is monitored by the Ministry of Finance, as is their regulation (Bankaufsicht). This decision was made with respect to social planning. If there is a social optimum which can best be achieved by a single firm (due to economies of scale or other form of 'market failure'), the firm can be controlled and regulated together and the interests of managers, owners and consumers are presumed not to differ from one another appreciably. It is historically true that interests in postwar Austria – given its destroyed capacity in 1945 – were not too different: capacity had to be increased as quickly as possible and infrastructure had to be provided as cheaply as possible. The first conflict of interest arose when the producers preferred a higher price, while consumers appreciated a lower price. This conflict was managed, in part, outside of the regulatory system with the help of the social partnership system. The system worked well for a long time. The quantity and quality of such basic services as electricity, railways and the telephone matched Western European standards as early as the 1960s, which is a great achievement. But eventually, the negative effects of low competition and innovation outweighed the advantages. Over time, the interests of managers and society became more complex. Managers began to prefer excess capacity (to be on the safe side, or to utilise construction units, or to maximise price) and environmental issues evolved. The system developed many aspects of 'regulatory capture theory'; the regulators started defending the firms when they were accused of installing excess capacity, raising prices and creating environmental problems. The regulators were appointed to the supervisory boards of the firms, as if there was no conflict between the objectives of the firms and the tasks of the regulators.

It is currently being discussed whether regulatory tasks should be given to a separate agency. This now appears feasible for the telecommunications sector where privatisation is planned, but not for railways and electricity where no privatisation programme yet exists.

Contracting out, tendering licences and incentives

Contracting out and the tendering of services and licences are under-developed in Austria. The delegation of tasks performed within the state sector to agencies or firms under company law has been applied for the railways, telecommunications and broadcasting and in many other cases. It has become even more popular recently because of the commitment to fulfil the Maastricht budgetary criteria, which favours off-budget practices.

It is beyond the scope of this chapter to provide an overview of the success and failures of these initiatives. The general view (as expressed for example in Gantner, 1996) is that off-budget companies have not been especially efficient. Arguably, this follows from an insufficient monitoring process. In only rare cases are the objectives of these firms stated precisely and many of the agencies try to follow certain non-economic goals, including universal service obligations or additional social and political responsibilities. The criteria and extent of these non-economic objectives are not specified and often the government erroneously believes that the ownership responsibility ends with the separation of bureaucracy and management. The firms become agencies without effective principals; safe in the knowledge that they can return to the state for financial help.

CONCLUSION

Privatisation has recently become an important topic in Austria. Privatisation revenues are now large compared to a number of other countries in the EU and compared to the size of the Austrian stock market (see Table 4.1). Traditionally,

Table 4.1 Privatisation revenues in EU countries

	As % of GDP		*As % of domestic market capitalisation*
	1990–3	*1995–7*	*1995–6*
Austria[a]	0.04	0.56	2.30
Belgium	0.45[b]	0.60	n/a
Denmark	0.29[c]	0.09	0.30
Finland	0.27[b]	0.37	1.00
France	0.97[b]	0.31	0.50
Germany[a]	0.02[d]	0.34[h]	2.00
Ireland	0.6[e]	0.33[i]	n/a
Italy	0.2[b]	0.57	2.50
Netherlands	0.14	0.49	0.80
Portugal	1.44	2.98	n/a
Spain	0.28[f]	0.87	1.10
Sweden	0.14[g]	0.37	0.50
UK	1.11	0.48	0.40
EU15	*0.26*	*0.44*	—

Source: *Financial Market Trends*, 66, Paris, March 1997
Notes: [a] Information on trade sales not available; [b] 1993; [c] 1990, 1993; [d] 1991, 1993; [e] 1991–3; [f] 1990, 1992, 1993; [g] 1992, 1993; [h] 1996, 1997; [i] 1995, 1996

there has been a high degree of direct interference by the government and centrally organised social partners in Austria's economic sector. Public ownership has been larger than in other Western countries; specifically, up to one-fifth of Austria's manufacturing firms were nationalised.

The nationalised sector of manufacturing developed well up to the 1970s; but afterwards it stumbled from one crisis to the next. Between 1993 and 1996 a majority of all the large firms were sold after restructuring. The experience is considered a success since the revenues were high, the headquarters of the firms remained in Austria and the privatised firms now outperform the stock market average. The privatisation was delegated to a former holding company, which was transferred into a privatisation agency with clear incentives to privatise. The privatisation schedule and mode were flexible; a specific supplementary criterion demanded that offers where headquarters and value added remained in Austria should be preferred, if economically feasible. The nationality of the owner, however, did not play a direct role.

In contrast to this successful privatisation of manufacturing, the attempt to privatise one of Austria's largest banks gained worldwide attention as a never ending story. The difference between privatisation in the manufacturing sector and privatisation in the banking sector was that the first followed explicit rules (guidelines for the objective, the schedule, and the form of the privatisation) and was delegated to a privatisation agent with the power to restructure firms. In contrast, the latter remained under direct ministerial control up to the very last stage of the privatisation process, the rules were changed during the process and never made explicit up to a very late stage, and choices were limited by political considerations.

Finally, Austria continues to lag in liberalising infrastructure or public utility markets. So far only the telecommunications business is clearly slated for privatisation.

NOTES

1 The author thanks Wilhemine Goldmann, Gerhard Jersabek, Claudia Schmid and Gunther Tichy for discussing an earlier version of this paper, Dagmar Guttmann for calculations, Gerhard Schwarz for correcting the manuscript.
2 See Domberger and Pigott 1994, p. 48.
3 German literature sometimes distinguishes between 'materieller Privatisierung', where the government stops providing a service, and 'formeller Privatisierung', where government continues to provide a service, but makes use of a company structure while remaining owner of this company. A third type is 'contracting out', here the government guarantees the provision of the service, but uses the means of a contract with a private firm (see Fuest 1997).
4 The exact shares differed over time and according to whether investment, value added, employment or exports were used as indicators for measuring public ownership. Aiginger, 1985, reported that 25 per cent of value added in manufacturing was produced by publicly owned firms, 14.5 per cent of total value added in manufacturing was produced in firms with public ownership, as determined by the nationalisation law of 1946, 5.4 per cent was accounted for by firms owned indirectly via banks with public majorities. At its climax 125,000 persons were employed in the first group, and 50,000 in the second.
5 Aiginger (1985, p. 41). The figure was 25 per cent for the total economy, excluding public consumption in the numerator, but using GNP in the denominator. If we add public consumption the share of public ownership increases to 37 per cent.
6 Later the Länderbank merged with the Zentralsparkasse (a savings bank with strong stakes in Vienna's city government) to become the largest bank, called Bank Austria.
7 Comparing ownership structures across countries is a difficult empirical issue. However, the share of public ownership in manufacturing in Austria was definitely higher than in Germany or Sweden. Comparing the share of public firms with France, the United Kingdom and Finland does not produce a clear picture. Studies cited in Aiginger (1985) report approximately equal shares of about of 11–13 per cent of employees for France, the United Kingdom, Italy and Austria. On the other hand public ownership in all its different forms, including bank subsidiaries, state monopolies and cooperative associations amounted to 19 per cent according to Austrian statistics.
8 Verbundgesellschaft, 1988. This company has the import and export monopoly, owns the largest share of the distribution system and guarantees the overall supply of electricity.
9 For a summary of attempts at privatisation between 1987–90, see Siegl (1990). The figures cited do not include some specific attempts at privatisation in the nationalised industry sector. During this period, a minority share in an oil company was sold to the public and the ownership of a pharmaceutical firm and an electrical firm was transferred to foreign investors. But at the same time, the nationalised firms purchased just as many firms, in an attempt to restructure and to internationalise, so that we consider this phase as one of restructuring, but not of (net) privatisation. The OECD (1997) calculates revenues for privatisation in Austria at US$1.2 bn in 1996 but this includes only privatisation by public offerings, not by trade sales.
10 There are several types of public ownership of manufacturing firms in Austria. The largest type is the so called 'Verstaatlichte Industrie'. This sector is comprised more

or less of those firms which were nationalised in 1946 by law (Verstaatlichungsgesetz 1946). The ownership rights were monitored by different ministries and then by different holding or operating companies, called ÖIG, ÖIAG, AI, and finally again ÖIAG. The second most important form is the indirect public ownership of firms, whose shares are held by nationalised banks. The number of firms held by the banks was reduced over time, but as of 1997, the largest European brick company and major Austrian firms in the vehicle and chemical industries, and specifically construction industries were still held by the banks. A third group includes the (former) state monopolies for tobacco and salt; a fourth sector of firms has been organised as cooperatives.

11 ÖIAG Gesetz 1986, ÖIAG Finanzierungsgesetz 1987.

12 ÖIAG Gesetz und ÖIAG Finanzierungsgesetznovelle BGBL 973/1993. The holding company Austrian Industries was merged with ÖIAG and thus disappeared.

13 As of 1996, total sales accounted for ASch 164bn. The four firms employ 48,000 people.

14 In the latest stage, most of the rules were fulfilled. An international consultant guided the last tenders in close collaboration with the bureau of the Minister of Finance.

REFERENCES

Aiginger, K. (1985), 'Die wirtschaftliche Stellung des Öffentlichen Sektors in Österreich', *Wirtschaftanalysen – Die Erste*, 1, pp. 37–61.

Beesley, M. and Littlechild, S. C. (1994) 'Privatisation: Principles, Problems, and Priorities', in Bishop *et al.* (eds), pp. 15–31.

Bishop, M., Kay, J. and Mayer, C. (1994) *Privatisation and Economic Performance*, Oxford: Oxford University Press.

Bös, D. (1993) 'Privatisation in Europe: A Comparison of Approaches', *Oxford Review of Economic Policy*, 9 (1), pp. 95–111.

Boyko, M., Shleifer, A. and Vishny, R. W. (1996) 'A Theory of Privatisation', *Economic Journal*, March (106), pp. 309–19.

Domberger S. and Piggott, J. (1994) 'Privatisation Policies and Public Enterprise: A Survey', in (ed.) Bishop *et al.* (eds), pp. 32–61.

Estrin, S. (1997) *State Ownership, Corporate Governance and Privatization*, Paris: OECD Conference on State Ownership, Corporate Governance and Privatisation.

Fuest, W. (1997) 'Privatisierung in der Bundesrepublik Deutschland', Köln: Institut der deutschen Wirtschaft, mimeo.

Gantner, M. (1994) *Budgetausgliederung-Fluch(t)*, Manz: oder Segen.

Goldmann, W. (1996) 'Die Privatisierung der ÖIAG – eine Erfolgsstory', *Wirtschaftspolitische Blätter*, 6, pp. 631–639.

Itzlinger, A., Kerschbaumer, R. and Van der Bellen, A. (1989) 'Verstaatliche Industrie', in H. Abele *et al.* (eds) *Handbuch der österreichischen Wirtschaftspolitik*, 3rd edn, Vienna: Manz.

Lieberman, I., Nellis, J. and Nestor, S. (eds) (1997) *Mass Privatisation: A Comparative Analysis*, Washington, DC: World Bank/OECD.

Maurer, J. (1990) *Privatisierung in Österreich*, CA Quarterly III.

Nestor, S. (1997) 'Institution Building and Mass Privatisation: A Comparative Overview', in Lieberman *et al.* (eds).

OECD (1997) 'Privatisation: Recent Trends', in *Financial Market Trends*, 66, March, Paris: OECD.

OECD–CEET (1996) 'Trends and Policies', in *Privatisation*, 3(1).

ÖIAG (1996) 'Die österreichische Privatisierungsagentur', *Bank und Börse*, 21.

Parker, D. (1995) *Measuring Efficiency Gains from Privatisation*, Research Centre for Industrial Strategy, Occasional Paper no. 36, Birmingham: University of Birmingham.

Siegl, R. (1990) 'Austro–Thatchers?', *Die Industrie*, 5(12), pp. 20 ff.

Wall Street Journal (1995) 'Creditanstalt: How Not to Privatise a Bank', 21 September.

Zeitschrift für Gemeinwirtschaft (1996) 'Privatisierung: Ziel oder Instrument?' (with contributions by Krejci, H., Nowotny, E., Van der Bellen, A., Wojda, F., Becker, E., Hollweger, K., Pühringer, O. and Stadler, G.) *Gemeinwirtschaft*, 1.