Privatizing the Public Business Sector in the 1980s:

Economic Performance, Partisan Responses,

and Divided Governments

Carles Boix

To be published in the **British Journal of Political Science**,

October 1997

This paper is based on research supported by a grant from the Instituto de Estudios Fiscales, Ministerio de Economía y Hacienda, Spain. I would like to thank the comments of Alícia Adserà, Alberto Alesina, James E. Alt and Peter A. Hall and the participants in seminars at the Center for European Studies (Harvard University), Ohio State University, the University of Michigan, Universitat Pompeu Fabra and the University of Wisconsin at Madison.

Abstract

From the late 1970s on, after several decades characterized by relatively interventionist patterns of economic policy-making, most advanced states began questioning and, in some instances, abandoning active industrial policies and privatizing public businesses. Examining the evolution of the public business sector in all OECD nations from 1979 to 1993, this article shows that the sale of public firms did not mechanically derive from either declining growth rates, growing budget deficits or the increasing internationalization of domestic economies. Although the economic slowdown of the 1970s had the effect of breaking down the so-called Keynesian postwar consensus, the strategies toward the public business sector eventually adopted were shaped by the partisan composition of office--conservatives privatized while social democrats opted for the status quo--and by the internal structure of the cabinet--divided governments produced little change in either direction. From a theoretical point of view, this analysis broadens the current political-economic literature by showing that, although parties have a limited impact on the standard macroeconomic policies employed to manage the business cycle--a point widely confirmed in the literature--they do play a central role in designing policies, such as the level of public ownership of the business sector, that shape the supply side of the economy.

For thirty years after the war, the developed world was committed to relatively stable policies and policy-making institutions to spur economic growth.[1] On the one hand, policy-makers, embracing Keynesian prescriptions, relied on expansionary fiscal policies to smooth the business cycle.[2] On the other hand, policy elites favoured the direct intervention of the state in the economy through 'indicative' planning, industrial policies, sizeable subsidies, and the public ownership of industrial and credit institutions. As a result, by the mid-1970s public corporations accounted for close to one sixth of all gross domestic fixed capital formation (and around one fifth of all non-residential business fixed investment) in the industrial world.[3]

Since the mid-1970s, however, most advanced nations went through an unprecedented shift away from the familiar postwar macroeconomic prescriptions. Rising levels of trade integration were transferring a higher portion of demand abroad and therefore lowering the real effects of internally engineered expansionary policies. Growing financial capital mobility across borders (which led to greater difficulties in maintaining capital controls) entailed a corresponding loss of autonomy in macroeconomic policies.[4] Finally, the expansionary policies of the late 1970s generally failed to solve the stagflation crisis. As a result, most governments decided to abandon Keynesian macroeconomic policies in favour of an orthodox, anti-inflationary policy framework.[5]

The issue of active industrial policies in general, and the role of state-owned enterprises and their potential privatization in particular, began to gain salience as well in the political debates and governmental agendas of advanced democracies. Recent studies have estimated that OECD governments raised over $ 200 billion through the sale of state assets between 1980 and 1991--close to the whole Swedish gross domestic product (GDP) in 1990 or to all gross fixed capital formation in Germany that year.[6] Still, in spite of a renewed emphasis on the virtues of competitive markets over that of state interventionism, the implementation of privatization strategies was not pervasive. As shown in table 1 (column 1), the extent to which public businesses were privatized varied widely across OECD nations. The sale of state assets from 1979 to 1993 amounted to 14 per cent of the average annual GDP in New Zealand. But such sales represented less than 1 per cent of GDP in half of the OECD countries. In short, the widespread collapse of counter-cyclical macroeconomic policies that took place in the aftermath of the oil shocks was not accompanied by a similar abandonment of the interventionist supply-side policies developed to affect the productive capacity and the competitiveness of the domestic economy.

[Table 1 about here]

The aim of this article is to address two related questions: why did the privatization process take place? And, above all, why did some states embrace extensive privatization programmes while other did not? The article argues that the privatization drive--and the shift away from an active role of the state in the supply side of the economy--did not result from the emergence of a common set of ideas or beliefs about the optimal size of the economy. Nor did it solely come from growing economic difficulties--in the form of lower growth rates and swelling budget deficits--that policy-makers readily attributed to an oversized public sector and attempted to solve by selling public assets. It is true that the stagflation crisis of the 1970s severely strained the policies and policy-making regimes in place since the 1940s and contributed to the breakdown of the so-called Keynesian postwar consensus. Yet the privatization movement was mainly driven by the political actors in power at the time, constrained by the institutional settings in which they operated. On the one hand, the domestic strategy pursued towards the public business sector was determined by the party in power--conservative governments privatized and left-wing cabinets did not. The dismal economic performance of the 1970s pushed right-wing cabinets, but not leftist governments, to formulate and implement extensive privatization programmes--in a way which conservatives had not dared before. On the other hand, the internal structure of the government (ie. unitary or fragmented) determined the capacity of parties to pursue their political preferences and hence the shape of the policy actually implemented.

In theoretical terms, the argument and evidence of the article address two central questions in comparative political economy regarding the role of partisan forces and political institutions. There is a growing consensus that partisan preferences and strategies, heavily constrained by a host of structural and institutional factors, play a relatively marginal role in the conduct of macroeconomic policies to manage the economic cycle. This article shows, however, that, even in an era of increasing integration of the world economy, parties still pursue different strategies regarding the role of the public business sector and, more generally, regarding the functions the state should play in the supply-side or structural dimension of the economy. Moreover, building on the neoinstitutional literature, this article sheds further light on the role of constitutional frameworks and divided governments in the policy-making process.

The rest of this article is divided into four sections. The first section builds a plausible theoretical account of the privatization phenomenon. The second section operationalizes the model developed in section one. The third section proceeds to test it on the sample of OECD governments from 1979 to 1992. The last section concludes by reviewing the findings and then discussing how the validated model adds to current debates in the comparative political economy literature.

EXPLANATORY MODEL

Growth Slowdown and Fiscal Crisis

The extensive privatization strategies of the last decade have been conventionally attributed to the economic malaise of the 1970s. According to this argument, policy-makers began to blame the disappointing economic performance of those years on structural factors and the pernicious effects of an oversized public sector. According to this perspective, a fall in output, investment and productivity rates to almost half their level of the 1960s would have sparked a thorough process of deregulation, especially in countries in which there was heavy state intervention in the economy. Moreover, growing international competitiveness would have convinced policy-making elites of all ideological orientations to scale back the level of state intervention in order to free private investment, reduce vast inefficiencies, and enable national businesses to regain world markets. As a result, public firms, which were mostly operating in declining industries such as steel or coal, would have become one of the first targets of the reforms implemented to adjust the economy to the challenges of the 1980s.[7] Finally, the privatization of public businesses would have proved attractive as well for budgetary reasons. After two consecutive oil shocks and a significant decline in growth rates strained many governments financially, OECD government budgets deteriorated sharply in a short period of time. From a point of being roughly balanced around 1970 they fell into an average deficit of more than 5 percentage points of GDP in 1982.[8] At the same time, the average balance of Western European state-owned companies went from a deficit of 1.4 per cent of GDP in 1970 to more than 2.5 per cent of GDP in 1980.[9] By selling public corporations, governments could eliminate a significant source of losses and apply the new revenues to the reduction of public debt without having to resort to unpopular tax increases or spending cuts.[10] In short, growing worldwide economic and financial constraints and the internationalization of the economy would have led policy-making elites to embrace a programme of thorough deregulation and privatization. As a matter of fact, those have been some of the main reasons behind the renewed commitment to a leaner public sector among conservative parties across Europe.[11]

The economic slowdown of the 1970s (and its related budgetary problems) did certainly put into question the political-economic institutions of the Keynesian postwar consensus and triggered, among state elites, a search for new approaches to governing the economy.[12] But lower growth rates and larger public deficits did not mechanically trigger the privatization of public businesses. Even though the stagflation crisis hit all developed nations with almost equal harshness, privatization strategies were anything but pervasive. Moreover, there is no evidence either that they were only implemented among bad economic performers. Table 1 compares the volume of state assets sold in OECD nations from 1979 to 1992 (column 1) to the average growth rate from 1961-79 (column 2) and the level of net public debt in the early 1980s. It is true that several countries suffering long-term economic stagnation, such as New Zealand and the United Kingdom, engineered vast privatization packages. Yet nations like Japan or Portugal, with growth rates well above the OECD average, engaged in sizable sales of state assets as well. As for public deficits, they were not related to the approval of privatization packages. Countries bearing huge levels of public debt, such as Belgium, Italy or Ireland, sold hardly any public corporations.

Politics and Partisanship

How then can the divergent national strategies towards the public business sector after the stagflation crisis best be explained? Although it was a change in the overall economic environment that put into question the policy equilibrium of previous decades, each nation's response to the new conditions of the 1970s was determined by the particular alignment of political and institutional factors at the domestic level. Once the worsening performance of the economy in the 1970s began to discredit the postwar consensus in place since the 1940s, the specific responses of states to the situation of economic slowdown and international integration and, in particular, the strategies adopted towards the public business sector depended, above all, on the partisan orientation of the cabinet.[13]

The historical memory of the Depression and the war, and the need to overcome the reputation, earned in the 1930s, of being the parties of unemployment threw conservative and centre-to-the-right parties into the arms of Keynesian demand management and limited public intervention during the first part of the postwar period. Conservative and moderate parties accepted, broadly speaking, the thrust of the policies that characterized the so-called 'postwar consensus': a 'co-operative' arrangement between a private sector capable of delivering wage moderation and productivity growth and a government committed, in exchange, to boost the economy and sustain full employment.[14] This consensual approach to economic management only remained acceptable to non-socialist parties, however, as long as growth was robust and the inflation-unemployment trade-off was at most marginal. When productivity dwindled, wages outpaced it, and the general performance of the economy declined, there was no longer an incentive for them to pursue expansionary and interventionist policies. On the contrary, it became clear to conservatives that policy should be constructed mainly to discipline the private sector and restore the long-run performance of the economy by any means other than demand expansion.[15] Accordingly, non-socialist parties--first in the UK and later in European continental countries--favoured again an unimpeded market economy and a small public sector and started to develop extensive privatization programmes.

Decisions to curtail, maintain, or enlarge the public business sector directly affect the allocation of investment and the creation of employment in any domestic economy. They have substantial redistributive effects across economic sectors, geographical regions and social groups. As a result, whereas right-wing parties are more likely to defend the market as the most legitimate and efficient institutional structure to deliver and distribute growth, left-wing parties lean towards the use of state intervention to counter market failures, ensure growth and redistribute income. Willing to achieve economic growth and improve the welfare of workers and the least well-off sectors at the same time, left-wing parties employ the public sector (and the public business sector) to raise the productivity of capital and labour. They expect that extensive public capital formation policies aimed at upgrading fixed capital (i.e., infrastructure and business fixed investment) and training workers will increase the workforce's productivity (and therefore raise real wages) and enhance the overall competitiveness of the economy.[16] Thus, while right-wing governments embraced a programme of extensive privatizations in the face of the slowdown in growth experienced in the 1970s, most socialist parties remained committed to the existing public business sector as a way to ensure high levels of public spending in capital formation and to channel this investment to the less advantaged workers and regions.[17]

Constitutional Rules and Party System

Partisan policy-making does not take place in a vacuum. Partisan agency is constrained by the institutional setting (mainly the electoral system used to allocate seats but also the constitutional division of power) in which it operates. Plurality electoral norms induce the formation of two-party systems and unitary governments. Proportional representation rules preserve the natural fragmentation of the political arena and increase the occurrence of coalition or multiparty cabinets.[18] The degree of internal fragmentation of the cabinet (jointly with the level of ideological polarization of its members) determines in turn the capacity of the governing party (or parties) to implement its (their) electoral platform.

One-party governments are likely to carry their policy programmes to completion. The capacity of multiparty or divided cabinets to set and execute their policies, however, is altered in two ways: through the so-called 'moderation' and a 'gridlock' effects.[19] Since they are more likely than unitary cabinets to include the median party (of the entire political space), coalition governments will settle on more moderate programmes in the policy space.[20] Given this 'moderation' effect of coalition governments, neither radical privatizations nor nationalizations should be expected under coalition governments.

Divided governments may also have a 'gridlock' effect on policy outcomes. Multiparty coalitions are characterized by highly costly negotiations leading to incremental policy-making. Parties within the coalition are prone to veto each other's projects whenever the resulting policies are believed to result in significant costs for their corresponding constituencies. Finally, coalition governments are more likely to be plagued by internal disagreements that would shorten their life (relative to one-party cabinets). Hence, carrying radical policy packages to completion may be impossible for fragmented governments. This particularly affects policies towards public businesses. Successfully privatizing state-owned enterprises requires turning around unprofitable businesses, cracking down on combative public employees and then finding suitable buyers. All these steps involve, in turn, strong political will, a durable government, and the certainty that the cabinet cannot be unseated by those constituencies that may become alienated by the sale of public enterprises. Such political conditions, however, tend to be scarce in parliamentary democracies. On some occasions conservative parties have gained power only with slim majorities. In most other cases, non-leftist forces are themselves fragmented (e.g. the 'bourgeois' coalitions in Scandinavian countries) or have to cope with institutional constraints (such as a divided political regime in France in 1986-1988 or constitutional provisions, in force until the late 1980s, that required qualified majorities to sell public property in Portugal).

MEASUREMENT

Government Partisanship

To determine the ideological stance of each government in the classical Left-Right divide I employ two different measures. The first one, socialist control of government, consists in the proportion of cabinet portfolios held by socialist and communist parties within government. It is here built as a continuous variable ranging from 0 to 1.[21]

Nonetheless, the actual position of each party towards the role and size of the public business sector varies considerably across nations even within similar political traditions and cleavages. Accordingly, I develop a second index which attempts to measure the actual policy preferences of each government on this issue. Laver and Hunt have located the average position of all parties in OECD countries towards the public control of ownership along the Left-Right scale. Parties completely opposed to public ownership score twenty points in this scale and parties fully determined to establish a strong public sector score only one point.[22] Employing this scale, I estimate the ideology index of each government on this issue by averaging of the scores of all parties in government weighted by the proportion of cabinet portfolios each one has within the government. Some endogeneity should be expected in the estimations derived from using this ideological index since the latter has been built following the judgment of national experts who had been probably influenced by the observation of the actual behaviour of every party.[23] This problem does not undermine, however, the empirical validity of the model in the light of the solid results obtained when I use the proportion of socialist ministers in government as the independent variable to measure the effect of partisanship. The ideological index or policy position of the government is still employed for two reasons. First, it allows me to refine the results by better representing the wide array of ideological positions present in advanced democracies. Second, it lets me exhibit more easily, through various simulations, the different internal mechanisms that operate in a divided government to create moderate policies.

Divided Governments

The possible effects of the structure of government on privatization processes are examined through two variables. First, the fragmentation of government is measured according to the Rae index, which ranges from 0 (one-party government) to 1 (extreme fragmentation).[24] According to the discussion above, the more fragmented the cabinet is, the less change should be expected. Second, whether the cabinet has a majority or not in parliament is measured separately: the index is 1 if it commands the majority of seats; 0 if its is a minority government.[25] As with fragmentation, a minority status is expected to hinder the capacity to produce change.

Past Economic Performance

To measure the impact of economic performance on privatization strategies, I consider several variables:

(a) A set of measures to gauge short-term economic performance: the average GDP growth rate in each country as well as its difference in relation to the average GDP growth rates in the OECD in the five years previous to the year of formation of each government. For all economic explanations to be true, privatization should be less likely, the higher the growth rate of GDP and the higher the (positive) difference with the OECD mean.

(b) According to the discussion above and the data examined in table 1, it seems plausible to expect that a permanent, or at least sizable decline in economic performance (relative to other OECD countries) will prompt governments to overhaul the public sector. The effects of long-term economic performance are measured by looking at the average annual growth of real GDP per capita from 1961 to 1979.

(c) The public budget balance is examined for the first year of each government to test whether higher deficits lead to stronger privatization efforts.

EMPIRICAL VALIDATION

Sample

In order to test the model, I have observed the volume of public assets sold and, more generally, the strategy pursued towards the public business sector by all governments in all OECD nations with over 1 million inhabitants during the period 1979-

92.[26]

Following Alt's concept of 'political regime', a government is here defined as a cabinet with the same party composition (even if there are new elections or the prime minister changes but is of the same party), unless the government loses its parliamentary majority (or gains it after having had minority support).[27] Two examples suffice to make the definition clear. The British Conservative government since 1979 is considered as one government (in spite of several parliamentary elections and two different prime ministers). The Spanish socialist administration is defined as one government from 1982 through 1993, because in this year the socialist party, though still forming the government alone with the same prime minister presiding, lost its parliamentary majority.[28]

For each observation, the volume of public assets sold as a percentage of the average annual GDP under each government has been determined. On the other hand, all the information available on the strategies that governments have pursued towards the public enterprise sector has been gathered in order to code them into five broad categories. The coding has been mostly done according to the volume of assets sold and, for some borderline cases, according to the nature and purpose of privatizations. As discussed below shortly, the coding of the observations conveys more accurately than the pure volume of asset sales the actual privatization strategy pursued by each government.

The coding is the following one:

(1) All cases that have implied the sale of assets with a value of over 5 per cent of the average annual GDP at the time of the privatization have been classified as *large privatizations*. The sales by the British government, for which cumulative asset sales

amounted to 12 per cent of the average British GDP from 1979 through 1992, Portugal and New Zealand meet this criterion.

(2) *Medium privatizations* include those processes that have led to the sale of public assets ranging from 5 per cent to over 1 per cent of GDP. The cases fitting in this category are those of Japan, where sales amounted to 3 per cent of GDP, and the French government of Chirac in 1986-88 as well as the Greek conservative administration of the early 1990s, where total asset sales added up to 1.5 points of GDP.

(3) The cases classified as *small privatizations* amounted to 1 percentage point or less of GDP. Although the privatization proceeds under the Italian coalition in charge from 1983 to 1992 slightly exceeded this figure, this case should be considered under the category of small privatization given that very few sales were of any significant size and that, taken as a whole, they hardly dented the huge state holdings.[29] A similar point should be made regarding all the public assets sold under the Swedish social democratic cabinet in the 1980s: here the privatization proceeds came both from selling small companies that were not central to the strategic purposes attributed to the core of the public business sector and from letting some private capital enter some enterprises without ever forfeiting public control over them.

(4) Most governments have witnessed no changes at all (*status quo* situation). Among them I include some cases of very limited public assets sales (the Spanish and the Austrian cases) that, like Sweden, included both the privatization of companies marginal to the core of the public business sector and the granting of a limited entry to private capital without giving up public control. As stated by the OECD in a recent survey on

Spain, "these sales do not reflect a privatization policy along the lines followed in other OECD countries over the last few years [but] they are rather the corollary of a new industrial strategy aimed at concentrating the activities of INI [the main Spanish state holding] on certain industrial sectors only, thereby reaping the benefits of specialization and meeting the challenge of increasing competition.” [30] As a matter of fact, in those countries, even as limited sales were taking place, new public corporations were being set up and a sizable investment effort was being made to strengthen the public business sector in general terms.[31]

(5) Finally, in the category of *nationalizations*, I include those implemented by the French and Greek socialist parties in the first half of the decade.

Once the sample and the set of alternative 'public sector strategies' have been defined, and before engaging in the statistical estimation of the model, it is possible to show in a compact, graphical way how the governmental strategies toward state-owned enterprises have been shaped by the interaction of the ideological bent of the government and the structure of the party system. In table 2, the set of possible strategies towards the public business sector is displayed along the vertical axis. Along the horizontal axis, I have distinguished between cabinets with and without a significant leftist presence, and again among unified (one- or two-party governments with parliamentary majority) and divided (and minority) cabinets.

[Table 2 about here]

Table 2 reveals intuitively that the capacity to generate change is directly related to the internal cohesion of the government. Divided cabinets are unable to reshape the state.

Instead, strong, one-party governments are very likely to follow their preferred policy strategies. Twenty nine out of thirty three governments including more than two parties or in a minority situation have kept the state-owned sector unchanged. On the contrary, eight out of eleven non-leftist governments (i.e. where socialists control less than forty per cent of all the ministerial posts) holding a majority and including one or two parties have carried out some sort of privatization. Table 2 also shows that, excluding New Zealand and Sweden, Left and Right have behaved along the lines hypothesized in the model. All unified conservative governments have privatized most or part of the public business sector. Among unified governments of the Left, excluding New Zealand, one out of seven pressed for spectacular nationalizations (the other nationalization was implemented by a three-party government in France which included the Communist party); the rest have preserved the public enterprise sector.[32] As will be manifest later, the exception of New Zealand falls into the case of a historical situation of economic decline that prompted a radical response from a Labour administration that, according to the party policy spatial positions measured by Laver and Hunt, was not in favour of maintaining the public business sector.

Estimation Procedure

The model has been tested both on the volume of public assets sold (as a percentage of the average annual GDP) and on the (coded) strategies pursued towards the public business sector. Results are shown in tables 3 and 4 respectively.

For the volume of public assets being sold, the estimation has been done through the standard ordinary least squares method.

The coded 'strategies towards the public business sector' is a discrete variable that takes the following values: 5 for large privatizations, 4 for medium privatizations, 3 for small privatizations, 2 for 'status quo' and 1 for nationalizations. Accordingly, an ordered probit model has been used.

In each table column 1 reproduces the equation in which the political sign of the government is measured through the variable 'socialist control of government'. Column 2 substitutes the 'ideology index of government' for socialist control of cabinet. All regressions include the Rae index of fractionalization and the parliamentary status of the government. To measure past economic performance I reproduce the only economic variable that has proved to be statistically significant--average annual change in real GDP per capita from 1961 to 1979.[33] Among the omitted variables due to lack of statistical significance were: the proportion of centrist (Christian democratic) ministers in each cabinet; the partisan affiliation of the minister of finance, regressed in order to check whether controlling the key portfolio in the privatization process has any independent effect in the decisions made by the cabinet;[34] the level of public business sector investment (measured as a proportion of GDP) in 1980 and 1985, introduced to measure the preexisting levels of state ownership--this shows that the size of assets sold is not correlated to the initial size of the public business sector; the organizational power of labour, as measured by Cameron, to see whether encompassing, strong unions blocked privatizations or successfully pushed for the expansion of the public business sector;[35] all the economic variables (short-term growth rates and budget deficit) other than average annual change of real GDP per capita from 1961 to 1979.

[Tables 3 and 4 about here]

Regression Results

Both estimations (on 'sold assets' and on 'strategy') confirm the initial model. Partisanship, the internal cohesiveness of the cabinet, parliamentary status and long-term change in real GDP per capita are statistically significant and the sign of their coefficients are in the direction predicted in the model. When regressed on the volume of sold assets, taken together they explain over 40 per cent of the variation.

Only the results reproduced in table 4 are discussed here--for, as pointed out above, the dependent variable 'strategy towards the public business sector' captures better than the volume of sold assets the nature and purpose of the policy implemented by each government.[36]

According to the results displayed in table 4, column 1, the presence of a socialist party in the cabinet reduces substantially the chance of a privatization. If one takes the case of an average government (in the sample) in terms of fragmentation (Rae index of 0.345), parliamentary status (0.729) and annual change in real GDP per capita (3.785), the probability of privatizing public corporations is slightly over 50 per cent when there is no socialist participation; this figure falls to 0 per cent when all the ministers are either socialist or communist.[37]

The internal cohesion of the cabinet has as well a sizable effect on the resulting public sector strategy. In line with the model, the more fragmented the government, the smaller the extent of privatization. Again, for an average government (in the sample) in terms of partisanship (34.5 per cent of the portfolios in the hands of socialists), parliamentary status and growth rate, the probability of a privatization ranges from around 50 per cent in a unified government to 5 per cent if we consider the most fragmented cabinet of our sample (which has a Rae index of 0.8).[38]

The parliamentary status of the government acts in the same direction fragmentation does. A minority status drags the cabinet towards inaction. Other things being equal, the chances of privatizing range from 32 per cent under a government with a parliamentary majority to 8 per cent under a minority cabinet.

As discussed above, a general decline in growth rates called into question the policy equilibrium of the postwar period. Interestingly enough, table 3 shows that, within this general effect triggered by the stagflation crisis, the worse the long-term economic performance was in each country (measured as the annual change in real GDP from 1961 to 1979), the more likely the government was to restructure the public business sector. The impact of long-term performance was indeed very strong. The probability of a privatization under an average government (in the sample) that experienced a growth rate of 1 per cent in the previous two decades (the lowest level in the sample is New Zealand with a growth rate of 1.2 per cent) is 85 per cent. When the growth rate is 3 per cent, the probability hovers around 41 per cent. Under the same government but with real GDP per capita increasing by 5 per cent annually, the probability falls to 7 per cent.

In column 2 I have substituted the 'ideology index of government' for the socialist control of cabinet. The ideological stance of the government refines the model by measuring more precisely the true position of each party towards the optimal size of the nationalized business sector. This is manifest when we look, for example, at the case of New Zealand, whose Labour government scores 13.9 points, a very high number for a leftist administration.[39] Results are very similar to column 1--here, however, the ideological index of the government plays a much stronger role than the number of socialist ministers and the explained variation jumps to 52 per cent. An average government in terms of fragmentation, parliamentary status and economic performance that scores 20 in the policy index (the value farthest to the right) will sell public firms with a probability close to 100 per cent. The probability falls to below 60 per cent if the score is 15 (somewhat below the average value of liberal parties in Continental Europe) and to 8 per cent if the score is 10 (close to the position of the Italian Christian democratic voter). The effects of fragmentation and parliamentary status remain similar to the first regression (the probabilities range from 40 to less than 10 per cent, and from 32 to 7 per cent respectively). The impact of the change in real GDP per capita is, however, slightly smaller: the probability goes from 78 to 7 per cent.

Simulation Results

The effect of each independent variable on the policy adopted is partially dependent on the value of the other variables. For example, whereas fragmentation has no impact on the policy followed under strongly conservative or socialist governments, it does have an effect under moderate cabinets. To clarify the interactive role of the regressed variables, a set of simulations is developed in table 5. The simulations are based on the equation reported in table 4, column 2. They include an estimation of the probability of approving at least a small privatization (part A), of implementing a large privatization (part B), and of nationalizing private businesses (part C) under the following situations. Always assuming a parliamentary majority, I distinguish between one-party, two-party (with an equal share of ministers) and three-party (again each party having the same number of posts in the cabinet) governments. Within each case I then consider three different ideology indices, that correspond to the broad political families in the West: 18 corresponds to a conservative party (British Tory leaders score 18.2 in Laver and Hunt),[40] 12 is close to Christian democratic parties (such as the German CDU), 7 is the average value for a socialist party in Southern Europe (like the French PSF). Finally I distinguish between low growth rates (annual change of 1 per cent), medium growth (at a yearly rate of 3 per cent) and rapid growth (5 per cent).

[Table 5 about here]

Under a conservative government, the likelihood of having some sort of privatization is very high, independently of all other circumstances. The chances of selling state assets are over 90 per cent in seven out of nine cases. When past economic performance has been good, partisanship loses part of its effect on policy-making and fragmentation of the government starts in turn to limit the capacity of the government to sell public corporations--the probability of a privatization drops from 94 per cent under a unitary government to 59 per cent under a three-party government.

Exactly opposite results are obtained for a socialist government, confirming once more the weight of partisanship. All socialist governments but one refrain from privatizing public corporations. Only when the economy grew at an annual rate of 1 per cent and there is a unitary government the left privatizes parts of the public business sector--with a probability of 54 per cent. This result clearly matches the case of New Zealand.

Economic performance influences centrist cabinets more sharply. A centrist government, no matter how fragmented, always approves a privatization package in response to low growth. A stagnant economy gives moderate coalitions the cohesiveness and sense of purpose needed to effect change. When the growth rate is higher than the OECD average, all centrist governments reach a political impasse. Given the costs and the uncertainty of privatizing public corporations, they prefer to muddle through.

The internal structure of governments also affects centrist governments more strongly than conservative or social democratic governments. Regardless of economic performance, the chances that centrist governments will privatize are on average more than two times lower if the cabinet includes three rather than one parties. The impact of fragmentation is particularly striking when growth has averaged 3 per cent--here privatizing hinges ultimately on the internal cohesion of the government. A unitary government is extremely likely to privatize (with a probability of 75 per cent); a divided government is not (the chances are only 25 per cent).[41]

How do divided, relative to unitary, governments affect policy outcomes? On the one hand, as emphasized in the first section, coalition governments, likely to include the median party of the political space, will carry with them a 'moderation' effect. Although not captured in the regressions, this effect can be appreciated by examining the policy scores of the governments in the sample. The policy scores of unified cabinets are located at the extremes of the space--out of fourteen cases, five governments range from 7 to 10, and seven are located between 13 to 18. Most coalition governments lie instead in the middle range of the policy space--their scores range from 9 to 16. Over 70 per cent of the coalition governments include the median party in the ideological space.[42] Consequently, the formation of a coalition implies moderate governmental programmes and minimal changes regarding the public business sector.

On the other hand, as it is clear from table 5, even if a coalition has (on average) the same policy preferences as a unitary cabinet, privatizations are less likely to take place in the former. In other words, multiparty governments bring about 'gridlock'. Which are in turn the forces that cause gridlock? Does it result from having highly polarized parties in the same government that veto each other’s policy initiatives? Or does gridlock derive from the fact that, independent of the degree of ideological polarization, having a large number of parties makes reaching an agreement extremely difficult? The sample lends itself well to investigating the causes of gridlock.

Gridlock is commonly attributed to the presence of a high degree of internal polarization of the cabinet, which makes most policy decisions difficult to achieve.[43] Since privatizing or nationalizing businesses implies shifting resources among different electoral constituencies or social sectors, once in office parties will veto any initiative that, by modifying the existing arrangements, threatens the welfare of their constituencies (unless the costs of the new policy can be accepted by the affected parties in exchange for benefits in other policy areas). In the presence of a veto, either the government collapses or, for the sake of sustaining the coalition, all parties agree to delay any decision. In both cases--government breakdown or policy postponement--the status quo will prevail in the management of the public business sector. According to this explanation, the broader the range of constituencies (with conflicting interests on the management of the public business sector) represented in the cabinet, the more likely vetoes and gridlock should be. In other words, gridlock should be more frequent the more polarized (or ideologically distant) the parties are on the question of public ownership. The level of ideological variation or conflict within coalition governments can be measured, in the sample, by looking at the standard deviation in the mean of the policy preferences of the parties in government ('ideological dispersion').[44]

The hypothesis that gridlock comes from internal polarization, however, is not supported by the empirical evidence. When the measure of 'ideological dispersion' is included in the regression reported in tables 3 and 4, its coefficient is not statistically significant although it slightly boosts the variance explained (in the regressions on 'sold assets'). Given that it is strongly correlated with fragmentation ($r = 0.78$), a F-ratio joint test is necessary to see whether this improvement is robust. This test confirms that the degree of internal polarization does not have any independent effect on policy-making.[45] We must conclude that, once the averaged partisan preferences of the government are controlled for, the degree of change in policy towards the public business sector depends on the pure number of parties in office--regardless of their relative ideological position. In other words, it is not ideological polarization but pure internal fragmentation that proportionally raises bargaining costs within the government and leads in turn to political gridlock and policy inaction.

CONCLUSIONS

Following a protracted period of economic crisis and growing dissatisfaction with an oversized public sector, in the early 1980s several OECD nations embarked on important privatization programmes. Part of this process of structural reform directly arose in response to the perception of substantial inefficiencies in the economy. But the adoption of privatization packages was mainly determined by the nature of the political and institutional arrangements particular to each country. Right-wing cabinets, trusting the capacity of private agents to supply the levels of savings and investment optimal to sustain growth, pushed through sizable privatization packages. By contrast, left-wing governments, viewing the state as a central agent necessary to overcome market failures, sustain national competitiveness abroad, lower the social effects of competitive markets, and equalize conditions, kept intact and, in some cases, expanded the public business sector. Still, partisan strategies were partly constrained by the institutional system in which they were developed. Whereas unified governments were able to pursue their true preferences with success, divided cabinets hardly produced any change--either they did not wish to (centrist, moderate policy platforms abound among coalition governments) or they could not (bargaining among partners on that issue proved too costly, indeed threatening the survival of the coalition).

Apart from offering a plausible account of the forces that sustained (or indeed thwarted) the privatization drive of the last fifteen years, this article's inquiry is related, in two different ways, to a broader theoretical debate over the political sources of economic policy-making. The literature on political economics generally agrees that left-wing and right-wing governments have distinctive preferences regarding the objectives and policies to be pursued once they are in office. Focusing on the political management of the business cycle, this same literature has concluded, however, that partisan control of office has only a limited, short-term impact on macroeconomic policies. Rational expectations among economic agents eventually force governments to implement credible stabilizing policies.[46] The internationalization of the economy constrains any prolonged attempt to put the economy into an expansionary path.[47] Finally, partisan strategies have been found to be contingent on the configuration of the domestic economy, in particular the labour market.[48] But this set of structural and institutional factors constrain only minimally the partisan strategies developed to maximize growth by shaping the supply side of the economy--that is, by determining the levels of fixed investment and by affecting the productivity of human capital. In other words, even if governments, forced by external factors, tend to run similar macroeconomic policies, they are likely to pursue divergent supply-side economic strategies. By examining the political and institutional forces behind the development of a public business sector (or its privatization), which constitutes one of the possible instruments to affect the supply side of the economy and hence growth and unemployment, this article confirms how central parties still are in the economic policy-making process, and expands our understanding of the workings of advanced political economies.[49]

Furthermore, this work builds on and empirically validates recent neoinstitutional approaches. This burgeoning literature, which has stressed the role of institutions in constraining human behaviour,[50] shaping preferences,[51] and hence leading to specific political equilibria, [52] has started to explore its impact on economic policy-making.[53] In this paper electoral rules, and their correlate, party systems, have been showed to affect the formation and implementation of policy. Fragmented governments, which result to a large extent from proportional representation rules, lead to political stalemates. Thus, in describing the policy consequences of having either unified majoritarian, minority or divided governments, this paper makes another step in understanding the permanent trade-off between stability and change, and between consensus and responsiveness that underlies the choice of different institutional frameworks in constitutional democracies.

FOOTNOTES

1. See Peter A. Hall, *Governing the Economy: The Politics of State Intervention in France and Britain* (Oxford: Oxford University Press, 1986); Adam Przeworski and Michael Wallerstein, ‘Democratic Capitalism at the Crossroads’, in A. Przeworski, *Capitalism and Social Democracy* (Cambridge: Cambridge University Press, 1986), pp. 205-21; Philip Armstrong et al., *Capitalism since 1945* (Oxford: Basil Blackwell, 1991).

2. See Geoffrey Garrett and Peter Lange, ‘Political Responses to Interdependence: What's “Left” for the Left?’, *International Organization*, 45 (1991), 539-64. For evidence on the persistence of cross-national variation see, however, Douglas A. Hibbs Jr., ‘Political Parties and Macroeconomic Policy’, *American Political Science Review*, 71 (1977), 1467-87; and Alberto Alesina, ‘Politics and Business Cycles in Industrial Democracies’, *Economic Policy*, 8 (1989), 57-98.

3. See R. P. Short, ‘The Role of Public Enterprises: An International Comparison’, in Robert H. Floyd, Clive S. Gray and R. P. Short, *Public Enterprises in Mixed Economies. Some Macroeconomic Aspects* (Washington, D. C.: International Monetary Fund, 1984), pp. 110-196.

4. See John B. Goodman and Louwis W. Pauly, ‘The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets’, *World Politics*, 46 (1993), 50-82; Wendy Carlin and David Soskice, *Macroeconomics and the Wage Bargain. A Modern Approach to Employment, Inflation and the Exchange Rate* (Oxford: Oxford University Press, 1990); Jeffry A. Frieden, ‘Invested Interested: The Politics of National Economic Policies in a World of Global Finance’, *International Organization*, 45 (1991), 425-51; and Garrett and Lange, ‘Political Responses to Interdependence’.

5. See Fritz W. Scharpf, ‘A Game-Theoretical Interpretation of Inflation and Unemployment in

Western Europe', *Journal of Public Policy*, 7 (1987), 227-57: and Fritz W. Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca: Cornell University Press, 1991).

6. See Barrie Stevens, 'Prospects for Privatisation in OECD Countries', *National Westminster Bank Quarterly Review*, 1992, 2-10.

7. See, for example, OECD, *Economies in Transition. Structural Adjustment in OECD Countries* (Paris: OECD, 1989).

8. See Howard Oxley and John P. Martin, 'Controlling Government Spending and Deficits: Trends in the 1980s and Prospects for the 1990s', *OECD Economic Studies*, 17 (1991), 145-89.

9. Own estimates based on national data presented in Short, 'The Role of Public Enterprises'.

10. For an explanation of privatizations as a response to increasing deficits, see Raymond Vernon, ed., *The Promise of Privatization: A Challenge for U.S. Policy* (New York: Council on Foreign Relations, 1988), p. 19. See also John Vickers and Vincent Wright, eds., *The Politics of Privatization in Western Europe* (London: Frank Cass, 1989).

11. See, for example, Barry Cooper, Allan Kornberg and William Mishler, eds., *The Resurgence of Conservatism in Anglo-American Democracies* (Durnham: Duke University Press, 1988).

12. See Garrett and Lange, 'Political Responses to Interdependence'; and Peter A. Hall, 'The Political Economy of Europe in an Era of Interdependence', Harvard University, unpublished manuscript, 1995.

13. Theoretical models on the political economy of public businesses and public control of ownership are scarce. See John R. Freeman, *Democracy and Markets: The Politics of Mixed Economies* (Ithaca: Cornell University Press, 1989) for a tentative model of the origin of public enterprises (p. 53, footnote 47). James E. Alt and John R. Freeman, 'The Politics of Public and Private Investment in Britain', in A. Hicks and T. Janoski, eds., *The Comparative Political Economy of the Welfare State*

(Cambridge: Cambridge University Press, 1994), explore the political determinants of the evolution of investment by the British public business sector to conclude that it probably depends on technocratic decisions with no trace at all of either partisan or electoral effects. Finally, Harvey B. Feigenbaum and Jeffrey R. Henig, 'The Political Underpinnings of Privatization: A Typology', *World Politics*, 46 (1994), 185-208, have offered mostly from a conceptual point of view, a first cut on the privatization process in the last fifteen years.

14. For a description of this arrangement, see Peter A. Hall, *Governing the Economy*, chapters 3, 4, 6 and 7.

15. For an analytical explanation of the conservative shift to liberalization policies, see David Begg, 'Fiscal Policy', in Rudiger Dornbusch and Richard Layard, eds. *The Performance of the British Economy* (Oxford: Oxford University Press, 1987). pp. 29-63.

16. Notice that, as a result of the crisis of the 1970s and an increasingly integrated world economy, both conservative and socialist parties shifted towards stable macroeconomic policies. Yet, in regards to supply-side strategies, such as the size and role of public businesses, world economic constraints (and the threat of capital exit) are, instead, smaller. As a matter of fact, supply-side economic strategies are designed with an eye toward solving the strong constraints imposed by the international economy. Both a high public investment (with high taxes) and a high private investment strategy (and low taxes) are geared towards ensuring high levels of capital formation, boosting productivity rates and furthering the international competitiveness of the domestic economy. That is why partisan differences are still sizable in this policy domain.

17. Although social democratic parties continued in general to rely on the idea of public intervention, in some instances they engaged in a redefinition of the specific purposes and uses of the public

business sector (see footnotes 31 and 32).

18. See Douglas W. Rae, *The Political Consequences of Electoral Laws* (New Haven: Yale University Press, 1967); and Rein Taagapera and Matthew S. Shugart, *Seats and Votes: The Effects and Determinants of Electoral Systems* (New Haven: Yale University Press, 1989).

19. For an enlightening distinction between the 'moderation' and 'gridlock' effects of multiparty governments, see Alberto Alesina, ‘Elections, Party Structure and the Economy’, Harvard University, unpublished paper, 1993. Enrico Spolaore (‘Policy Making Systems and Economic Efficiency: Coalition Governments versus Majority Governments’, Harvard University, unpublished paper, 1992) offers a formal model of the 'gridlock' effects. Roubini and Sachs as well as Grilli, Masciandaro and Tabellini explore them regarding the size of the budget deficit. See Nouriel Roubini and Jeffrey Sachs, ‘Political and Economic Determinants of Budget Deficits in the Industrial Democracies’, *European Economic Review*, 33 (1989), 903-38; and Vittorio Grilli, Donato Masciandaro and Guido Tabellini, ‘Political and Monetary Institutions and Public Financial Policies in the Industrial Countries’, *Economic Policy*, 13 (1991), 341-92.

20. For a forceful defense of the moderating effects of multiparty coalitions, see Morris Fiorina, *Divided Government (*New York: MacMillan, 1990). In the Downsian model (Anthony Downs, *An Economic Theory of Democracy*, New York: Harper and Row, 1957) two-party systems lead parties to cluster around the median voter. Still, once its rather specific assumptions are relaxed, e.g. letting a third party enter the electoral space, both parties do not necessarily locate themselves at the centre of the policy space. Thus multiparty coalitions (especially those including a centrist, pivotal party) may be more likely to lead to moderate outcomes. For a formal discussion, see Kenneth Shepsle, *Models of Multiparty Electoral Competition* (Chur, Switzerland: Harwood Academic Publishers,

1991). Laver and Schofield find that 80 per cent of the coalition governments in Europe have included the median party. See Michael J. Laver and Norman Schofield, *Multiparty Government. The Politics of Coalition in Europe* (New York: Oxford University Press, 1990).

21. Estimations are own based on data taken from Jan-Erik Lane, David McKay and Kenneth Newton, *Political Data Handbook: OECD Countries* (New York: Oxford University Press, 1991), and from *Keesing's Contemporary Archives*.

22. See Michael J. Laver and W. Bent Hunt, *Policy and Party Competition* (New York: Routledge, 1992).

23. Laver and Hunt, *Policy and Party Competition*, provide two different measures: the position among party elites and the position of party voters. To reduce the extent of endogeneity I have used the latter one.

24. The Rae index of fractionalization is equal to $1- 3\ p^2$; where p is proportion of cabinet portfolios that each party has within the government. For a review and discussion of this index, see Taagapera and Shugart, *Seats and Votes*.

25. Cabinet fragmentation and parliamentary status are hardly correlated. The Pearson's coefficient is 0.127.

26. This excludes Iceland and Luxembourg. I have also excluded Switzerland and Turkey, for which no complete information is available, and the United States, whose public business sector is insignificant and where, contrary to all other cases, political differences between republicans and democrats over the size of the public business sector are marginal (see Laver and Hunt, *Policy and Party Competition*, and the discussion below). There are a few exceptions on the period selected: for West Germany, it ends in October 1990, at the time of unification; in the cases in which elections

were held during 1993 that resulted in important government changes (France, Greece and Spain) the period examined goes beyond December 1992 through the month of 1993 in which the political situation varied. Two governments have been excluded: the minority, caretaker Italian government Fanfani VI, which was formed in April 1987 and lasted less than a month, and the transitional Greek government of 1990.

27. See James E. Alt, ‘Political Parties, World Demand, and Unemployment: Domestic and International Sources of Economic Activity’, *American Political Science Review*, 79 (1985), 1016-40. A more stringent definition of government would have increased the number of available observations but it would have made my analysis of the strategy towards state-owned enterprises extremely difficult and would have biased the results by enlarging the number of cases in which no change had occurred--that is, the number of 'status quo' cases.

28. The data employed are available from the author upon request.

29. As a matter of fact, from 1983 to 1992 the Italian authorities sold 195 public enterprises but acquired 231 companies; moreover, the enterprises acquired by the public sector were generally of larger dimensions than those sold in terms of both employees and net sales. See OECD, *OECD Economic Surveys of 1993-94. Italy* (Paris: OECD, 1994).

30. See OECD, *OECD Economic Surveys of 1987-88. Spain* (Paris: OECD, 1988), p. 38.

31. For a defense of targeted privatizations as a way of rationalizing the public business sector, see the declarations of Aranzadi, then president of INI, the Spanish largest public holding, in Claudio Aranzadi, ‘La política de desinversiones en el INI’, *Papeles de Economía Española*, 38 (1989), 258-61. Notice that in 1985, there were 479 public enterprises in Spain; four years later, despite several privatizations, there were 553. See IGAE, *El sector público empresarial* (Madrid: Intervención

General de la Administración del Estado, several years). Similarly, notice that, after going through a period of rationalization, capital formation by the public business sector increased at a rate well above the rate of change of capital formation by Spanish private firms during the second half of the 1980s. For a more extended discussion, see my paper 'Building a Social Democratic Strategy in Southern Europe: Economic Policy under the González Government (1982-1993)' *Centro de Estudios Sociales Avanzados. Fundación Juan March. Working Papers,* 69 (1995). A similar case of commitment to the public business sector can be observed in the Austrian case, where gross fixed capital formation by the public business sector represented 4.9 per cent of GDP both in 1979 and 1988. See Short, 'The Role of Public Enterprises'; and CEEP, *L'enterprise publique dans la Communauté Economique Européenne* (Bruxelles: Centre Européen de l'Enterprise Publique, 1990).

32. The strategy of 'status quo' has not excluded a deliberate effort, even from socialist governments, at redefining the goals and strategy of the state-run business sector. This is the case of Spain, where the González government decided not to use most of the public business sector for countercyclical purposes; it proceeded instead to employ it in its overall supply-side strategy of medium-term public capital formation. See also footnote 31.

33. The results reported in tables 3 and 4 are robust: they do not vary even when we exclude the nationalization cases of Greece and France.

34. Socialist control of the finance ministry is highly correlated with the proportion of socialist ministers (r=0.92). When partisan control of the finance ministry is regressed alone on 'assets sold' results do not vary as a result of using partisanship. When both partisan control of the finance ministry and partisan control of the government are regressed together on 'assets sold', the first loses all statistical significance.

35. See David Cameron, ‘Social Democracy, Corporatism, Labor Quiescence and the Representation of Economic Interest in Advanced Capitalist Society’, in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon Press, 1984), pp. 143-78.

36. Notice that given that the estimation is done through a non-linear technique, the resulting parameters can not be interpreted the way they are in standard OLS procedures. In the discussion that follows, several different values in the independent values are plotted and several simulations are developed to improve our understanding of the ways in which these variables interact.

37. These probabilities are estimated by the method of first differences--according to which all values apart from partisanship are estimated for their mean. For a discussion of the procedure, see Gary King, *Unifying Political Methodology. The Likelihood Theory of Statistical Inference* (Cambridge: Cambridge University Press, 1990).

38. Notice, however, that if we assume an 'average government' for our calculations, the internal coherence of the cabinet can never be complete. Since in the average government of our sample 35 per cent of the cabinet is socialist, the minimal level the Rae index of fragmentation can take is 0.46 (the result of a socialist party with 35 per cent of ministries and a non-socialist party with the rest of the portfolios). With fragmentation equal to 0.46, the probability of a privatization is around 50 per cent.

39. In fact, this score is very close to the index of the Swedish 'bourgeois' coalition in the early 1990s and the Christian democrat-liberal government in Germany in the 1980s.

40. See Laver and Hunt, *Policy and Party Competition*.

41. Conditions are more stringent for large privatizations to take place. Conservative governments implement them always if the economy has experienced low growth rates, but only under a unitary

or semi-divided governments if real GDP per capita has grown at 3 per cent.

42. The ideological space refers to the one built by Laver and Hunt on the question of public control of ownership.

43. For an explanation along similar lines, applied to managing budget deficits, see Alberto Alesina and Roberto Perotti, ‘The Political Economy of Budget Deficits’, Harvard University, unpublished paper (1993).

44. It can also be measured by gauging the policy distance between the most extreme parties within the cabinet ('ideological spread'). Both measures (dispersion and spread) are strongly correlated (r = 0.97).

45. This result reinforces the finding that the ideological diversity of the coalition has little impact on its duration. See Laver and Schofield, *Multiparty Government*, p. 155.

46. Alesina, ‘Politics and Business Cycles in Industrial Democracies’.

47. Alt, ‘Political Parties, World Demand, and Unemployment’.

48. See R. Michael Alvarez, Geoffrey Garrett and Peter Lange, ‘Government Partisanship, Labor Organization, and Macroeconomic Performance’, *American Political Science Review*, 85 (1991), 539-556.

49. For more evidence on the impact of partisanship on other supply-side economic policies (public investment, human capital formation, taxation policies), see my papers ‘Political Parties and the Supply Side of the Economy: The Provision of Physical and Human Capital in Advanced Economies, 1960-90', *American Journal of Political Science*, 41(1997), forthcoming, and ‘Economic Growth, Marginal Tax Rates and Political Parties’, unpublished manuscript.

50. See Douglass O. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

51. See Hall, *Governing the Economy*.

52. See Kenneth Shepsle, ‘Studying Institutions: Some Lessons from the Rational Choice Approach’, *Journal of Theoretical Politics*, 1 (1989), 137-147.

53. Alesina, ‘Politics and Business Cycles in Industrial Democracies’; Roubini and Sachs, “Political and Economic Determinants of Budget Deficits’.

TABLE 1 **The Scale of Privatizations in OECD Countries (1979-92)**

COUNTRY	ACCUMULATED PRIVATIZATION PROCEEDS AS % OF AVERAGE ANNUAL GDP OVER THE PRIVATIZATION PERIOD	AVERAGE GROWTH RATE OF REAL GDP PER CAPITA 1961-79	NET PUBLIC DEBT AS % OF GDP IN 1980-85
New Zealand	14.1	1.2	NA
United Kingdom	12.0	2.3	47.4
Portugal	7.5	5.1	NA
Japan	3.0	6.6	26.5
France	1.6[a]	3.7	16.8
Greece	1.5[a]	5.7	41.2
Italy	1.4	4.2	96.3
Sweden	1.4	2.8	15.4
Netherlands	1.0	3.1	41.6
Spain	0.9	4.6	18.4
Austria	0.9	3.9	47.3
Canada	0.6	3.5	30.5
Germany	0.5[b]	3.2	22.2
Australia	Less than 1 %	2.5	47.3
Belgium	0.0	3.7	111.2
Denmark	0.0?	3.0	35.2
Finland	0.0	3.8	0.6
Ireland	0.0	3.6	102.0
Norway	0.0	3.8	-19.0
TOTAL OF SOLD ASSETS (1990 prices)	$ 200 Billion		
France	(5.0)	3.7	16.8
Greece	(5.0)	5.7	41.2

[a] Nationalizations during the same period are not included.
[b] Only through German unification (October 1990).

Source: *Economist Intelligence Unit. Country Reports*; *OECD Economic Surveys*; *OECD Economic Outlooks*; Reason Foundation, *Privatization*, (Santa Mònica, California: Reason Foundation, 1986-92); and Stevens, ‘Prospects for Privatization in OECD Countries’.

TABLE 2 **Policies towards State-Owned Companies in the 1980s.**

	SOCIALIST PARTIES CONTROL LESS THAN 40 PER CENT OF GOVERNMENT		SOCIALIST PARTIES CONTROL MORE THAN 40 PER CENT OF GOVERNMENT	
	One or two parties with parliamentary majority	More than two parties with majority or minority cabinet	More than two parties with majority or minority cabinet	One or two parties with parliamentary majority
LARGE PRIVATIZATIONS (sold assets: over 5 per cent of average GDP)	UK (1979-90) Portugal (1987-)	-----	-----	New Zealand (1984-90)
MEDIUM PRIVATIZATIONS (sold assets: from 1 to 5 per cent of average GDP)	France (1986-88) Greece (1990-93) Japan (1985-93)	-----	-----	-----
SMALL PRIVATIZATIONS (sold assets: 1 per cent of average GDP or less)	Canada (1984-93) Germany (1982-89) Nether. (1982-90)	Denmark (1988-90) Italy (1983-91)	Sweden (1982-91)	-----
STATUS QUO (no sales or sales under 1 per cent of average GDP approved to rationalize public business sector)	Canada (1980-84) Ireland (1982-87) Denmark (1982-88)	Belgium (1980-81) (1982-88) (1988-) Denmark (1990-92) Ireland (1981-82) (1982) (1987-89) (1989-) Italy (1980) (1980-81) (1981-82) (1982-83) Netherlands (1982) Norway (1981-86) (1989-) Portugal (1979-83) (1985-89) Sweden (1991-)	Denmark (1979-82) Belgium (1981-82) France (1988-93) Finland (1979-82) (1982-83) (1983-87) (1987-90) (1990-) Netherlands (1981-82) Norway (1986-89) Portugal (1983-85)	Australia (1983-) Austria (1983-87) (1987-) France (1984-86) Netherlands (1989-) Spain (1982-93)
NATIONALIZATIONS	-----	-----	France (1981-84)	Greece (1981-90)

Sources. All countries except Australia and Japan: *Economist Intelligence Unit. Country Reports*; *OECD Economic Surveys*; Stevens, 'Prospects for Privatization'. For Australia and Japan: *OECD Economic Surveys*; and Reason Foundation, *Privatization*.

TABLE 3 The Sale of Public Assets: The Role of Parties, Divided Governments and Past Economic Performance. [a]

	VOLUME OF PUBLIC ASSETS SOLD AS PERCENTAGE OF AVERAGE ANNUAL GDP	
INDEPENDENT VARIABLES	MODEL 1	MODEL 2
Constant	8.769*	-1.188
	(1.851)	(2.023)
Socialist Control of Government [b]	-2.676*	
	(1.032)	
Ideology Index of Government [c]		0.507*
		(0.116)
Fragmentation Index of Government [d]	-5.419*	-5.250*
	(1.323)	(1.160)
Status in Parliament [e]	2.888*	2.785*
	(0.899)	(0.791)
Annual Change in Real GDP per Capita (1961-79)	-1.873*	-1.704*
	(0.430)	(0.376)
R^2	0.413	0.529
Corrected R^2	0.359	0.486
Number of observations	49	49

[a] The Australian government (1983) and two Danish governments (1988, 1990) have excluded due to a lack of reliable on volume of assets sold.

[b] Socialist control of government: Proportion of cabinet portfolios held by socialist and communist parties within each government. Continuous index from 0 to 1. Own calculations based on data from Lane, McKay and Newton, *Political Data Handbook*; and from *Keesing's Contemporary Archives.*

[c] Ideology index of government: Weighted position of parties in government on policy space on public versus private ownership. Scale goes from 1 (pro-public ownership) to 20 (anti-public ownership). Own estimations based on data from Laver and Hunt, *Policy and Party Competition*.

[d] Fragmentation index of government: Rae index of fractionalization based on proportion of cabinet portfolios of each party within government. Own elaboration.

[e] Status in parliament: 1 if government commands a majority of seats; 0 otherwise.

Estimation: Ordinary Least Squares estimation
Standard errors in parenthesis.
* Statistically significant at 0.05 or less.

TABLE 4 Public Sector Strategies: The Role of Parties, Divided Governments and Past Economic Performance.

	(CODED) STRATEGIES TOWARD PUBLIC BUSINESS SECTOR [a]	
INDEPENDENT VARIABLES	MODEL 1	MODEL 2
Constant	5.442* (0.902)	-0.506 (1.086)
Socialist control of government	-2.167* (0.052)	
Ideology index of government		0.332* (0.064)
Fragmentation index of government	-2.021* (0.671)	-2.028* (0.701)
Status in parliament	0.917* (0.436)	1.033* (0.455)
Annual change in real GDP per capita (1961-79)	-0.620* (0.203)	-0.552* (0.211)
Threshold 1	3.029* (0.189)	3.205* (0.218)
Threshold 2	3.552* (0.178)	3.821* (0.211)
Threshold 3	4.318* (0.323)	4.743* (0.390)
Log likelihood at convergence	-42.463	-38.660
Number of observations	52	52
Percent correctly predicted	69.231	75.000

[a] 'Public Sector Strategy': large privatization, 5; medium privatization, 4; large privatization, 3; status quo, 2; nationalization, 1.

Other variables. See definition in table 3.

Estimation: Ordered Probit.
Standard errors in parenthesis.
* Statistically significant at 0.05 or less.

TABLE 5 A Simulation of the Role of Partisanship, Fragmentation and Economic Performance in the Strategy towards the Public Business Sector.

A. PROBABILITY OF HAVING AT LEAST A SMALL PRIVATIZATION DEPENDING ON IDEOLOGICAL POSITION OF PARTY, FRAGMENTATION WITHIN CABINET AND LONG-TERM ECONOMIC PERFORMANCE. [a]

		Only governments with majority in parliament								
Annual change in real GDP per capita		*1 per cent*			*3 per cent*			*5 per cent*		
Number of parties in gov.		*One*	*Two*	*Three*	*One*	*Two*	*Three*	*One*	*Two*	*Three*
Ideology index of government	*18*	100	100	99	100	95	91	94	71	59
	12	96	77	67	75	36	25	33	7	4
	7	54	18	11	16	2	1	0	0	0

B. PROBABILITY OF HAVING A LARGE PRIVATIZATION DEPENDING ON IDEOLOGICAL POSITION OF PARTY, FRAGMENTATION WITHIN CABINET AND LONG-TERM ECONOMIC PERFORMANCE [a]

		Only governments with majority in parliament								
Annual change in real GDP per capita		*1 per cent*			*3 per cent*			*5 per cent*		
Number of parties in gov.		*One*	*Two*	*Three*	*One*	*Two*	*Three*	*One*	*Two*	*Three*
Ideology index of government	*18*	99	89	81	87	54	41	51	16	9
	12	59	22	13	19	3	1	2	0	0
	7	8	1	0	1	0	0	0	0	0

C. PROBABILITY OF HAVING A NATIONALIZATION DEPENDING ON IDEOLOGICAL POSITION OF PARTY, FRAGMENTATION WITHIN CABINET AND LONG-TERM ECONOMIC PERFORMANCE. [a]

		Only governments with majority in parliament								
Annual change in real GDP per capita		*1 per cent*			*3 per cent*			*5 per cent*		
Number of parties in gov.		*One*	*Two*	*Three*	*One*	*Two*	*Three*	*One*	*Two*	*Three*
Ideology index of government	*18*	0	0	0	0	0	0	0	0	0
	12	0	0	0	0	0	1	0	4	8
	7	0	1	2	1	11	19	13	46	59

[a] Based on equation reported in table 4, column 2.