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## **ABSTRACT**

### **The Different Extent of Privatisation Proceeds in EU Countries: A Preliminary Explanation Using a Public Choice Approach**

This paper empirically investigates the differences in the motives of raising privatisation proceeds for a panel of EU countries from 1990 to 2000. More specifically, we test whether privatisations can be mainly interpreted (a) as ingredients of a larger reform package of economic liberalisation in formerly overregulated economies, (b) as a reaction to an increasing macroeconomic problem pressure and (c) as a means to foster growth and increase tax income and relax the fiscal stance with an eye on the demands by integration of economic and financial markets. Whereas we are able to corroborate claim (a) only partly, we gain consistent evidence in favour of claims (b) and (c).

JEL Classification: H42, E62, L33

Keywords: European Union, panel analysis, partisan theory, privatisation proceeds, state-owned enterprises

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## 1. Introduction<sup>\*</sup>

Over the last one and a half decades unprecedented efforts at privatisation have been taken around the world which amounted to their peak in the second half of the 1990s (Belke/Schneider 2005). Between 1990 and 2000, total privatisation proceeds in more than one hundred countries amounted to 937 billion US-\$ (OECD 2003a: 7). More than 70 percent of the proceeds were raised by OECD member states. In turn, 62 percent of OECD members' proceeds accrued in the EU-15 (Obinger/Zohlnhöfer 2004, Siegmund 1998). Since we are especially interested in the relationship between the institutional environment of the EU economies and the speed of privatisation, we focus solely on EU countries in this paper.

Several authors display the pattern of national privatisation proceeds between 1990 and 2000 in detail. The main feature emerging is that the privatisation issue and the proceeds from privatisation have been a considerable and policy relevant issue in the 1990s also for the EU economies. However, in spite of quite similar degrees of privatisation efforts among different countries at several points in time, significantly different overall country pattern of revenues raised from privatisation between 1990 and 2000 can be established (Belke/Schneider 2005, Obinger/Zohlnhöfer 2004).

The major goal of our contribution is to apply the seminal public choice approach, including partisan political business cycle theory, and to employ a panel analysis to explain the differences in privatisation patterns among countries. Above all, we investigate the driving forces behind the emergence of privatisation proceeds in member countries of the EU at the end of our sample period. However, we had to exclude Luxemburg due to data limitations. In view of the small number of only 14 countries, we make use of a panel approach.

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<sup>\*</sup> Revised version 13 October 2005.

Privatisations do not necessarily imply deregulation, for instance, in the telecom-, gas-, electricity- and other service markets but may be conducted in various forms. It is even possible that privatisation may only change the shape of government intervention with respect to service provision, regulation and financing (Feigenbaum/Henig/Hamnett 1998: 6, Obinger/Zohlh fer 2004: 3). In this paper, we solely investigate the sale of state-owned enterprises. However, we do not focus on the way of privatisation (OECD 2003a) nor on the utilisation of privatisation proceeds and the impacts of privatisation on certain performance measures like the return-on-investment or on the labour market performance (Belke/Schneider 2005). The remainder of this paper is organised as follows: After a brief review of the existing literature (chapter 2), the most important theoretical approaches in comparative public choice research are surveyed to generate testable hypotheses (chapter 3). In chapter 4, the empirical evidence is presented, while the last section 5 concludes the study.

## **2. Previous Research: Some Short Remarks**

Large parts of research on privatisation efforts have emphasised the timing and regional spillovers of privatisations. Early studies focused on the pivotal role of Thatcherism in the area of privatisation in the United Kingdom in the 1980s. This was interpreted to have a deep policy impact on and wide diffusion to many other EU countries.<sup>1</sup> More recent studies focus on the direct and indirect impacts of European integration on privatisation. Most of them analyse the effects of the ‘1992’ European Commission single market program and the Treaty of Maastricht

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<sup>1</sup> See, for instance, Abromeit (1988), Wright (1994: 5), Bortolotti/Siniscalco (2004) and Obinger/Zohlh fer (2004: 4).

fiscal policy constraints as the main drivers of privatisation<sup>2</sup>. In addition, a large number of studies investigates the privatisation record in certain countries<sup>3</sup>.

However, a coherent empirical multi-country assessment of statistical significance of the driving forces behind the different country pattern of privatisation proceeds has still to be done. One of the few examples into this direction is the seminal study by Boix (1997). He explains the differences in privatisation efforts in OECD countries from 1979 to 1992 mainly by referring to political determinants. According to the results of this study, there is a significant positive impact on privatisation proceeds under right-wing parties, whereas significantly lower efforts to privatise are observed under left-wing regimes. Moreover, the internal fragmentation of the cabinet and the status as minority government seems to significantly hamper inhibit privatisations. Finally, a kind of problem pressure seems to matter as well, since a weak economic performance prior to the period of observation is significantly enhancing the extent of sales of state-owned enterprises (SOE). Bortolotti/Fantini/Siniscalco (2003) and Bortolotti/Siniscalco (2004) compare the privatisation pattern of 48 countries between 1977 and 1999. They cannot reject empirically that political institutions and political parties have a significant impact on privatisation effort. Specifically, a right-wing orientation of the government significantly fosters privatisation proceeds. Moreover, higher proceeds can predominantly be observed in majoritarian democracies and less so in countries where power is fragmented horizontally and vertically. In addition, privatisation revenues are significantly lower in autocracies than in democracies (Bortolotti/Siniscalco 2004: 55). Hence, political regime types are also important from another angle. Finally, this panel study finds that German civil law countries tend to privatise to a lesser extent than other countries. If the analysis is limited to the OECD countries, effects of political

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<sup>2</sup> See Belke/Schneider (2005), Clifton/Comin/Diaz Fuentes (2003), Scharpf (1999), and Schmidt (1998).

<sup>3</sup> Compare, for instance, Clarke/Pitelis (1993), Feigenbaum/Henig/Hamnett (1998), Sinn/Whalley (2004), Toninelli (2000), Vickers/Wright (1989), and Wright (1994).

institutions stay significant, albeit their indicator of government partisanship does not prove to be significant any more. Most important, Bortolotti/Siniscalco (2004: 56) suggest that “a more proper test of the partisan dimension of privatisation should be carried out in the context of wealthy and established democracies.”

As Obinger/Zohlnhöfer 2004, our paper attempts to fill this gap by exploiting a new data set approximating the partisan composition of governments. At the same time, we investigate whether the partisan effects found by Boix (1997) for the 1980s still exist in the 1990s at least for the EU, a period of marked diversity of public enterprise ownership and performance. Finally, in contrast for instance to Bortolotti/Siniscalco (2004), we apply several indicators to measure institutional pluralism and directly assess the impact of national constitutional rigidities.

In this respect, the spirit of our contribution is quite close to the recent study by Obinger/Zohlnhöfer (2004) which investigates the differences in the privatisation proceeds raised by EU and OECD countries between 1990 and 2000 based on simple OLS regressions. They show that privatisations are one element of a process of economic liberalisation in previously highly regulated economies. Moreover, privatisation can be interpreted as a reaction to the fiscal policy challenges imposed by European integration and, more generally, to the globalisation of financial markets. Finally, their results imply significant and negative effects of institutional pluralism and union militancy yield on privatisation proceeds. Interestingly, partisan differences only emerge if economic problems appear to be moderate, whereas pressing economic, in particular fiscal problems seem to make differing partisan strategies less relevant. However, we would like to argue that their study would significantly benefit from the specification of the empirical model. Obinger/Zohlnhöfer (2004) use classic OLS regression with a single cross-section of data. However, it is by now generally accepted that such a procedure has several limitations. It is therefore preferable to use panel data and more sophisticated estimation methods.

We will take up this important issue which essentially motivates our paper in chapter 4 in the necessary detail. First, however, we will derive some hypotheses for the subsequent empirical study in chapter 3.

### **3. Some Theoretical Considerations**

In order to deliver a sound explanation of the differences of the privatisation proceeds among the EU countries, we stick to the well-established theoretical approaches of public policy and public choice research which have been used successfully in a number of policy fields. The public choice approach concentrates on political coalitions and their effect on input usage and reward and/or product characteristics. The public choice approach also includes the theory of bureaucracy and appears to provide a broader analysis than the property rights one. It assumes that politicians, bureaucrats, managers of public enterprises are selfish utility maximisers subject to constraints. In this approach it is assumed, e.g., for a politician that he acts selfish in order to reach his ideological or personal goals under the constraint not to lose the next election. Since to stay in power is the most important constraint (or even sometimes a goal) for a politician, he will also use public utilities for his own selfish goals.<sup>4</sup> In the remaining parts of the paper, we will concentrate on six approaches, which should be interpreted as partly complementary with each another.

#### *3.1 Privatisation as means to cope with macroeconomic problem pressure*

It is sometimes argued that an increase in privatisation effort is not more than a reaction of governments to economic challenges. Hence, privatisations should be observed above all when the macroeconomic problem pressure is high. Faced with high unemployment, decent economic

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<sup>4</sup> See, for instance, Boes/Schneider (1996), Castles (1998), Mueller (2002), Schmidt (2002), and Schneider (2002).

growth and excessive public debt, governments tend to follow the at first glance less popular recommendations of supply-side economics which has increasingly dominated the economic policy debate since the 1980s (Hall 1993, Boix 1997). Both, the microeconomic and case study data are supportive of the positive effects of privatisation as an important imperative of supply side economics, i.e. to roll back the state's influence on the economy, over time on growth and employment (Davis/Ossowski/Richardson/Barnett 2000, Megginson/Netter 2001). These results reflect geographical diversity and are representative of a range of privatisation experience in European Union countries, but are less pronounced for transition and developing countries.

According to this approach, the main focus is on the privatisation of state owned enterprises (SOE) since it is by now a stylised fact that privately owned firms are more efficient than SOE (Megginson/Netter 2001, Belke/Schneider 2005). Due to government intervention, SOEs as a rule suffer from a lack of unambiguously defined goals. They just face an important conflict between efficiency-enhancing profit maximisation and following traditional targets of government policy in the fields of employment or industrial policy. Using this trade-off might cause significant losses of efficiency. However, inferior efficiency of SOE can also be caused by the absence of a "hard" budget constraint and the capture of SOEs by utility-maximising politicians and selfish bureaucrats who tend to exploit public enterprises to secure their influence and power. If privatisation goes along with increasing market competition like within the EU's single market program, efficiency gains of privatisation are supposed to be even larger (Schneider 2002, Belke/Schneider 2005).

Hence, there are good theoretical reasons for privatisation and that the proceeds from privatisation, especially if used in a clever fashion in the areas of education, technology, and infrastructure, can increase the welfare of such countries. The main argument is that the classical public good argument still applies for these areas. Privatisations foster economic growth and,

thus, also employment. Governments will most likely be more inclined to follow this advice if they and their electoral constituency are confronted with unsatisfactory economic performance (Obinger/Zohlnhöfer 2004). Hence, we expect a negative impact of economic growth on privatisation proceeds, since poor growth performance will increase a government's inclination to implement growth-stimulating measures, including privatisation. As the other side of the same coin, unemployment should be a positive driving force of privatisation revenues.

The overall intensity of state regulation of the economy is one important determinant underlying these economic problems. It might become even more significant in view of increasing globalisation and, thus, governments' competition for investment. From this point of view, an economic policy approach of deregulation and privatisation could contribute to make markets more flexible and to give some leeway for the unravelling of growth and employment in heavily regulated economies that would otherwise suffer from low economic growth. Hence, we expect a positive impact of the level of regulation of the economy, i.e. a negative impact of economic freedom, on privatisation efforts and finally on proceeds.

Public finance, and especially the existing amount of public debt, tends to have direct impacts on privatisation efforts as well. It is reasonable to assume that a government which is plagued by a high level of public debt and/or a distinct budget deficit usually strives for options to cope with this problem. However, most measures that have budget consolidation as the main target, e.g. expenditure cuts and tax increases, are not rewarded by the voters. Hence, reducing a public deficit or even turn it into the positive is always politically difficult to achieve. The privatisation of SOE may well support governments to get out of this dilemma by raising revenues, diminishing subsidies for SOE and abolishing the need to bail their deficits out. Hence, privatisation efforts are able to markedly improve the budgetary stance without hampering taxpayers even further or incur spending cuts (Boix 1997: 477, Wright 1994: 20,

Obinger/Zohlnhöfer 2004: 6). Summarising, privatisations should be positively related to the magnitude of the public budget deficit.

### *3.2 Government ideology, partisanship and privatisations*

From the literature on Partisan Political Business Cycles it is well known that the propensity of governments to adhere to supply-side economics is dependent on the partisan (ideological) orientation of their constituency. For instance, the conservative Thatcher and Reagan governments in the UK and in the United States and to a lesser extent also the bourgeois coalitions in Denmark, Germany and the Netherlands in the early eighties may serve as examples of the adoption of important elements of supply side economics. Since partisan theory actually argues that right-wing parties favour market solutions in economic policy anyway, the propensity of centre-right parties to sell off state-owned enterprises tends to be higher than that of centre-left ones, since partisan theory essentially argues that these parties favour market solutions in economic policy anyway.<sup>5</sup>

Moreover, right-wing governments are often said to have an electoral incentive to strive for privatisation, since right-wing executives with re-election concerns design privatisation to spread share ownership among domestic voters.<sup>6</sup> By selling under-priced shares in the domestic retail market (as in the UK in the 1980s) *and not abroad, right-wing governments* attract the median voter, shape a constituency interested in the maximisation of the value of financial assets and averse to redistribution policies to the left. As a consequence, the economic interests of many

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<sup>5</sup> See Belke/Schneider (2005), Bortolotti/Fantini/Siniscalco (2003: 308), Obinger/Zohlnhöfer (2004: 6), and Schmidt (2002).

<sup>6</sup> Most prominent examples are the recent “right-wing” coalition in Austria, the privatisation in the UK as a part of a whole “right-wing” Thatcherism package, or the French privatisation as an element of the now-famous Mitterand U-turn in economic policies towards a “right-wing” orientation.

voters may change in favour of the more market-friendly policies implemented by bourgeois parties which might promise to maximise the value of their shares.<sup>7</sup>

Left-wing parties, in contrast, until recently declared a lack of confidence in the stability of the private sector. This manifested itself in the fact that nationalisations of key industries were important elements in these parties' economic strategies. SOEs were typically utilised as "employment buffers" during recessions and as important instruments of macroeconomic fine-tuning.<sup>8</sup> Moreover, partisan theory has always stressed that left-wing parties face electoral incentives to delay privatisation since SOE employees represent an important part of their core clientele and most probably are among the main losers of privatisation. Hence, we expect right-wing governments to be positively related to privatisation proceeds, whereas left-wing governments should lead to lower privatisation revenues.

### *3.3. Do institutions matter for privatisations?*

In order to answer the question whether institutions matter for privatisations it is important to note that in most cases the decision to privatise is the final result from a legislative process. Consequently, political institutions should be an important determinant of privatisation effort. It is well known from standard veto player theory that a change away from the status quo becomes more difficult in the number of veto players – mainly due to increasing transaction costs (Tsebelis 2002). Moreover, the probability of one player vetoing the privatisation decision increases, when the number of players grows. In our EU-15 context, powerful second chambers, strong presidents or direct democracy might be considered as the relevant prominent veto

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<sup>7</sup> See Abromeit (1988) and Richardson (1994: 69).

<sup>8</sup> See Belke/Schneider (2005) and Schneider (2002). Examples are the Austro-Keynesian type of stabilisation policy until the 1980s, the nationalisation policies of the French socialist government after 1981, and the rather slow speed of amending the British Labour Party program, especially the hotly debated "Clause IV". See Obinger/Zohlnhöfer (2004).

players.<sup>9</sup> The procedures for changing the constitution may have an impact on privatisation effort as well, because SOE enjoyed protection by the constitution in some countries like France and Portugal (Corkill 1994: 219-20, Feigenbaum//Henig/Hamnett 1998: 108-109). Hence, we feel justified to derive the hypothesis that privatisation proceeds will be negatively influenced by the number and power of veto players like, for instance, second chambers, presidents and referenda. Complementarily, if an amendment of the constitution is more difficult, privatisation proceeds should turn out to be lower.

Also the number of parties taking part in a government could in principle have an influence on the privatisation politics. However the direction of the influence is not clear from a theoretical point of view. On the one hand it can be assumed that the amount of privatisation revenues decline with an increasing number of coalition partners according to veto player theory (Boix 1997: 481). On the other hand the opposite hypothesis could be feasible: If coalition governments aim at a containment of the budgetary deficits, they will possibly select the most uncontroversial consolidation path. Thus, the privatisation option appears to be the most passable way considering the resistance against expenditure cuts or tax increases.

Besides it must be noted that the potential for privatisations, i.e. the state-owned enterprises that are to be privatised, is allocated on different national levels. In Germany, for example, a huge part of the privatisation potential lay at the level of the states and the local authorities at the end of the eighties. This could reduce the privatisation activity, if the central government is in favour of privatisations but has no access to large parts of the state-owned enterprises. However, the reverse case is possible as well. Privatisations on the regional level might be realised, although the central government is averse to privatisation (Obinger/Zohlnhöfer 2004).

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<sup>9</sup> Programmatic dissent or the fact that important political allies, interest groups or decisive parts of the electorate oppose a privatisation might be the reason. For example, see Dumez/Jeunemaitre (1994: 93).

Hence, the overall impact of federalism is difficult to derive from theory. A significant negative impact of the degree of federalism on privatisations does only make sense if a central government strives at selling off a state-owned enterprise of high regional importance but sees itself opposed by regional authorities refusing to privatisation and disposing of formal or informal ways of influencing the decision-making process at the federal level.<sup>10</sup> Hence, a weak negative impact of the extent of federalism on privatisation proceeds would be plausible overall.

### *3.4 Interest groups and privatisations*

Generally, employers' and unions' interests concerning privatisation policies are sharply opposed to each other. On the one hand, enterprises might actually be in favour of the privatisation of public utilities like telecommunication, energy and transportation since they expect lower charges stemming from efficiency gains and, thus, an attraction of further clients. Besides they could appear as shareholders of privatised enterprises in hope for future profits. Nevertheless, since collective representation of the diverging interests on the part of these associations is not possible in the end, these enterprises are unlikely to express their strong interest in favour of privatisation policies.

On the other hand, labour unions after all experience tend to oppose privatisations since the employees of SOEs profit from reasonably safe and jobs with well above-average working conditions and payment (Schwartz 2001). This view is supported by the fact that union density is much more significant in the public sector than in the private sector. All in all, it is reasonable to assume that privatisation puts the comfortable situation of the SOE's employees into question. One instructive example in this respect is the wave of liberalisation and privatisation of the telecommunications sector in Europe in the 1980s and 1990s. During this period of labor-

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<sup>10</sup> Examples for this scenario can be found in the process of privatisation in Germany in the 1980s, especially in Bavaria and Lower Saxony. See Obinger/Zohlhöfer (2004: 7).

shedding more jobs were lost in the former SOE than were created by the newly established ones. In addition, the newly created jobs were less protected and paid lower than the original ones (Belke/Schneider 2005, Héritier/Schmidt 2000, Obinger/Zohlnhöfer 2004). Hence, it appears overall plausible that unions had a strong incentive to plea and to fight against the privatisation of SOEs. One empirical implication is, thus, that privatisation revenues should be lower if union strength or militancy is large and vice versa.

### *3.5 Supra-national impacts on privatisation: EU-membership as the “whipping boy”?*

International developments can affect privatisation politics as well. Particularly, the European integration as well as the internationalisation of financial and other markets are the relevant factors. In times of economic globalisation the national economic policy is subject of increasing control by the international capital markets. As a consequence, credibility becomes a major goal of governments (Obinger/Zohlnhöfer 2004: 8). Governments could see themselves compelled to take a more orthodox political-economic way of decreasing the national enterprise property. Moreover, privatisations have a beneficial impact on a government’s budgetary stance that is an important signal for international capital markets (Mosley 2000). Thus, privatisation revenues of a country are expected to increase with a rising openness of its capital market.

European integration also can force privatisation politics as could be observed in particular in the southern European countries (Lavdas 1996). At least two ways of influence are to be considered here: First of all via the single market program, which led to the liberalisation of many sectors, and second through the Maastricht fiscal criteria.<sup>11</sup> Before the liberalisation the services concerned were usually provided by state-owned enterprises. With increasing competition on these markets a further motive for liberalisation arose: If the former state monopolies were to succeed after liberalisation, i.e. under conditions of significant competition on the home market

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<sup>11</sup> See Schmidt (1998) and Clifton/Comin/Diaz Fuentes (2003).

or as a global player in world markets, they had to be freed from the politically and/or administratively motivated restrictions that are typical of public enterprises.<sup>12</sup>

Secondly, also the fulfilment of the Maastricht fiscal criteria was a preponderant motive of the strive for privatisation in EU countries. European governments with their aim of joining monetary union were obliged to reach a current public deficit of less than 3 percent of GDP and an overall public debt below 60 percent of GDP in 1997. Since the debt criterion gave leeway for some exceptions, EU governments mainly focused on fulfilling the public budget deficit. Hence, the public deficit criterion, and later on, also the stability and growth pact, exerts intense fiscal pressure at least on those governments that already incurred a significant risk of failing. Although the Maastricht Treaty does not allow the direct use of privatisation proceeds to lower the relevant public deficit figure, these governments in turn seem likely to resort to privatisations since government net worth will rise to the extent that private sector ownership leads to an increase in efficiency and the government shares in this gain.

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

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<sup>12</sup> See Wright (1994: 4) and Schmidt (1996).

This in turn increases efficiency that tends to improve prospects for the labour market as well after some restructuring period.

### *3.6 Path-dependence of privatisation efforts*

As a final argument, the level of state ownership at the beginning of our sample comes into play as an explanation of privatisation efforts in the EU. The differences in the size of the SOE sector can be interpreted as an equivalent of the potential for privatisation at the disposal of the governments in the 1990s.<sup>13</sup> Starting from the observation that a government can only privatise as many SOE as are in its hands, the amount of privatisation proceeds should be particularly low in countries where the state as a tradition was the owner of only a few enterprises anyway (for instance, in Germany) or got rid of most of the SOEs before 1990 (e.g., the United Kingdom).

### *3.7 Summary of the theoretically derived hypotheses*

If we summarise the theoretically derived hypotheses we have the following 10 hypotheses, which we want to put under scrutiny by more formal empirical tests in the next section. From section 3.1 we have:

Hypothesis 1: We expect a negative effect of economic growth on privatisation proceeds.

Hypothesis 2: We expect a positive effect of unemployment on privatisation revenues.

Hypothesis 3: We expect a positive effect of the initial level of political regulation of the economy on privatisation proceeds.

Hypothesis 4: We expect a budget surplus to be negatively related to privatisation proceeds.

Section 3.2 delivers the following hypothesis:

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<sup>13</sup> For the different reasons of nationalisations of enterprises see in detail Toninelli (2000: 10-21).

Hypothesis 5: We expect right-wing parties to be positively associated with privatisation proceeds, whereas social democratic government participation should result in lower privatisation revenues.

From section 3.3 we can derive:

Hypothesis 6: We expect that privatisation proceeds will be inversely related to the number of veto players.

Hypothesis 7: We expect a weak negative effect of federalism on privatisation proceeds.

Section 3.4 results in:

Hypothesis 8: We expect that privatisation revenues decrease as union strength militancy increases.

Section 3.5 comes up with the following hypothesis:

Hypothesis 9: We expect that privatisation proceeds should be positively related to the level of a countries' economic integration.

Finally, from section 3.6 we have:

Hypothesis 10: We expect that privatisation proceeds will be particularly low in countries, where the government traditionally owned few enterprises or sold most of them before 1990.

All of these hypotheses will guide the empirical investigation in the following chapter.

## 4. Econometric Estimation Procedure and Results

### 4.1. Methodological issues

Previous research on the determinants of privatisation proceeds has employed simple pooled cross-sectional regressions (see, e.g., Obinger/Zohlnhöfer 2004). One problem with this type of analysis is that it assumes omitted variables to be randomly distributed within and across countries. This assumption is, however, extremely unrealistic in the present study since it takes for granted, e.g., that the effects of political and institutional factors on privatisation revenues are independent of any non-controlled differences across countries. The existence of unobserved heterogeneity in the dataset can be tested with the Breusch Pagan test (Greene 2003: 572-573). The test statistics yields a chi-square of 3.93 (p-value: 0.047). The rejection of the null hypothesis of homogeneity suggests that the sample is too heterogeneous to be pooled. By disaggregating the sample to a panel of 11 yearly observations (1990-2000) for each of the 14 “old” EU member countries, a panel design, which overcomes the above discussed limitation, becomes feasible.<sup>14</sup>

In order to check what type of data we use and how the dependent and independent variables are defined, Table 1 presents the definition of variables.

-Table 1 about here-

Most variables in our dataset are index variables. Hence, non-stationarity should not be a matter of concern. For the remaining variables, stationarity was tested by the widely used Levin-Lin-panel unit root test. Even in these cases, none of the variables turned out to be non-stationary. Accordingly, in the following empirical analysis all variables were used in levels. In order to determine the degree of heteroskedasticity, a likelihood ratio test was performed to compare the model with heteroskedasticity to the model without heteroskedasticity. As expected, the test

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<sup>14</sup> Recall that Luxembourg was removed from the sample due to missing data.

statistic indicates significant heteroskedasticity. Thus, any estimation procedure has to account for the heteroskedasticity property.

Table 2 shows our empirical test equation with the parameters strictly indexed in accordance with the index of the hypotheses formulated at the end of section 3. Note that all economic variables and the strike variable are lagged one period in order to avoid a possible endogeneity bias.

-Table 2 about here-

#### *4.2 Empirical Results*

Table 3 displays the regression results for different specifications of our model. The estimation technique is FGLS (Feasible Generalized Least Squares) applied to panel data with a heteroskedastically consistent covariance matrix. The goodness of fit of each regression was checked by the Akaike information criterion (AIC) and the Bayes information criterion (BIC).<sup>15</sup> Additionally, the bottom part of the table includes a chi-square statistic that tests for the joint significance of all coefficients (other than the constant). The  $p$ -value of the test statistic is also included.

- Table 3 about here-

We start by establishing a full model with all variables included (first column of Table 3). All economic and most political variables perform as predicted. As expected, we identify a positive relationship between unemployment and privatisation proceeds (hypothesis 2). The level of federalism also appears to play an important role. A higher degree of federalism is associated with statistically significant lower privatisation proceeds (hypothesis 7). Consistently with hypothesis 3, economic freedom is negatively related to privatisation revenues. Only the

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<sup>15</sup> Note, however, that the AIC and BIC are only directly comparable if the number of observations is equal across different specifications.

coefficient of the initial level of state ownership (SOE) enters with the opposite sign to what we would expect from our theoretical model. This surprising result may be driven by problems of multicollinearity, given the high correlation between the size of the public sector (SOE) and the degree of economic freedom (ECOFREE).<sup>16</sup> Removing ECOFREE from the test equation results in a more consistent picture. As is evident from model (2), the variable SOE changes sign and turns out to be significant indicating that privatisation proceeds in the 1990s were higher in countries where the level of state ownership was high at the beginning of the decade (hypothesis 10). Low GDP growth is now also positively associated with lower privatisation proceeds (hypothesis 1). The remaining variables are not significant at standard levels. The models (3) and (4) check for alternative specifications removing those variables that are not significant throughout our estimations. Both the sign and the statistical significance of the remaining variables do hardly change. The most notable change is that the variable SOE turns out to be significant even at the 1 percent level now.

A comparison across different specifications reveals that the statistical significance of the variables is hardly affected by the removal of variables. In terms of goodness of fit, the chi-square statistic shows that in all specifications coefficients are jointly significant at the 1 percent level. One may conclude that the information criteria identify regression (2) as the preferred model. However, one problem with the AIC and the BIC is that if several models have similar AIC or BIC values and if the number of observations varies across different specifications, as presently is the case, the difference is probably not of any consequence.

To get a sense of the magnitude of the effects predicted by the model, consider the coefficient for UNER(-1) in column (1) of Table 3. The estimate of 0.048 implies that, *ceteris paribus*, a one-point increase in the unemployment rate increases privatisation proceeds by 0.048 percent of

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<sup>16</sup> The correlation between both variables is  $r=0.67$ .

GDP. Results for the federalism variable are also as theoretically expected. A one standard deviation increase in the level of federalism would decrease privatisation proceeds by 0.93 percent of GDP. In view of average yearly privatisation revenues of 0.67 percent of GDP, the economic effects of these results are small, but non-negligible.

#### *4.3 Robustness Checks*

Given the heterogeneity in the sample, we conducted a number of robustness checks to see whether our results are robust to the sample period, the countries in the sample, and the estimation procedure.

A first robustness check adds interval dummies to the specification for three different sub-periods in order to model time effects (1990-1994, 1995-1997, 1998-2000).<sup>17</sup> Table 4 displays the results for these estimations.

-Table 4 about here-

The magnitude of the estimated coefficients and their significance levels increase notably. Again, the coefficients of the level of federalism and the initial level of state ownership display the expected sign and enter in a statistically significant fashion. The negative and statistically significant parameter coefficients of the variables GDP(-1) and GGFB(-1) lent support to the hypothesis that poor macroeconomic conditions such as low growth or a lax fiscal policy stance increase the incentive to privatise. However, the negative sign for UNER(-1) is at odds with such a view. The partisan variables both gain statistical significance, indicating that right-wing parties are more likely to privatise than their left-wing counterparts. Additionally, privatisation revenues increase with a country's international economic integration (variable OPEN).

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<sup>17</sup> We did not use yearly time dummies because this would reduce the number of degrees of freedom below a critical level.

Table 5 tests the robustness of our regression results to changes in the sample of countries. We examined the stability of the results in terms of the country dimension by alternately removing countries with the highest and the lowest privatisation revenues. The EU member country with the highest privatisation proceeds in relation to GDP is Portugal. Models (1) and (2) in Table 5 display the regression result when Portugal is excluded from the sample.

-Table 5 about here-

The pattern of results shows many similarities with the results obtained by the benchmark regression in Table 3. High unemployment and a high degree of decentralisation, and to a somewhat lesser extent also low growth, government ideology, and a high initial level of state ownership cannot be rejected to increase privatisation revenues, while the remaining variables are not statistically significant.

Germany is the country with the lowest relative privatisation revenues. When it is removed from the sample (models (3) and (4) in Table 5), the degree of openness and the level of federalism change sign, but still enter statistically significantly. This result suggests that the positive relationship between centralisation and privatisation revenues found in our benchmark regression in Table 3 is exclusively driven by Germany - a country with a highly decentralised structure and very low privatisation proceeds in the 1990s.

Finally, we test whether our results are independent of the estimation method. Beck/Katz (1995) propose that analysts deal with the complicated panel error process by using Prais-Winsten parameter estimates with asymptotic standard errors that are corrected for correlation between the panels (“panel corrected standard errors”, PCSE). Their Monte Carlo simulations showed that this method is accurate in the presence of contemporaneous correlation and heteroskedasticity across panels. In order to use this procedure, any serial correlation of the data must be eliminated

before. Correcting for serial correlation is done by using the Prais-Winsten estimator, as indicated in Greene (2003). Following Beck/Katz (1995: 638) and Greene (2003: 605) who both strongly recommend estimating an AR coefficient that is the same for all countries, we preferred to impose the restriction of a common AR(1) across countries in all cases. The empirical performance of the variables when included in the PCSE estimation is presented in Table 6.

-Table 6 about here-

As before, the degree of federalism displays the expected sign and enters statistically significant. The results further confirm the important role of the initial level of state ownership. Moreover, the findings reveal that privatisation revenues increase with strike activity. The remaining variables are not statistically significant. GDP growth, government balance, and the partisan variable even change sign. Overall, the relatively low robustness with respect to the empirical specification is an important caveat to bear in mind when interpreting the results.

## **5. Conclusions and Discussion**

What conclusions can be drawn from the empirical evidence?

(1) Apparently, the differences in privatisation proceeds of EU countries can primarily be traced back to the specific economic problems these countries face. This appears to be especially the case if the degree of problem pressure is measured by the unemployment rate, but also - after some modifications of the econometric testing framework - if GDP growth, the general government financial balance and the degree of globalisation/integration are considered.

(2) But some political variables also contribute to an explanation of the national variations among EU countries in the revenues from the sales of state-owned enterprises. At least the

significant and expected findings for the right parties cabinet portfolios as a share of all cabinet portfolios – although not in our basic specification including all potential variables but in many cases throughout the robustness check section - suggest that the partisan ideology of government also plays a significant role. In principle, thus, we were able to replicate the seminal findings by Boix (1997). Some differentiations have to be made, however. Our analysis did uncover significant partisan differences in the EU, but they are conditional, meaning that they only occur if we control for time effects or for countries that are outliers in terms of privatisation revenues. That is to say, party ideology becomes relevant if exogenous events like the EU-entry of some countries in the sample in 1995 are taken into account as well. But note that the partisan effect is still there if one acknowledges that countries which are confronted with intense economic, particularly unemployment problems (see again the overall significance of the unemployment variable!) tend to adopt similar privatisation policies. This last result sharply contrasts with the results in Obinger/Zohlnhöfer (2004).

(3) We also have identified a certain kind of path-dependence that should have fostered privatisations irrespective of the partisan orientation of the respective government, namely an initially high level of state-owned enterprises. Hence, we are finally able to empirically corroborate the hypothesis for EU countries that privatisation proceeds are particularly low if the government traditionally owned few enterprises or sold most of them before 1990. Moreover, we detect a positive effect of the initial level of political regulation of the economy on privatisation proceeds. Apparently, an initially high regulatory density proves to be an important legacy of the past for the amount of privatisation proceeds.

(4) Based on our empirical results privatisation efforts can also be interpreted as a reaction to an increasing level of the EU countries' economic integration since our variable measuring the share of overall exports and imports over GDP is significant with the expected sign in most of

our specifications. This result again stresses the increasing importance of supranational and transnational influences on national policymaking. Political-economic aspects relating to ideology also appear to play an important role in explaining the extent of privatisation within the EU-15. Boix (1997) argues that parties, since they have become unable to pursue party-specific macroeconomic policies because of globalised financial markets, now primarily focus on diverging supply-side policies. This claim is clearly corroborated by our empirical results. Since our right-wing partisan variable is significant more often than the left-wing partisan, our results are also compatible with the insight that in times of austerity even left-wing parties tend to exploit the political advantage of raising extra revenues without causing larger political conflicts by means of privatisation instead of playing the Keynesian card and to incur additional public debt (Belke/Schneider 2005, Boix 1997: 479).

(5) In addition to the growing significance of supranational impacts on national privatisation policies, domestic institutional settings like federalism and constitutional rigidity are not as important as expected. While Germany - a country with a highly decentralised structure and very low privatisation proceeds in the 1990s - seems to bias the significance of the results for the federalism variable towards accepting the positive relationship between centralisation and privatisation revenues, the number of veto players is never significant throughout all of our different estimations. Hence, our empirical evidence is in accordance with our view that the effect of federalism is theoretically difficult to determine. In addition, our results certainly do not corroborate veto player theory that claims a status quo bias of countries with many veto players. Neither are our results in accordance with the results reported by Bortolotti/Siniscalco (2004) who identified majoritarian democracies as a catalyst for privatisations. These results again contradict the results gained in previous studies (see, e.g., Obinger/Zohlnhöfer 2004). Finally, we do not find any empirical evidence that severe industrial conflicts reduce privatisations in EU

countries. Apparently, it is not the unions' conflict behaviour that is decisive for the successful implementation of privatisation programs, since the number of working days lost due to strikes is never statistically significant throughout all specifications.<sup>18</sup>

(6) Privatisation has been a key element of structural policy reforms in most EU countries during the last decade. Governments undertaking privatisation have pursued a variety of objectives: achieving gains in economic efficiency, given the extensive prevalence of poor economic performance of public enterprises in many countries and limited success with their reform; and improving the fiscal position, particularly in cases where governments have been unwilling or unable to continue to finance deficits in the public enterprise sector.

(7) Finally, to summarise: This paper empirically investigates the differences in the motives of raising privatisation proceeds for a sample of EU countries for the time period 1990 to 2000. More specifically, we test whether privatisations can be mainly interpreted can be mainly interpreted (a) as ingredients of a larger reform package of economic liberalisation in formerly overregulated economies, (b) as a reaction to an increasing macroeconomic problem pressure and (c) as a means to foster growth and, thus, increase tax income and relax the fiscal stance with an eye on the demands by integration of economic and financial markets (dependent on the degree of federalism). Whereas we are able to corroborate claim (a) only partly, we gain consistent evidence in favour of claims (b) and (c).

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<sup>18</sup> The last result again does not correspond to the results in Obinger/Zohlnhöfer (2004) who show empirically that it is not the unions' organisational strength but their conflict behaviour that is decisive for the successful implementation of privatisation programs.

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## Appendix

**Table 1: Data description and sources**

Variable	Description	Source
PRIVGDP	Yearly privatisation proceeds (in % of GDP)	OECD (2002b) IMF (2005)
GDP	Annual growth rate of GDP	World Bank (2003)
UNER	Rate of unemployment	OECD (2005)
ECOFREE	Economic freedom, increasing values = increasing degree of economic freedom	Gwartney/Lawson (2004)
GGFB	General government financial balances, surplus (+) or deficit (-) as % of nominal GDP	OECD (2002a)
RPCAB	Right party cabinet portfolios as a % of all cabinet portfolios	Swank (2005)
LPCAB	Left party cabinet portfolios as a % of all cabinet portfolios	Swank (2005)
VETO	Number of veto players	Keefer/Stasavage (2003)
FED	Level of federalism (1= centralized, 5= decentralized)	Lijphart (1999) World Bank (2001) OECD (2002c) OECD (2003b) Stegarescu (2004)
STRIKE	Yearly number of working days lost per 1,000 employees through industrial conflict	Armingeon/Leimgruber/Beyeler/Menegale (2004)
OPEN	Share of exports and imports over GDP	World Bank (2003)
SOE	Size of SOE sector in 1990	Europäischer Zentralverband der öffentlichen Wirtschaft (CEEP) (2000)

**Table 2: Theoretically derived test equation explaining privatization proceeds**

(1) PRIV/GDP $i,t =$ (Priv. Proceeds in % of GDP)	$\alpha_1 \cdot$ country-specific intercept	+
	$\alpha_1 \cdot$ GDP (-1) $i,t$ (Annual growth rate of GDP, lagged)	+
	$\alpha_2 \cdot$ UNER (-1) $i,t$ (Unemployment rate, lagged)	+
	$\alpha_3 \cdot$ ECOFREE $i,t$ (Economic freedom)	+
	$\alpha_4 \cdot$ GGFB (-1) $I,t$ (general government financial balances; surplus+, deficit-, lagged)	+
	$\alpha_5 \cdot$ RPCAP $i,t$ (Right parties cabinet portfolios as a % of all cabinet portfolios)	+
	$\alpha_6 \cdot$ VETO $i,t$ (Number of veto players)	+
	$\alpha_7 \cdot$ FED $I,t$ (Intensity of federalism)	+
	$\alpha_8 \cdot$ STRIKE (-1) $i,t$ (Number of working days lost through strikes, lagged)	+
	$\alpha_9 \cdot$ OPEN (-1) $i,t$ (economic openness, lagged)	+
	$\alpha_{10} \cdot$ SOE $i,t$ (Size of the SOE-sector)	+
	$\varepsilon$ $i,t$ (error term)	

with the expected signs=  $\alpha_1 < 0$ ;  $\alpha_2 > 0$ ;  $\alpha_3 > 0$ ;  $\alpha_4 < 0$ ;  $\alpha_5 > 0$ ;  $\alpha_6 < 0$ ;  $\alpha_7 < 0$ ;  $\alpha_8 < 0$ ;  $\alpha_9 > 0$ ;  $\alpha_{10} > 0$ ;  $i =$  country,  $t =$  time (year); index number corresponds to hypothesis number in section 3.

**Table 3: Determinants of privatization proceeds in 14 EU countries, 1989-2000, feasible generalized least squares**

	(1)	(2)	(3)	(4)
GDP(-1)	-0.023 (0.024)	-0.040* (0.022)	-0.031 (0.022)	-0.025 (0.020)
UNER(-1)	0.048*** (0.018)	0.034* (0.018)	0.040*** (0.015)	0.039** (0.015)
GGFB(-1)	-0.002 (0.016)	-0.009 (0.017)		
ECOFREE	-0.328* (0.182)			
RPCAB	0.000 (0.001)	-0.000 (0.001)		
VETO	-0.025 (0.033)	-0.040 (0.033)	-0.034 (0.031)	
FED	-0.067*** (0.023)	-0.076*** (0.024)	-0.093*** (0.021)	-0.093*** (0.022)
STRIKE(-1)	-0.000 (0.001)	-0.000 (0.001)		
OPEN(-1)	0.002 (0.002)	0.002 (0.002)	0.002 (0.001)	
SOE	-0.016 (0.020)	0.018* (0.011)	0.030*** (0.009)	0.028*** (0.009)
Constant	2.793* (1.507)	0.184 (0.232)	0.064 (0.218)	0.051 (0.171)
Observations	97	97	114	114
Number of countries	14	14	14	14
Wald chi <sup>2</sup>	48.97	39.10	52.01	46.44
Prob>chi <sup>2</sup>	0.00	0.00	0.00	0.00
AIC	162.44	162.35	199.85	198.48
BIC	190.76	188.09	219.00	212.16

Note: Dependent variable is yearly privatization proceeds in percent of BIP. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, 1% level, respectively. Standard deviations are reported below each value in brackets.

**Table 4: Determinants of privatization proceeds in 14 EU countries, 1989-2000, feasible generalized least squares, robustness check in time dimension**

	(1)	(2)	(3)	(4)
GDP(-1)	-0.022** (0.011)	-0.027** (0.012)	-0.027** (0.012)	-0.023** (0.011)
UNER(-1)	-0.026* (0.015)	-0.031* (0.016)	-0.027* (0.016)	-0.021 (0.015)
GGFB(-1)	-0.054*** (0.017)	-0.058*** (0.018)	-0.053*** (0.018)	-0.046*** (0.017)
ECOFREE	-0.571*** (0.181)			
RPCAB	0.005*** (0.001)	0.005*** (0.001)	0.006*** (0.001)	
LPCAB				-0.005*** (0.000)
VETO	0.045 (0.032)	0.029 (0.033)		
FED	-0.091*** (0.020)	-0.101*** (0.022)	-0.112*** (0.021)	-0.119*** (0.021)
STRIKE(-1)	0.000 (0.001)	0.000 (0.001)		
OPEN(-1)	0.004*** (0.001)	0.005*** (0.001)	0.005*** (0.001)	0.004*** (0.001)
SOE	-0.025 (0.019)	0.030*** (0.011)	0.036*** (0.010)	0.027*** (0.010)
p9597	0.115** (0.054)	0.049 (0.050)	0.066* (0.037)	0.093*** (0.036)
p9800	0.714*** (0.066)	0.640*** (0.065)	0.624*** (0.062)	0.666*** (0.060)
Constant	4.215*** (1.498)	-0.486** (0.225)	-0.441** (0.217)	0.167 (0.221)
Observations	97	97	97	97
Number of countries	14	14	14	14
Wald chi <sup>2</sup>	429.65	410.27	394.84	452.40
Prob>chi <sup>2</sup>	0.00	0.00	0.00	0.00
AIC	148.79	153.92	150.79	143.16
BIC	182.26	184.81	176.53	168.91

Note: Dependent variable is yearly privatization proceeds in percent of BIP. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, 1% level, respectively. Standard deviations are reported below each value in brackets.

**Table 5: Determinants of privatization proceeds, 1989-2000, Portugal (models (1) and (2)) and Germany (models (3) and (4)) are excluded from the regression, feasible generalized least squares**

	(1)	(2)	(3)	(4)
GDP(-1)	-0.040*	-0.024	-0.015	
	(0.022)	(0.020)	(0.021)	
UNER(-1)	0.041**	0.045***	0.058***	0.032*
	(0.018)	(0.015)	(0.021)	(0.017)
GGFB(-1)	-0.008		0.017	
	(0.017)		(0.016)	
RPCAB	-0.000		0.002*	0.002**
	(0.001)		(0.001)	(0.001)
VETO	-0.027		-0.014	
	(0.032)		(0.033)	
FED	-0.064***	-0.078***	0.220***	0.168***
	(0.024)	(0.022)	(0.060)	(0.046)
STRIKE(-1)	0.000		0.000	
	(0.001)		(0.001)	
OPEN(-1)	0.002		-0.005***	-0.004***
	(0.001)		(0.002)	(0.001)
SOE	0.010	0.019**	0.004	0.010
	(0.011)	(0.010)	(0.010)	(0.009)
Constant	0.110	0.030	-0.035	-0.026
	(0.230)	(0.169)	(0.198)	(0.178)
Observations	88	104	88	93
Number of countries	13	13	13	13
Wald $\chi^2$	37.14	41.67	33.87	25.12
Prob> $\chi^2$	0.00	0.00	0.00	0.00
AIC	122.79	154.71	153.26	157.70
BIC	147.57	167.93	178.04	172.90

Note: Dependent variable is yearly privatization proceeds in percent of BIP. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, 1% level, respectively. Standard deviations are reported below each value in brackets.

**Table 6: Prais-Winsten regression, corrected for contemporaneous correlation, serial correlation, and heteroskedasticity**

	(1)	(2)	(3)	(4)
GDP(-1)	0.027 (0.048)	0.023 (0.047)		
UNER(-1)	0.017 (0.041)	0.023 (0.047)	0.021 (0.047)	0.018 (0.046)
GGFB(-1)	0.022 (0.046)	0.009 (0.048)	0.010 (0.048)	0.003 (0.046)
ECOFREE	-0.160 (0.301)			
RPCAB	-0.001 (0.003)	-0.001 (0.003)	-0.001 (0.003)	-0.000 (0.002)
VETO	-0.084 (0.073)			
FED	-0.095** (0.039)	-0.081* (0.044)	-0.092** (0.043)	-0.107*** (0.038)
STRIKE(-1)	-0.001 (0.001)	-0.001* (0.001)	-0.001* (0.001)	-0.001* (0.001)
OPEN(-1)	-0.003 (0.003)	-0.004 (0.003)	-0.003 (0.003)	
SOE	0.055*** (0.016)	0.068*** (0.021)	0.069*** (0.021)	0.074*** (0.022)
p9597	0.265 (0.251)	0.184 (0.219)	0.233 (0.191)	0.243 (0.190)
p9800	0.332 (0.310)	0.369 (0.318)	0.432 (0.263)	0.455* (0.256)
Constant	1.719 (2.421)	-0.010 (0.375)	-0.025 (0.369)	-0.339 (0.440)
Observations	97	97	97	97
Number of countries	14	14	14	14
Wald chi <sup>2</sup>	54.39	61.43	62.18	30.03
Prob>chi <sup>2</sup>	0.00	0.00	0.00	0.00

Note: Dependent variable is yearly privatization proceeds in percent of BIP. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, 1% level, respectively. Standard deviations are reported below each value in brackets.