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# THE PRIVATISATION EXPERIMENT IN AUSTRIA

*The extent and background of public involvement in Austria's economy was particularly strong. Successful privatisation experiments in the nationalised industry occured during the 1990s. In contrast, a decade-long struggle to privatise a large bank, which received world-wide attention, shows the difference between the two privatisation strategies applied. The liberalisation of sectors with natural monopolies has been started, however, with some delay and on pressure from rules issued by the European Community. Contracting-out and public sector management have not been used extensively in Austria up to now.*

The term "privatisation" can refer to three broad types of policy: first, asset transfer from the public to the private sector, generally through sale; secondly, deregulation or liberalisation of statutory monopolies (with or without the sale of assets), with particular emphasis on the removal of entry restrictions; and finally, franchising or contracting-out the provision of marketable goods and services to private sector firms[1]. We could add corporatisation as a fourth method of privatisation; this is transferring the supply of goods and services from the governmental sector to a separate company according to corporate law, while the government remains the owner[2]. And we can label activities to promote efficiency and competition within the government as a fifth mode of privatisation. The motives for privatisation fall in general into one or more of the following categories: financial motives of the seller (gaining revenues or balancing losses), increase of productive efficiency (reducing average costs), and the pursuit of allocative efficiency (increasing consumer surplus). It is well known that the first goal can be achieved only in combination with an increase in the second, because otherwise the selling price would equal foregone future dividends.

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The author thanks Wilhemine Goldmann, Gerhard Jersabek, Claudia Schmid and Gunther Tichy for discussing earlier versions of this paper, Dagmar Guttmann for calculations,Gerhard Schwarz for correcting the manuscript.

[1] See *Domberger – Piggott* (1994), pp. 48.

[2] German literature sometimes distinguishes between "materielle Privatisierung", where the government stops to provide a service, "formelle Privatisierung", where government continues to provide a service, but makes use of a private company while remaining owner of this company. A third type is "contracting-out", where the government guarantees the provision of the service, but uses the means of a contract with a private firm (see *Fuest,* 1997).

## THE SPECIFIC EXPERIMENT AND ITS BACKGROUND

We can observe in Austria examples of all these policy types and motives. The single largest cohesive experiment ever performed, however, was the privatisation of the former nationalised industry in the 1990s. Up to the late 1970s, publicly owned manufacturing firms ("Verstaatlichte") together with firms belonging to nationalised banks accounted for 25 percent of Austria's manufacturing sector[3]. In the 1990s, the majority of all large industrial firms was sold in a specific attempt to realise the first type of privatisation (transfer of ownership). The motive was primarily financial, namely the attempt to limit the financial losses, which were remunerated by the public budget. The method of privatisation had specific, interesting features, which were different from the strategies applied in other sectors in Austria and in other countries.

## THE HISTORY AND STRUCTURE OF PUBLIC INTERFERENCE IN AUSTRIA

The public sector has traditionally played a strong role in Austrian economics, as well as in issues of education, culture and law. One reason for this may be the positive and progressive impact of the enlightened monarchy in the 19th century ("aufgeklärte Monarchie"), which at this time led to the development of a rather efficient bureaucracy in Austria. On the other hand, Austria did not produce a large stratum of innovative and dynamic entrepreneurs during the second half of the 19th century, but in contrast, experienced a lacklustre phase of liberalism. More recent roots for the high level of government interference may be that the wide-ranging bureaucratic structures of the former Austro-Hungarian Empire were concentrated within the small Austrian Republic following World War I, and that the economy stagnated between the two wars. After World War II, Austria needed and engineered a strong government in the form of a stable "grand coalition" uniting the conservative and socialist parties, and – parallel to the two blocs – the highly centralised "social partners". Both institutions helped to counterbalance the economic backwardness, to regain sovereignty, and to protect the property of former German firms from the grip of the Allied Powers, during Austria's period of limited sovereignty, from 1945 to 1955.

There are estimates that near the end of the 1970s, 25 percent of the gross national product was produced by publicly owned firms[4]. The lack of large private companies and a very underdeveloped capital market characterised the other side of the coin. All the major banks were owned by the government, specifically the two largest, the Creditanstalt (CA) and the Länderbank[5]. These banks had considerable stakes in big manufacturing and construction firms. Electricity, the post and telecommunications, broadcasting and large parts of the transportation sector (highways and railways) were owned by central or local governments. The share of value added provided by the government bureaucracy (as measured by the payroll of the civil servants) amounted to about 20 percent.

While public ownership in infrastructure had long been a common feature of European economies, maintaining a large share of public ownership in manufacturing up to the 1990s was an Austrian speciality among Western market economies[6]. The larger part of the nationalised sector – specifically firms doing business in mining, oil, chemicals, steel, and aluminium – was nationalised in 1946. Socialists had to some extent favoured nationalisation for ideological reasons, the People's Party joined in on that goal in part because no potential Austrian owners were available, and partly because nationalisation helped hold off the grip of the Allies on former German firms. German ownership did exist in 1945, since some of the larger firms were founded by the Nazi regime to help supply the war machine. Other firms were expropriated during the Nazi regime; some owners were forced to leave Austria after World War II due to collaboration.

In sectors in which natural monopolies traditionally were supposed to exist, or in which the possession of a central

[3] The exact shares differed over time and according to whether investment, value added, employment or exports were used as indicators for measuring public ownership. *Aiginger* (1985) reported that 25 percent of value added in manufacturing was produced by publicly owned firms, 14.5 percent of total value added in manufacturing was produced in firms with public ownership, as determined by the nationalisation law of 1946, 5.4 percent were owned indirectly via banks with public majorities. At its climax 125,000 persons were employed in the first group, and 50,000 in the second, while total manufacturing amounted to 600,000 (excluding very small firms known as "Gewerbe").

[4] *Aiginger* (1985), p. 41. The figure was 25 percent for the total economy, excluding public consumption in the numerator, but using GNP in the denominator. If we add the public consumption in the denominator, the share of public ownership increased to 37 percent.

[5] Later the Länderbank merged with the Zentralsparkasse (a savings bank with strong stakes of Vienna's city government) to become the largest bank, called BA (Bank Austria).

[6] Comparing ownership structures across countries is a difficult empirical issue. The share of public ownership in manufacturing in Austria is definitely higher than in Germany or Sweden. Comparing the share of public firms with France, the U.K. and Finland does not create a clear picture. Studies cited in *Aiginger* (1985) report approximately equal shares of about 11 to 13 percent of employees for France, the U.K., Italy and Austria. On the other hand public ownership in all its different forms, including bank subsidiaries, state monopolies and co-operative associations amounted to 19 percent according to the Austrian statistics.

facility enabled one large firm to dominate the national markets, it is well known that there are two alternative methods of dealing with market failure: continental Europe, as well as the U.K. and Australia, usually established public ownership, while the USA chose to regulate private firms. Instead of choosing between these two options, Austria installed the double grip: ownership plus a regulatory process embedded in the bureaucracy of a ministry (also allowing the trade union and employers' organisation to play supporting roles). This tactic led to a predominance of political over economic goals.

In the first stage, this governance structure implied a rapid rebuilding and expansion of capacities, which proved extremely important for Austria's recovery process. Later on, the selection of managers not only according to their ability, but also according to their political orientation became the norm. Initially prices were fixed with the goal of sheltering low income consumers from unaffordable expenses; later on, prices were set with an eye on the next election date. Many of the well-known inefficiencies of cost-plus regulation became apparent; investment decisions were made according to regional demands and political lobbying, increasing capacity became a more important goal than innovation and service orientation, regulators were captured by the monopolies.

These judgements are, of course being made with the benefit of historical hindsight. It has to be stressed that the negative assessment evolved only after the system had operated successfully for three or four decades. The first twenty years after World War II were a period of remarkable recovery in Austria. And the efficient infrastructure provided by the national champions, as well as the inexpensive and high-quality products produced by the state-owned basic goods industry were two pillars of that process. Equally important were the low prices for heating and transportation, which helped Austrians with lower incomes to catch up with the middle-class. But, as the system continued over decades, the potential increase in the productive efficiency of large firms, and their Schumpeterian potential for innovation, were more than outweighed by the Leibenstein slacks and allocative inefficiencies, since profit-seeking managers, firms and political parties decreased the incentive to equate resources and demands (allocative efficiencies), while cost-plus regulation inhibited the search for low-cost technologies and innovation.

## SOME INTERMEDIATE STEPS TOWARDS REFORM

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

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

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

The 1980s brought with them a new wave of privatisation, in the sense of ownership transfer. The motives were

mixed. Efficiency was among them, the People's Party joined the government and supported privatisation as a political goal, but the potential of the revenues for reducing the Federal budget deficit was the driving force. In the majority of cases, possession changed from one public owner to another. The largest single action was the transfer of the Hauptmünzamt (the central mint) from direct ownership by the central government to the Austrian National Bank (*OeNB;* 1989). The second largest was the privatisation of 49 percent of the electrical utilities company, a state owned monopoly[7]. The largest portion of the shares was bought by other public companies or local governments; only some of the shares were purchased by the broad public. The state travel agency was sold to a private investor (1990), state owned residential flats were sold to the tenants, shares of the Austrian Airlines (AUA) were purchased by the public and by other airlines. Public ownership in the two largest banks was reduced (1987, 1989). All in all, the volume of privatisation in the 1980s may have amounted to ATS 30 billion; two thirds constituted the restructuring from one public owner to another. The main objective was to reduce the federal deficit, a secondary issue was the upcoming idea that efficiency and innovation would be supported by private stakes[8].

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

The governing structure of the public firms in manufacturing[9] changed several times over the last four decades. Sometimes the firms were directly governed by a ministry, sometimes separate agencies were installed with limited freedom in strategic and operational decisions. In the early 1970s a stock company (ÖIG, then ÖIAG) was created as a holding company for individual firms; 100 percent of the shares remained in government hands. Different steering methods were tested within the conglomerate of firms. Sometimes the holding company was designed as a loose financial holding. Later, it was transformed into a holding according to Austrian business law, which implied that it could implement strategic goals and extract dividend payments from the individual firms, and reshuffle them between industries. In the beginning of the 1970s, all the firms within an industry were integrated in a branch holding: the big steel companies and those in the nonferrous metals industry were merged. The planned oil-chemical merger was prevented by the management, employees, and regional lobbies, though law also called for this merger ("Branchenzusammenführung").

Following the large losses suffered by state owned companies during the 1980s – centred around the steel company and its unsuccessful diversification into mining, oil speculation, etc. – a new step towards reform[10] changed the rules of management rather dramatically in 1987. One specific feature was increasing the independence of the nationalised firms from government: the recruiting of management was de-politicised, a large subsidy (ATS 33 billion) was injected to stop losses and allow for active strategies. The government announced that this was the last injection of government money that could be expected; any further losses would have to be covered by privatisation revenues. The leverage of the holding over the individual subholdings and firms was increased by defining the newly created Austrian Industries (AI) as a holding company by the Austrian Corporate Law. The vision was to form a large, professional, Austrian, multi-industry conglomerate, which was planned to go public within three to five years.

Positive restructuring took place during the following years, the quality of decision-making processes and management was upgraded, firms invested in active internationalisation. Minority stakes in the oil company were sold in 1987 and 1989, but afterwards, privatisation via the stock offerings of individual firms was forbidden by the holding, which eventually wanted to place the shares of

[7] Verbundgesellschaft, 1988. This company has the import and export monopoly, owns the largest share of the distribution network and guarantees the overall supply of electricity.

[8] For a summary of attempts at privatisation between 1987-1990, see *Siegl* (1990). The figures cited do not include specific attempts at privatisation in the nationalised industry sector. During this period, a minority share of the oil company was sold to the public, the ownership of a pharmaceutical firm and an electrical firm was transferred to foreign investors. But at the same time, the nationalised firms purchased just as many firms, in an attempt to restructure and to internationalise, so that we consider this phase as one of restructuring, but not of (net) privatisation.

The *OECD* (1997) calculates revenues from privatisation at USD 32 million, increasing to USD 1.2 billion in 1996, but this includes only privatisation by public offerings, not by trade sales. The figures are USD 24.7 billion and USD 68.4 billion, respectively, for the OECD countries.

[9] There are several types of public ownership of manufacturing firms in Austria. The largest type is the so-called "Verstaatlichte Industrie". This sector is comprised more or less of those firms which were nationalised in 1946 by law (1. Verstaatlichungsgesetz 1946). The ownership rights were monitored by different ministries and then by different holding or operating companies, called ÖIG, ÖIAG, AI, and finally again ÖIAG. The second most important form is the indirect public ownership of firms, whose shares are held by nationalised banks. The number of firms held by banks was reduced over time, but as of 1997, the largest European brick company and major Austrian firms in the vehicle and chemical industries, and specifically construction industries were still held by the banks. A third group includes the (former) state monopolies for tobacco and salt; a fourth sector of firms has been organised as co-operatives.

[10] ÖIAG-Gesetz 1986, ÖIAG-Finanzierungsgesetz 1987.

the holding company. A bond option going public was issued for this purpose in 1990, offering a preferential swap into stocks in five years' time. However, the attempt to restructure the firms failed. One reason was the specifically unfriendly business climate in the steel industry, another was a mismanaged internationalisation campaign by the large aluminum company (AMAG), which resulted in a loss of ATS 12 billion in 1993. In addition to these unlucky events, the conglomerate proved to be too large, the interests of the firms too diverse. In this situation the strategic interference and control potential of the holding was, in various cases, simultaneously too strong and too weak. In the globalising world economy, the time for large diversified conglomerates had passed, the competitors had opted for cost reduction, leanness, flexibility, and flat hierarchies.

The final stage of the Austrian nationalised industry and the privatisation experience started in 1993. The old holding was dissolved[11]. A new capitalisation of ATS 7.5 billion was provided by the owner and combined with the binding demand to sell all the majority stakes. The new holding (ÖIAG) was explicitly stated in the law as being not a holding company according to Austrian Corporate Law (Konzerngesetz). It could give no orders to its subsidiaries, except those which where necessary for the promotion of the privatisation process. For some of the firms, explicit deadlines for privatisation were set (e.g., 51 percent of the technology group should be privatised by June 1994), while for others, the method of privatisation was indicated (the refined steel company should be offered to the public). The law used the term "should", which meant stopping short of enforcing the time and method of privatisation by law. This created an indicative guide which did not have to be followed, if there were strong arguments against it, but otherwise were to be accepted.

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

In 1997, the majority of all of the five large holdings has been privatised (in four of them the ÖIAG still holds a strategic share). In each case a different method, speed or process was applied. All headquarters remained in Austria.

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

The Austrian Technology group VA-Tech is a success story. It started as a collection of several small engineering firms in the energy and environmental industry, to which the engineering divisions of the largest steel firms were added. Now VA-Tech is a large international engineering conglomerate with subsidiaries all over the world. Specifically, the firm has a lead in cost-saving technologies in the steel industry (KVA technology). 51 percent of the shares of VA-

[11] Novelle zum ÖIAG-Gesetz und ÖIAG-Finanzierungsgesetz, BGBl. 973/1993. Technically, the holding Austrian Industries was merged with ÖIAG and thus disappeared.

Tech were offered to the public, 20 percent belong to VA-Stahl (Austria's largest steel firm), 24 percent remained in the holding. Out of the 51 percent sold, a slight majority is held by international investors (most of them are very small shares held by investment and pension funds, a 5 percent share was bought by General Electric), 43 percent of the shares sold were bought by Austrian investors. Originally, 27,000 Austrian investors bought stocks, although more than half of them sold their shares after one year (*Goldmann,* 1996).

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

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

AMAG is Austria's largest aluminium firm, and we already have mentioned the losses in the early 1990s, stemming from its unsuccessful internationalisation strategy. Too many firms, some of them ailing, and some of them at extremely high prices, were purchased. No middle management existed capable of keeping track of the reorganisation, AMAG's assets were too small for a firm in this risky and volatile field. Earlier, a strategic internationalisation programme orientated towards the future had been delayed by a long discussion as to whether its outdated primary aluminium capacity should be rebuilt with the help of a large public subsidy. Political leaders had specifically promised that subsidy at election times, the management had concentrated on lobbying for low energy prices to make primary aluminium production competitive, which is a tough problem for a high-income country, which lacks the necessary raw materials, as well as expensive transportation routes or ports. The firm finally had to be restructured before it could be sold. AMAG was sold in 1996 at a negative price to a joint venture consisting of the restructuring management and a large, private Austrian company (Constantia).

Many smaller firms were sold, some via management buyout, some to foreign firms with larger stakes in the industry, some to Austrian entrepreneurs. No ideology was accepted as to the ideal owner, but the privatisation checklist was always used to add non-financial parameters in choosing between offers.

The privatisation experience is now considered to have been successful. The revenues of ATS 23 billion are much higher than anticipated[12], the holding still owns a strategic investment in four of the five firms, which is valued by the market at ATS 28 billion, and headquarters have remained in Austria. The sales of the five firms are rising, the stock market evaluation outperforms the general index. Employment is declining, but not much faster than in other parts of manufacturing[13].

If we sum up the results, we can recognise the following specific features of the process:

- Privatisation was rationalised by the experience, that neither variant of public ownership could control a large and diversified conglomerate. The only way to stop pouring money into the firms was to render the firms to private ownership and stock market control.
- The former holding company, which initially was a financial holding, and then a holding by corporate law exerting a strategic influence on the individual firms, was transformed into a privatisation agency with the objective of relinquishing the majority stakes. For that purpose, but only for that purpose, it could intervene in the firms, with the stick being the necessity to pay back the old loans, and the carrot being an incentive contract for the management with a 50 percent bonus, if privatisation revenues exceeded expected revenues. To a great extent, the firms were restructured before privatisation, which helped increase the revenues from privatisation considerably.
- The maximisation of revenue was the main criteria for choosing the time and type of privatisation, since only

[12] *ÖIAG* (1999) reports sales revenues from stock market transactions of ATS 30.5 billion, and additional sales revenues of ATS 6.8 billion from selling smaller firms to strategic investors. These figures include revenues from selling the salt company and shares of the tobacco company (both were not part of the original portfolio of ÖIAG).

[13] As of 1998, total sales of the four large partially privatised firms amounted to ATS 163 billion (1993 139 billion). These four firms employed 51,438 people (1993 53,395). The eight firms which were completely privatised have increased their sales from 18 to 22 billion (employment from 8,827 to 10,897; *ÖIAG,* 1999).

high revenues would allow paying back more of the old debt. The time schedule in the privatisation law was indicative and could be changed if the holding demonstrated that restructuring would increase the revenues.

- A second criteria for choosing among potential buyers was the continuing operation of the privatised firms, specifically that of firms located in Austria, and the value added created by them. This criteria nearly equates to a national preference clause. But the careful use of words, and the objective, allowed the law to pass the scrutiny of the EU competition agency. Preferring a buyer who can plausibly contend that he will continue the production in the same country and use the plants as the headquarters for international expansion is not unfair. The alternative offer, by which the plants would be shut down, since they are one of many in an industry faced with overcapacity, and the headquarters of the acquiring firm are located in a faraway country, which is already coping with excess capacities, would probably also be shunned by a private investor. The privatisation checklist and the privatisation strategies definitely preselected the structure of the potential buyers. In the oil industry, it was quite clear that no large multinational firm would be accepted. In the aluminium industry, the offers made by three buyers were very close, as far as the revenue aspect alone was concerned. In the case of BUAG and VA-Stahl, large purchasing orders by a competitor would probably not have been accepted.
- Privatisation succeeded insofar as all five companies were sold and the strategic ownership of all of them remained in Austria. This was achieved in a non-discriminatory fashion, no single question of fairness was raised in Brussels by a competitor.

The success of this process induced the Austrian government to use the holding or, respectively, its management team, for further privatisation plans. The management team chairs the Austrian Post and Telekom Holding (PTBG), which had two goals: to repay old debts and to make the operative company (PTA) fit for competition (and privatisation in 1999).

## HOW NOT TO PRIVATISE A BANK, OR THE MISSING PRIVATISATION AGENT

In contrast to the successful privatisation of the manufacturing firms, the privatisation of the two largest banks has become a long-lasting tragedy[14]. Specifically, the Austrian government has been planning to give up its majority stake in the CA ever since 1987. The type of privatisation selected was to find a buyer who would purchase a stock package, which enabled the strategic control of the bank. The process of selling was directly managed by the minister of Finance. Offers had to be made to him; he assessed the adequacy of each offer. An agreement between the two parties of the ruling coalition declared that privatisation was a sensitive issue in which the minister of Finance had to consult the minister of Economic Affairs. There was no definite agreement as to what objectives the sale should follow – for example, whether the maximisation of revenues was the overriding goal or whether it was a necessary or warranted condition to demand that the purchaser be of Austrian nationality. At least implicitly, the latter was the case. In addition there was an understanding that the CA had always been the bank belonging to the sphere of the conservative party, so that buyers from that party had priority.

Several offers came in over time. A serious offer was made by a large Swiss bank, but it was publicly rebuffed by the Austrian People's Party, and therefore withdrawn (1993). Another offer came from a group representing an agro-industrial bank, which was rejected by the minister of Finance due to imprecision. For a long time, the favourite bidder was a consortium, which included a conservative bank, an Italian and a German group, as well as several Austrian manufacturing firms (Consortium). The offer was accepted with varying degrees of enthusiasm from the right to the left side of the government, but the financial offer was rather low and the decision making structure within the consortium remained unclear. Finally, a public offer was issued in the Financial Times. Although it did not mention a preference for Austrian offers, a few days later the head of the Austrian government declared that Austrian buyers would have priority. The result was – apart from angry comments in the international press – that the offer made by the Austro-Italian-German consortium remained the sole bid.

This was discussed for many months, and then the minister of Finance decided that it was too low. He issued another, final tender, stating that the size of the offer, its strategic effect on reform in the Austrian financial sector, and unspecified Austrian interests would be the decisive criteria for acceptance. Three offers were received, one made by the consortium, one by a private Austrian citizen who had sold Austria's largest retail company some months earlier, and a surprise offer by the Bank Austria, the CA's main competitor. Through a merger some years earlier Bank Austria had become Austria's largest bank. Its ownership structure is difficult to explain, but essentially its boards are appointed by the local Viennese municipality.

[14] For an extensive documentation see *Aiginger – Mooslechner* (1999).

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

The minister of Finance permitted the bidding to enter a second round. The BA and the consortium increased their bids, but the relative ranking remained unchanged. Before finally awarding the CA to the BA, the coalition partners agreed on several side agreements, which to some degree will soften the links between the BA and the Viennese municipalities, and which will temporarily shelter the CA from radical stripping and downsizing. After ten years of irresolution, the story ended with a financial success for the minister of Finance – as far as privatisation revenues are concerned – and a strategical triumph for the BA over an indecisive conglomerate. The EU commission accepted the merger with minor amendments.

What is to be learned from this story? My main conclusion is that the minister of Finance cannot privatise a firm by himself. His attention to the problem of privatisation fluctuated over time. When budgetary problems or Maastricht criteria became urgent, the attention towards privatisation vanished. In addition, he is a member of a political party, and as such is confronted with a great amount of pressure from his own party and from his coalition partner. The task of the owner is to specify in advance the goals, a rough time frame, and maybe the type of privatisation. Then, he needs to delegate the process to an agency or company, which can make decisions professionally, according to the rules stated. The agency should have some temporary leverage over the firm to be privatised, the minimum being a close co-operation with the firm's supervisory board. Several times, the management of CA actively interfered to attract or thwart off offers from potential bidders. It preferred a public placement, because this type of privatisation would have permitted the largest manoeuvring capacity for the management and of course, its continuation. Finally, the incentives for the privatisation agency should be such that payment directly depends on the fulfilment of the criteria for privatisation, as declared by the owner. All these rules were fulfilled in the privatisation of the nationalised manufacturing firms, while none were obeyed in the privatisation of the CA[15].

## OTHER FORMS OF PRIVATISATION: LIBERALISATION AND RESTRUCTURING OF GOVERNMENT

This article can not offer an overview on privatisation and liberalisation of the utilities, nor of restructuring government in Austria. The system of regulating natural monopolies has already been described as a double grip, consisting of public ownership and a rather strict regulatory policy for entry, prices and technical rules. Systems vary for electricity, telecommunications, railways, and gas. The pressure to change the system originated from the rules issued by the European Community. Deregulating or liberalising entry is lagging in all sectors but has started. The large PTO has formed a telecom subsidiary, a controlling minority stake (25 percent plus 1 share) has been sold to Telecom Italia. The mobile telephone firm has got private competitors. Some of the electricity companies have sold minority stakes, a solution to form a larger company including the Verbund and some regional companies is in a late stage of discussion. Electricity imports are liberalised according to the rules of the European Community.

As for the government sector proper contracting-out and the tendering of services and licenses are underdeveloped in Austria. An overview on the transfer of services to off-budget companies is given in *Gantner* (1994), concluding that the off-budget companies had not been overwhelmingly efficient. One reason could be inefficiencies in the monitoring process. In rare cases, the objectives of these firms were stated precisely; many of these agencies implicitly try to follow certain non-economic goals. A more recent review on the attempts to include principles of public sector

[15] In the latest stage, most of the rules were fulfilled. An international consultant guided the last tenders in close collaboration with the bureau of the minister of Finance.

*Table 1: Privatisation revenues in EU countries*

| | 1990-1993 | 1995-1997 | 1995-1996 |
|---|---|---|---|
| | As a percentage of GDP | | As a percentage of domestic market capitalisation |
| Austria[1] | 0.04 | 0.56 | 2.30 |
| Belgium | 0.04[2] | 0.60 | . |
| Denmark | 0.29[3] | 0.09 | 0.30 |
| Finland | 0.27[2] | 0.37 | 1.00 |
| France | 0.97[2] | 0.31 | 0.50 |
| Germany[1] | 0.02[4] | 0.34[5] | 2.00 |
| Ireland | 0.60[6] | 0.33[7] | . |
| Italy | 0.20[2] | 0.57 | 2.50 |
| The Netherlands | 0.14 | 0.49 | 0.80 |
| Portugal | 1.44 | 2.98 | . |
| Spain | 0.28[8] | 0.87 | 1.10 |
| Sweden | 0.14[9] | 0.37 | 0.50 |
| U.K. | 1.11 | 0.48 | 0.40 |
| EU 15 | 0.26 | 0.44 | . |

Source: Financial Market Trends, 1999, (March). – [1] Information on trade sales not available. – [2] 1993. – [3] 1990, 1993. – [4] 1991, 1993. – [5] 1996, 1997. – [6] 1991-1993. – [7] 1995, 1996. – [8] 1990, 1992, 1993. – [9] 1992, 1993.

management into the government sector is given by *Obermair* (1999). For a discussion which objectives should be addressed by government, see *Bayer et al.* (1997).

## CONCLUSION

Privatisation has recently become an important topic in Austria. Privatisation revenues are now large compared to other countries and compared to the size of the Austrian stock market (Table 1). Traditionally, there has been a high degree of direct interference by the government and centrally organised social partners with Austria's economic sector. Public ownership has been larger than in other Western countries; specifically up to one quarter of Austria's manufacturing firms were nationalised.

The nationalised sector of Austrian manufacturing developed quite favourably up to the 1970s; afterwards, it tumbled from one crisis into the next. Between 1993 and 1996, the majority of all large firms was sold. It is interesting to note that it was a privatisation experience after restructuring. We label the experience a success, since the revenues were high, the headquarters remained in Austria, and the privatised firms for a long period outperformed the stock market average. The privatisation was delegated to the former holding company, which was transferred into a privatisation agency with clear incentives to privatise. The privatisation schedule and mode was flexible; a specific supplementary criteria demanded that offers with higher value added in Austria should be preferred, if economically feasible. The nationality of the owner did not play a role.

In contrast to this successful privatisation, the attempt to privatise one of Austria's largest banks had gained worldwide attention as a long and cumbersome process. The difference between privatisation in the manufacturing sector and privatisation in the banking sector was that the first followed explicit rules (guidelines for the objective, the schedule, and the form of the privatisation) and was delegated to a privatisation agent with the power to restructure firms. In contrast the latter remained under direct ministerial control up to the very last stage of the privatisation process, the team in charge of the process was restricted in its strategies and options by political considerations. The bank itself was reluctant to be privatised and sought to affect the buyer and the method of privatisation. No independent agent was employed to promote privatisation and supervise the project up to its final stage.

Austria has long been lagging in liberalisation and privatisation of its large infrastructural firms. It has many examples of off-budget companies, but often neglects specifying the objectives of these agencies, defining universal services, and monitoring them after cutting direct links. Contracting-out, tendering of services, and application of the principles of public sector management offer additional space for future restructuring of the government.

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*The Privatisation Experiment in Austria – Summary*

Austria has successfully privatised the majority of its large manufacturing firms. We label the experience a success, since the revenues were high, the headquarters remained in Austria, the privatised firms now enjoy rising sales and employment, and they are noted on the stock market – performing for a long time above average. The success of the privatisation was based on the explicitly stated goal to privatise and the following delegation of the process to a privatisation agency with clear incentives to privatise. The privatisation schedule and mode was flexible; specific supplementary criteria demanded that offers with higher value added in Austria should be preferred, if economically feasible. The nationality of the owner did not play a role.

In contrast to this successful privatisation, the attempt to privatise one of Austria's largest banks gained worldwide attention as a never ending story. The difference between privatisation in the manufacturing sector and privatisation in the banking sector was that the first followed explicit rules (guidelines for the objective, the schedule, and the form of the privatisation) and was delegated to a privatisation agent with the power to restructure firms. In contrast the latter remained under direct ministerial control up to the very last stage of the privatisation process, the rules were changed during the process, and never made explicit up to a very late stage. The principal was weak and his choices were limited by political considerations. The firm was reluctant to be privatised and sought to codetermine the buyer as well as the method of privatisation. Furthermore, no special agent was employed to promote privatisation and supervise the project.

Liberalisation of the large infrastructural firms follows the rules of the European Union, without using the potential of earlier schedules. Restructuring the public sector according to the principles of new public sector management is only in the beginning. Many examples of off-budget companies exist, but specifying the objectives of these agencies, defining universal services, and monitoring them after cutting the direct links is done insufficiently. Contracting-out, tendering of services, and competition within the government are less common than in other countries.