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Abstract: Austria is a country with a historically strong intervention of government. Specifically a large part of the manufacturing sector and electricity had been nationalized after world war II, combined with public ownership in telecommunication, transport and banking this created one of the largest public sectors in Europe. This articles describes experiments of privatization performed in the last decade ranging from the transfer of ownership, corporatisation, liberalization to activities promoting efficiency and competition within the government. We specifically focus on the institutional framework needed for a successful privatization, stressing the role of a professional privatization agent, who monitors the privatization process.

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[1]) Forthcoming in David Parker, Roger Sugden (eds.), "Privatisation in the European Union: Theory and Policy Perspective", Routledge, 1997.

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1. The specific experiment and its background

The term "privatization" can refer to three broad types of policy: first, asset transfer from the public to the private sector, generally through sale; secondly, deregulation or liberalization 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[3]). We could add corporatization as a fourth method of privatization; 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[4]) . And we can label activities to promote efficiency and competition within the government as a fifth mode of privatization. The motives for privatization 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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[2]) The author thanks Wilhemine Goldmann, Gerhard Jersabek, Claudia Schmid and Gunther Tichy for discussing an earlier version of this paper, Dagmar Guttmann for calculations, Gerhard Schwarz for correcting the manuscript.

[3]) See Domberger, Piggott 1994, pp. 48.

[4]) German literature sometimes distinguishes between "materieller Privatisierung", where the government stops to provide a service, "formeller 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", here the government guarantees the provision of the service, but uses the means of a contract with a private firm (see Fuest 1997).

We can observe in Austria examples of all these policy types and motives. The single largest cohesive experiment ever performed, however, was the privatization of the former nationalized industry in the nineties. Up to the late seventies, publicly owned manufacturing firms ("Verstaatlichte") together with firms belonging to nationalized banks accounted for 25% of Austria's manufacturing sector.[5]) In the nineties, the majority of all large industrial firms was sold in a specific attempt to realize the first type of privatization (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 privatization had specific, interesting features, which were different from the strategies applied in other sectors in Austria and in other countries.

The paper is structured as follows: in the next section we describe the extent and background of public involvement in Austria's economy. Then we report on the successful privatization experiment in the nationalized industry during the nineties. In contrast, we report on the decadelong struggle to privatize a large bank, which received worldwide attention, and stress the differences between the two strategies. Finally we report on the lagging reforms in Austria as far as the second type of privatization (the liberalization of sectors with natural monopolies) is concerned, and why contracting out has not become a mass phenomenon in Austria.

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[5]) 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% of value added in manufacturing was produced by publicly owned firms, 14.5% of total value added in manufacturing was produced in firms with public ownership, as determined by the nationalization law of 1946, 5.4% 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 650.000 or 900.000 firms (excluding, resp. including, very small firms known as "Gewerbe" inAustria).

2. 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 nineteenth century ("aufgeklärte Monarchie"), which at this time led to the development of a rather efficient bureaucracy in Austria. On the other hand, Austria did not produce a large stratum of innovative and dynamic entrepreneurs during the second half of the nineteenth century, but in contrast, experienced a lackluster 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 W.W.I, and that the economy stagnated between the two wars. After W.W.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 centralized "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 - 55.

There are estimates that near the end of the seventies, 25% of the gross national product was produced by publicly owned firms[6]). The lack of large private companies and a very underdeveloped capital market characterized the other side of the coin. All the major banks were owned by the government, specifically the two largest, the CA and the Länderbank[7]). 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%.

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[6]) Aiginger 1985, p 41. The figure was 25% 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%.

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

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 nineties was an Austrian specialty among Western market economies[8]). The larger part of the nationalized sector - specifically firms doing business in mining, oil, chemicals, steel, and aluminum - was nationalized in 1946. Socialists had to some extent, favored nationalization for ideological reasons, the People's Party joined in on that goal in part because no potential Austrian owners were available, and partly because nationalization 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 due to collaboration.

In sectors in which natural monopolies traditionally were supposed to exist, or in which the possession of a central facility enabled one large firm to dominate the national markets, it is well known that there are two alternative methods of dealing with market failure: continental Europe, as well as the UK and Australia, usually established public ownership, while the US chose to regulate private firms. Instead of choosing between these two options, Austria installed the double grip: ownership plus a regulatory process embedded in the bureaucracy of a ministry (also allowing the trade union and employers' organization 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

[8]) 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 United Kingdom and Finland does not create a clear picture. Studies cited in Aiginger 1985 report approximately equal shares of about of 11 - 13% of employees for France, the United Kingdom, Italy and Austria in an international study. On the other hand public ownership in all its different forms, including bank subsidiaries, state monopolies and cooperative associations amounted to 19% according to the Austrian statistics.

orientation, regulators were captured by the monopolies. These judgments 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 the war 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.

3. Some intermediate steps towards reform

We should mention that several attempts to reduce public interference were made in previous decades. As far as privatization in the mode of ownership transfer is concerned, there was a limited wave of privatization in the late fifties. Several firms, located in the eastern Austria, had been German-owned, and later managed by the Russians during the occupation period. In the late fifties, the need for restructuring was unavoidable. Some firm were sold to private owners, and some were privatized by a stock offering specifically targeted at employees and middle income investors ("Volksaktie"). Minority shares of the two large nationalized banks (Creditanstalt and Länderbank) were also offered to the public, although the government retained the voting rights. This experiment is considered today to have been moderately successful. No broad capital market existed in Austria, 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 (corporatization). In this form of privatization, 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 privatization are available on all government levels with a huge diversity of legal and operational constructs. At its very beginning, the Austrian Central 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 sixties. The Austrian Railways were organized as a separate company in 1993, the post and telecom company in 1996. Several funds for industrial support (ERP, Buerges, FFF) are organized as companies at an arm's length; the labor service organization in 1994. Air traffic control was corporatized in 1994.

The eighties brought with them a new wave of privatization, in the sense of ownership transfer. The motives were mixed. Efficiency was among them, the Peoples Party joined the government and supported privatization 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 Central Bank (OeNB, 1989). The second largest was the privatization of 49% of the electrical utilities company, a state owned monopoly.[9]) and the sale of specific producers of electricity (1987). The largest portion of the shares was bought by other public companies or local governments; only some of

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

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 to other airlines. Ownership shares in the two largest banks were reduced (1987, 1989). All in all, the volume of privatization in the eighties may have amounted to ATS 30 bn; 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[10]).

4. How to privatize firms: selling the majority of five large industrial firms

The governing structure of the public firms in manufacturing[11]) 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 seventies a stock company (ÖIG, then ÖIAG) was created as a holding company for individual firms; 100% 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 seventies, all the

[10]) For a summary of attempts at privatization between 1987 - 90, see Siegl, 1990. The figures cited do not include specific attempts at privatization in the nationalized 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 transferres to foreign investors. But at the same time, the nationalized firms purchased just as many firms, in an attempt to restructure and to internationalize, so that we consider this phase as one of restructuring, but not of (net) privatization.

The OECD (1997) calculates revenues for privatization US$ 32 million, increasing to US $ 1.2 bn in 1996, but this includes only privatization by public offerings, not by trade sales.The figures for the OECD are US $ 24.7 bn, resp US $ 68.4 bn.

[11]) 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 nationalized 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 nationalized banks. The number of firms held by the banks was reduced over time, but as of 1997, the largest European brick company and major Austrian firms in the vehicle and chemical industries, and specifically construction industries were still held by the banks. A third group includes the (former) state monopolies for tobacco and salt; a fourth sector of firms has been organized as cooperatives.

firms within an industry were integrated in a branch holding: the big steel companies and those in the non-ferrous metals industry were merged. The planned oil/chemical merger was prevented by the firms and regional lobbies, though the law also called for this merger ("Branchenzusammenführung").

Following the large losses suffered by the firms during the eighties - centered around the steel company and its unsuccessful diversification into mining, oil speculation, etc. - a new step towards reform[12]) changed the rules of management rather dramatically in 1987. One specific feature was increasing the independence of the nationalized firms from the government: the choice of management was de-politicized, a large subsidy (ATS 33 bn) 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 privatization. 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, the firms invested in active internationalization. Minority stakes in the oil company were sold in 1987 and 1989, but afterwards, privatization via the stock offerings of individual firms was forbidden by the holding, which eventually wanted to place the shares of 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 internationalization campaign by the large aluminum company (AMAG), which resulted in a loss of ATS 12 bn in 1993. And in addition to these unlucky events, the conglomerate proved to be too large, the interests of the firms too different. In this situation the strategic interference and control potential of the holding was, in various cases, simultaneously too strong and too weak. In the globalizing world economy, the time for large

[12]) ÖIAG Gesetz 1986, ÖIAG Finanzierungsgesetz 1987

diversified conglomerates had passed, the competitors had opted for cost reduction, leanness, flexibility, and flat hierarchies.

The final stage of the Austrian Nationalized Industry and the privatization experience started in 1993. The old holding was dissolved[13]). A new capitalization of ATS 7.5 bn 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 privatization process. For some of the firms, explicit deadlines for privatization were set (e.g. 51% of the technology group should be privatized by June 1994), while for others, the method of privatization 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 privatization by law. This created an indicative guide which did not have to be followed, if there were strong arguments against it, but otherwise did have to be accepted.

The law declared that the goal of privatization - 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 "to consider that Austrian manufacturing firms and the value added in Austria should be maintained, if economically feasible." This clause had to be realized and was made operational in the so called "privatization 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 privatization, 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 privatization 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 "privatization 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

[13]) ÖIAG Gesetz und ÖIAG Finanzierungsgesetznovelle BGBL 973/1993. Technically, the holding Austrian Industries was merged with ÖIAG and thus disappeared.

exist or even be upgraded, the role of the Austrian firms as a center 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.

As of now, in 1997, the majority of all of the five large holdings have been privatized. 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% 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 privatization 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 technologies for the reduction of production costs in the steel industry (KVA technology). 51% of the shares of VA-Tech were offered to the public, 20% belong to VA-Stahl (the largest steel firm), 24% remained in the holding. Out of the 51% sold, a slight majority is held by international investors (most of them are very small shares held by investment and pension funds, a 5% share was bought by General Electric), 43% 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 1 year (Goldmann 1996).

The privatization 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%, 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% 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 1950's, 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% share.

AMAG is Austria's largest aluminum firm, and we already have mentioned the losses in 1992, stemming from its unsuccessful internationalization 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 reorganization, AMAG's assets were too small for a firm in this risky and volatile field. Earlier, a strategic internationalization program orientated towards the future, had been delayed by a long discussion as to whether its outdated primary aluminum 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 aluminum production competitive, which is a tough problem for a high income country, which lacks the necessary raw materials, as well as in 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 privatization checklist was always used to add non-financial parameters in choosing between offers.

The privatization experience is now considered to have been successful. The revenues of ATS 23 bn are much higher than anticipated, the holding still owns a strategic investment in four of the five firms, which is valued by the market at ATS 28 bn, 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[14]).

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

- Privatization was rationalized 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 privatization 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% bonus, if privatization revenues exceeded planned revenues. To a great extent, the firms were restructured before privatization, which helped increase the revenues from privatization considerably.
- The maximization of revenue was the main criteria for choosing the time and type of privatization, since only high revenues would allow paying back more of the old debt. The time schedule in the privatization law was indicative and could be changed if the holding demonstrated that restructuring would increase the revenues.

[14]) As of 1996, total sales amounted to ATS 164 bn. The four firms employ 48.000 people.

- A second criteria for choosing among potential buyers was the continuing operation of the privatized firms, specifically that of firms located in Austria, and the value added created by them. This criteria nearly equates 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 privatization checklist and the privatization 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 aluminum 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.
- Privatization 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, respectively its management team, for further privatization plans. The holding was asked to privatize the Austrian Salt Company (Salinen AG) and the Austrian Tobacco Industry. The management team chairs the Austrian Post and Telekom Holding (PTBG), which has two goals: to repay old debts and to make the operative company (PTA) fit for competition (and privatization in 1999).

5. How not to privatize a bank, or the missing privatization agent

In contrast to the successful privatization of the manufacturing firms, the privatization of the two largest banks has become a long-lasting tragedy. Specifically, the Austrian government has been planning to give up its majority stake in the Creditanstalt ever since 1987. The type of privatization 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 privatization was a sensitive issue in which the Minister of Finance had to consult the Minister of Economics. There was no definite agreement as to what objectives the sale should follow - for example, whether the maximization 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 Creditanstalt 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 favorite 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, the Bank Austria had become Austria's largest bank. Its ownership structure is difficult to explain, but essentially its boards are appointed by the local Viennese government. The last offer was by far 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 fulfill 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 privatization, since the majority share of the BA belonged (in a rather indirect way) to the Viennese local government. 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% 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 local government, 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, 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 privatize a firm by himself. His attention to the problem of privatization fluctuated over time. When budgetary problems or Maastricht criteria became urgent, the attention towards privatization 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 privatization. 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 privatized, the minimum being a close cooperation with the firm's supervisory board. Several times, the management of the CA actively interfered to attract or thwart off offers from potential bidders. It preferred a public placement, because this type of privatization would have permitted the largest maneuvering capacity for the management and of course, its continuation. Finally, the incentives for the privatization agency should be such, that payment directly depends on the fulfillment of the criteria for privatization, as declared by the owner. All these rules were fulfilled in the privatization of the nationalized manufacturing firms, while none were obeyed in the privatization of the CA[15]).

6. Lagging deregulation (liberalization) 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 liberalizing entry is lagging in all sectors. Only a few steps were and are being taken before the enforcement of these outside rules, or the entrance of new competitors, who no longer can be deterred.

The large PTO is still in public ownership. The creation of a separate company and the necessity to make cross subsidizations public through an explicit cost statement for the divisions "yellow post", buses and telecommunications were delayed up to 1996. The first non-public telephone supplier was permitted in the mobile phone business late in 1996, well after the PTO was allowed to start its own mobile phone line. Five decades of regulation and government backed policy to prevent entry have resulted in high prices for telephone lines, data transmission and the lack of a service sector and content providers. Specifically the variable costs of telephoning are high, long distance and international calls are expensive, while the fixed charges for installing new capacities are somewhat lower. The PTO was separated from direct government control in 1996. Plans to privatize the operating company, starting in 1999, were forced upon the unwilling company on the initiative of the People's Party in a coalition agreement. The original plan to nominate retired senior members of the PTO for the supervisory board (and the holding company PTBG) were

[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.

luckily given up at the last minute. Retired managers from the old public system would have effectively colluded with the new management and its employees, to prevent the privatization efforts of the owners over an extended period.

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

The privatization of railways has not been a topic in Austria up to now. The central railway was separated from direct government influence in 1994. Its efficiency and service quality are rated as inferior by both external analysts and business firms. Several steps towards reform were attempted and did result in marginal changes for the better. The closest the railway has come towards privatization have been attempts to allow local governments to influence the closure of regional services. If the local government pays and declares its specific interest, it can influence the schedule and extend the service of local lines originally planned to be closed. Some minor examples exist in which a local line has been privatized.

One common feature common to the PTO, electrical utilities, and the railways (the same holds true for the publicly owned banks) is that historically, the pursuit of ownership interests and regulation have not been separated. The ownership rights for the PTO and for the State Railway are both allocated to the Ministry of Transportation; formerly, this ministry was also the regulator. The ownership of the electrical utilities is monitored by the Ministry of Economics, as is their regulation. The ownership of the banks is monitored by the Ministry of Finance, as is their regulation (Bankaufsicht). This decision was made with respect to social planning. If there is a social optimum which can best be achieved by a single firm (due to economies of scale or some other form of market failure), this can be achieved in one step, since the interests of managers, owners and consumers cannot differ from one another. And it is historically true that the interests in post war Austria - given its destroyed capacities- were not too different: capacity had to be increased as quickly as possible, infrastructure had to be provided as cheaply as possible. The first conflict of interest arose when the producers preferred a higher price, while consumers appreciated a lower price. This conflict was managed, in part outside of the regulatory system, with the help of the social partnership system. The system worked well for a long time. The quantity and quality of such basic services as electricity, railways and the telephone matched the Western European standard as early as in the sixties, which is a great achievement, if we reflect on Austria's position in 1945. But eventually, the negative effect of lacking competition and innovation outweighed high capacities. Over time, the interests of managers and society became more complex. Managers began to prefer excess capacities (to be on the safe side, or to utilize construction units, or to maximize pride), environmental issues evolved, owners could have considered utilizing dividends for education or research, rather than of investing in overcapacities. This new situation was not reflected in reforms. The system developed many aspects of capture theory; the presumed regulators started defending the firms when they were accused of installing excess capacities, or of upholding high prices, or of creating environmental problems. The regulators were appointed to the supervisory boards of the firms, as if there were no conflicts between the objectives of the firms and the tasks of the regulators.

It is currently being discussed whether the regulatory tasks should be rendered to a separate agency. This now appears feasible for the telecom, but not for railways and electrical units. The ministers, who control ownership, and those who enforce regulations, recently had to separate. No privatization program for electrical units or the railways has yet been called into existence. The telecom company is planned go public in 1999, its mobile telephone subsidiary sold 25% of its shares to an Italian firm in April 1997.

7. Restructuring the government sector

Contracting out, tendering licenses, incentives

Contracting out, the tendering of services and licenses, are underdeveloped in Austria. The delegation of tasks performed within the government sector to agencies or firms by company law has been applied not only for railways, telecommunications and broadcasting, but also in many other cases. It has become even more popular recently, because the commitment to fulfill the Maastricht budgetary criteria favors off budget practices, as long as 50% of the costs are covered by revenues. It is beyond the scope of this article to provide an overview of the success and problems of these attempts. The general view (as expressed for example in Gantner 1996) is that the off budget companies had not been overwhelmingly efficient. In my opinion this follows from an insufficient monitoring process. In rare cases, the objectives of these firms are stated precisely; many of these agencies implicitly try to follow certain non-economic goals. In fact, they fulfill some universal service obligations or an additional social or political responsibility. But the criteria and the extent of these non-economic objectives are not specified, and often the government erroneously believes that the ownership responsibility ends with the separation of bureaucracy and management. The firms become agencies without principals, sometimes luxuriously insured, insofar as they can return for financial help.

8. Summary

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

The nationalized sector of Austrian manufacturing developed quite favorable up to the seventies; afterwards, it tumbled from one crisis into the next. Between 1993 and 1996, the majority of all the large firms was sold. It is interesting to note that it was a privatization experience after restructuring. We label the experience success, since the revenues were high, the headquarters remained in Austria, and the privatized firms now outperform the stock market average. The privatization was delegated to the former holding company, which was transferred into a privatization agency with clear incentives to privatize. The privatization 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 privatization, the attempt to privatize of one of Austria's largest banks gained worldwide attention as a never ending story. The difference between privatization in the manufacturing sector and privatization in the banking sector was that the first followed explicit rules (guidelines for the objective, the schedule, and the form of the privatization) and was delegated to a privatization agent with the power to restructure firms. In contrast the latter remained under direct ministerial control up to the very last stage of the privatization process, the rules were changed during the process, and never made explicit up to a very late stage. The principle was weak and his choices were limited by political considerations, the agent was reluctant to be privatized; he sought to codetermine the buyer and the method of privatization. No second agent employed to promote privatization and supervise the project.

Austria is lagging in liberalization and the deregulation 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 the direct links. Contracting out, tendering of services, and competition within the government are less common than in other countries.

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Table 1

Privatisation Revenues in EU Countries

	in % of GDP		in % of domestic market capitalisation
	1990-93	*1995-97*	*1995/96*
AU [1]	0.04	0.56	2.30
BE	0.45 [2]	0.60	
DK	0.29 [3]	0.09	0.30
FI	0.27 [2]	0.37	1.00
FR	0.97 [2]	0.31	0.50
DL [1]	0.02 [4]	0.34 [8]	2.00
IR	0.60 [5]	0.33 [9]	
IT	0.20 [2]	0.57	2.50
NL	0.14	0.49	0.80
PO	1.44	2.98	
SP	0.28 [6]	0.87	1.10
SW	0.14 [7]	0.37	0.50
UK	1.11	0.48	0.40
EU15	**0.26**	**0.44**	.

1) Information on trade sales not available.
2) 1993
3) 1990, 1993
4) 1991, 1993
5) 1991-1993
6) 1990, 1992, 1993
7) 1992, 1993
8) 1996, 1997
9) 1995, 1996

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