This dissertation is concerned with assessing citizen attitudes with respect to market reforms of state-owned enterprises. Researchers know relatively little empirically about how citizens evaluate such reforms, given the imperative normative and political overtones associated with the privatization of state-owned enterprises globally. More importantly, researchers know even less about attitudinal differences regarding privatization predicated upon citizen nationalities. Specifically, this dissertation will examine the calculus of consent for market reforms among citizens of developed and transitional economy nations using the 1996 International Social Survey Program’s Role of Government III survey.

The purpose of this research is to add to a growing body of comparative administration literature (Durant & Legge, 2002; Legge & Durant, 2005) on assessing citizen attitudes. In so doing, this dissertation enhances the analytical framework developed by these scholars. The improved framework will provide researchers with an even more precise tool for analyzing how citizens feel about and arrive at their judgments about market reforms, specifically reforms intended to privatize public services. Utilizing heteroskedastic probit analysis and marginal effects analysis, assessing the calculus of consent for market reforms will be greatly improved...
for future research. This dissertation will provide researchers with a necessary analytical framework for evaluating citizen attitudes, and for anticipating and dealing strategically with the perceived consequences of denationalization efforts.

The probit statistics and marginal effects demonstrate that respondents from developed market economies (DMEs) and transitional economies (TEs) have quite different perceptions on the subject of privatization, with transitional citizens being less supportive. The conclusions reached here link attitudes toward privatization with the implementation of other ongoing, market reforms indicating that responsiveness to citizens is imperative for practitioners and researchers to understand. The ultimate scope of privatization in developed market economies and transitional economies alike may depend on the extent to which practitioners avoid charges of a “democratic deficit.” If these experiences prove typical, top-down and elite-driven models of decision making may well produce policy and implementation delays or even impasses as excluded citizens react negatively to these methods. The analysis will demonstrate that the calculus of consent for market reforms is multifaceted. Market reforms, specifically privatization, have proven to be a contentious issue, especially with respect to national and industrial contexts. While there is still more to be done in our understanding of market reforms, this dissertation has vigorously probed the bounds of citizen consent for privatization.

INDEX WORDS: Public administration, comparative public administration, market reform, privatization, public policy
POLITICS, PUBLIC OPINION, AND PRIVATIZATION: ASSESSING THE CALCULUS OF CONSENT FOR MARKET REFORMS IN DEVELOPED MARKET ECONOMIES AND TRANSITION ECONOMIES

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This dissertation is dedicated to my family, especially my parents, without whom I would never have achieved such lofty goals. Their dedication and inspiration continues to provide this inquisitive mind with a never ending thirst for knowledge.
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CHAPTER 1
INTRODUCTION

Throughout the last two decades major changes have taken place in the way government services are organized. Citizen distrust of their respective government institutions, often triggered by ineffective management, has led to increasing calls for administrative reform. Administrative reform agendas share a number of common themes such as mistrust and hostility to Weberian state institutions and the unresponsiveness and lack of accountability associated with them (Ansell & Gingrich, 2003; Clifton et al., 2003; Nikos, 2001).

This is true not only in the United States, but also in countries throughout the world. The trend to transfer governance in the past two decades has been championed by supporters of the global management phenomenon known as New Public Management (NPM). This movement serves as a catch-all for a plethora of reforms that seek to exploit private sector mechanisms in order to enhance efficiency and accountability in the public sector (Ansell & Gingrich, 2003). NPM is characterized by concepts such as productivity (doing more with less); marketization (using private sector mechanisms as opposed to the bureaucratic model for the delivery of services); customer service orientation (the citizen as consumer, the government as producer); decentralization (flexibility in the responsiveness of administrators to citizen needs); and accountability (government’s ability to deliver to the citizen what is promised) (Kettl, 2000).

Given the recurring theme of citizen involvement, it is no wonder that the success or failure of this management transformation hinges on public expectations (Kettl, 2000).

The proponents of the New Public Management have embraced many mechanisms for implementing their transformation of governance. One such mechanism advocated by
proponents of public management reform is the privatization of state-owned enterprises. Proponents argue that the privatization of industries (such as, transportation, telecommunication, energy, and banking) is one of the best approaches to counter the inefficiencies and bureaucratic pathologies associated with public sector ownership (Ingraham, 1997). This is especially true, proponents assert, given the highly competitive environment that is the result of an increasingly global community.

The motivation for privatizing state-owned enterprises has been attributed to a number of critiques, dating back to the 1970s, on the effectiveness of public enterprises. This period was marked by the perception of mixed economies as poor performers and was compounded subsequently by debt crises in developing countries in the 1980s, and the collapse of centrally planned economies before and during the post-Cold War era (Clifton et al., 2003). This led consequently to the rise of pro-market forces in the European Union nations and the trend to denationalize the state. These pro-market forces were fostered by market globalization, pro-market terms associated with political and economic integration of certain geographical regions (e.g. the Single Common Market and the Maastricht Treaty with respect to the European Union, and the North American Free Trade Agreement), and pressures from lending institutions such as the World Bank and International Monetary Fund to liberalize national economies (Clifton et al., 2003; Durant & Legge, 2002; Henry et al., 2001). Privatization of state-owned enterprises (SOEs) was one of the market-like mechanisms promulgated by pro-market forces that attacked the usefulness of public bureaucracies in favor of an age of economic efficiency (others include contracting out, load shedding, sale of state assets, vouchers, franchise agreements, deregulation, and other arrangements for transferring production of governmental goods and services into private hands) (Clifton et al., 2003; Fernandez et al., 2002). The motivation for privatization,
scholars assert, is closely associated with it as a market mechanism (i.e. ‘a technical tool for economic policy’) rather than a cause championed by a particular ideology or political party (i.e., conservative forces in Thatcher’s Britain, and forces on the Left in Mitterrand’s France) as sometimes argued (Clifton et al., 2003; Durant & Legge, 2002).

The sale of state-owned enterprises (SOEs), particularly in countries with a long history of state involvement in the economy, presents a great risk politically to those forces promoting the change. Given this risk, it would be prudent for those gambling their stake in the government to demonstrate compelling evidence as to the proceeds from privatization. Yet, surprisingly, there is very little in the way of hard evidence that privatization is all it is purported to be. Some researchers have demonstrated that the difference in performance between private and public sector enterprises is negligible (Borins & Boothman, 1985; Eckel & Vining, 1982, 1985). Profitability associated with privatization efforts has also been questioned. While some may attribute this to ownership and market exposure, others have provided evidence that the gains may also be attributed to overall economic performance (Dunsire, Hartley, and Parker, 1991). Others focus on performance differences in the private sector as opposed to the public sector, the impact of harsh environmental regulations, and differences in managerial quality and entrepreneurship (Borins & Boothman, 1985; Roberts, 1992; Vickers & Yarrow, 1988). Scholars also contend that before true competition can occur and while price controls are applied, nonmarket values (e.g. customer service) tend to depreciate. Durant, Legge, and Moussios (1998), utilizing the example of British Telecommunications, assert that this tends to occur unless performance measures on these dimensions are reported to the public.

Scholars also contend that the influence of these pro-market paradigms tend to be erratic, taking prominence in some countries periodically. The result, Clifton et al. (2003) suggest, is
that discussion on privatization initiatives contains many contradictions, over-simplifications, and mistaken assumptions. They cite recent publications from the World Bank and IMF that acknowledge enthusiasm for pro-market initiatives was sometimes total, unquestioning and blind. Moreover, transparent regulations and good corporate governance practices were necessary to rectify a trail of corruption that was left behind as a result of privatization pursuits (Clifton et al., 2003). Despite the fact that the jury is still out on privatization as a viable alternative to the delivery of public services (Clifton et al., 2003; Yarrow, 1999), enthusiasm remains constant, especially in the United States. Scholars suggest that this enthusiasm for alternatives continues due to oversimplified and inconsistent critiques of public enterprises (Goodsell, 1994; Rainey, 1996), resulting in privatization being the *sin qua non* of alternative service delivery (Clifton et al., 2003).

So, whether practitioner or scholar, why should we be concerned with citizen sentiment about such a sophisticated topic as the privatization of public enterprises? Should we be concerned with assessing how citizens make decisions, and whether there are social, economic, or other societal differences in the formation of such decisions? Are citizens even capable of making sound choices with respect to privatization policy, or, should the decision to sell off vast amounts of public assets be left to governing elites? These are questions scholars have grappled with when analyzing public opinion concerning the privatization of SOEs. Politicians and other governing elites are usually at an advantage with respect to decision-making. However, even if the relationship between citizen opinions and official policies is often complex and tenuous, underestimating public opinion’s importance can be detrimental to government policies and actions (Sharpe, 2000). Given the fact that privatization is part of a bigger
management revolution in the way we conduct the public’s business, it seems logical to examine
the attitudes of citizens.

The Role of Public Opinion

Understanding the motivations for privatization, specifically as a heuristic of the New Public Management (NPM) phenomenon is an important initial step in this research. Scholars have considered the phenomenon of NPM as a paradigm for executing government programs. These researchers have offered many arguments for the promulgation of this paradigm. Scholars, with respect to the notion of privatization and more specifically, the denationalization of SOEs, have attributed its spread to the “top-down” model of implementation (Cohen, 2000; McAllister & Studlar, 1989; Reid, 2000; Sweeney & Hyde, 1995; Yi & Hyde, 1995). This model suggests that governing elites have implemented privatization efforts with little or no citizen input. Additionally, factors such as pragmatism and economic, philosophical, commercial, and populist forces have been offered as characteristics driving privatization (Savas, 2000). Moreover, some scholars have attributed the spread of privatization to duplicating the practices of other governments. Known as “the British paradigm”, researchers have suggested that the early experiment with privatization in Great Britain in the 1980’s under the Thatcher Conservative government led to its promotion in other neighboring nation-states, such as France, Greece, and Sweden in Europe, and the United States, Australia, and New Zealand. European scholars have now begun to question the “copy-cat” model, in its place offering a diversity of logics for the global denationalization trend. These logics include political characteristics (i.e., democratization, federalism, consensus); fiscal restrictions and public debt; corporate strategies (i.e., alliances, mergers); financial strategies (i.e., direct sales, IPOs); political, economic and
business system transformations (i.e., shareholders democracy, crony capitalism); and the extent to which enterprises or sectors of the economy were controlled by or autonomous from government (Clifton et al., 2003). These logics suggest that there may be more pragmatic reasons for the denationalization of SOE’s.

Although there are clear market influences at work in the logic of privatization, even the most fervent proponents of such stimuli contend that public opinion is a formidable force (Savas, 2000). Since the citizen is the nucleus to many of the New Public Management reforms, particularly with respect to improvements in service delivery, it would behoove us to gain a better understanding of just what citizens think about the reforms. Specifically, how do citizens feel about the privatization of state-owned entities in their nations, how do they formulate these opinions, and do these opinions vary among different segments of the public? Drawing on a framework developed by Durant and Legge (2002) for the assessment of consent in France for market reforms, the analysis below seeks to enlighten practitioners and researchers further about the formation, nature, depth, and durability of public support for opposition to privatization of state-owned enterprises. Scholarship suggests that very little is known about public opinion regarding privatization (Gabel 1998; Gabel & Palmer, 1995; Durant & Legge, 2002; Kaufman & Zuckerman, 1998). The majority of research in the area of privatization has tended to focus on the finances of such endeavors, at the expense of social and political consequences (Clifton et al., 2003). More recently, the initiative has shifted away from the economic consequences of privatization and toward the perspective of citizens as it relates to socio-political consequences (Clifton et al., 2003).

This analysis seeks to improve and extend the framework advanced by Durant and Legge (2002) concerning citizen attitudes by advancing scholarly understanding of public opinion
toward privatization of state-owned enterprises (SOEs), how citizens arrive at these judgments (what Durant and Legge call the “calculus of consent”), and whether citizens from different segments of society evaluate denationalization differently. I will approach this problem by studying citizens’ opinions of privatization collected from the 1996 International Social Survey Program (ISSP). Whereas the focus of Durant and Legge is on one nation, France, this dissertation will analyze citizens’ opinions from several nations, comprising democratic and post-communist countries around the world, in order to extend the French findings and to develop more comprehensive empirical generalizations where possible. Specifically, these countries include Australia, Germany (East and West), Great Britain, the United States, Hungary, Ireland, Norway, Sweden, the Czech Republic, Slovenia, Poland, Bulgaria, Russia, New Zealand, Canada, Japan, and France. As a result of this dissertation, researchers will be provided with an enhanced capability to generalize the assessment of public opinion toward the privatization of state-owned enterprises (SOEs), for anticipating and dealing strategically with the consequences of these efforts, and for refining how citizens arrive at these judgments for market reforms in future research.

There are several reasons why this research focuses on public opinion toward privatization in the countries listed above. First, the lack of research on citizen attitudes with respect to denationalization makes this analysis of various national experiences with privatization an important heuristic tool (Durant & Legge, 2002). Second, although the International Social Survey Program (ISSP) contains survey data from a number of countries, only from those countries selected could a complete attitudinal data set be compiled (there were some countries where a large number of the questions were omitted). Third, all of the countries selected have experimented over the past few decades with privatization initiatives to various
degrees, irrespective of the ideological composition of the governments (Clifton et al., 2003). Lastly, 1996 is a prudent time for measuring citizen attitudes. Although several countries had been experimenting with privatization for over a decade by 1996 (Great Britain, France, New Zealand, Australia, and to some extent the United States), the bulk of European Union privatization initiatives occurred during the 1990s, specifically, beginning in 1993 (Clifton et al., 2003). Accordingly, this period of time represents a crucial turning point for the proponents of New Public Management as privatization was in its heyday.

Following this section, a brief discussion of the dependent variables in an historical context will provide the reader with appropriate background information on privatization in these industries. Further, a synopsis of the history of privatization, with respect to the political, social and economic considerations of several countries will provide a context for further analysis. I then will investigate and test the explanatory power of the framework established by Durant and Legge (2002) with this larger sample of nations. Since in some cases the dependent variable is ordinal, in all estimations heteroskedastic probit analysis will be applied in order to model the variance as well as the standard predictors in individuals’ attitudes. The purpose of this study is to assess, with respect to notions of equity and responsiveness, whether citizen attitudes toward privatization vary among different segments of the respective countries’ citizenry and to analyze the predictors of privatization.

Next, an analysis of the ability of the framework to account for citizen attitudes toward privatization is performed in order to provide practitioners and scholars with an analytical framework for surveying and thinking strategically about citizen attitudes toward privatization. Furthermore, in effort to build upon the framework provided by Durant and Legge (2002), findings will be compared between “capitalist” and “transition” nations in order to place the data
in a much larger context and to develop broader lessons for future researchers. This comparison will take into account whether the nation is a part of the capitalist west or in transition. The capitalist nations are the following: Australia, Germany (West), Great Britain, France, USA, Ireland, Norway, Sweden, New Zealand, Canada, and Japan. The transition nations are: Germany (East), Hungary, Czech Republic, Slovenia, Poland, Bulgaria, and Russia. Such comparisons can be found throughout the literature (Dalton, 1994; Dalton, 2002; Inglehart, 1997; Legge & Rainey, 2003; Norris, 2002), especially when examining former Warsaw Pact nations with those that have a long history of capitalism, particularly in the west. The findings will shed light on disparate citizen views reflected in the extent of market reforms in the respective regions. Finally, an assessment of the significance of the findings will be provided for practitioners and scholars. The dependent variables in this dissertation consist of electrical power, hospitals, and banks. We will proceed by discussing privatization efforts in each of these sectors.

The Impact of Privatization on Public Utilities

Although official policy in the EU takes a neutral stance on ownership, supporting a mix of both public and private ownership in industry, this stance until recently did not hold true in the public utilities sector. In fact, in 1995, the governments in France and Sweden had more than a 75 percent stake in all public utilities except water and electricity respectively (Parker, 1998). Only in the UK has privatization expanded to the traditional publicly owned utilities in recent years.¹ This supports the assertion that most EU member states have “played it safe” by

¹ The UK has more privatization experience of major public utilities that any other Western European economy (Cook, 1998, p. 225). This experience includes telecommunications, gas supply, water and sewerage services, electricity supply, and the railways.
experimenting with privatization in typically competitive sectors. This hands-off approach to the public utilities comes from a belief that state monopolies are necessary in this sector in order to ensure universal service and network economies. As stated earlier in this section, the postwar period in Europe saw an increased presence in the role of government in industry, particularly in public utilities such as postal services, telecommunications, railways, scheduled air and bus transport, electricity, gas, water, and sewerage, with very few exceptions. In 1995, this was still the norm, despite the increase in privatization activity in other industrial sectors (Parker, 1998). However, this has changed since 1995 with the promulgation of EU directives which have diminished the role of the state in the public utility sector (e.g., the completion of privatization in the electricity and railway industries in the UK, and the partial privatization of telecommunications in Germany and France).

EU agreements such as the Treaty of Rome (1955), the Single European Act of 1986, and the Maastricht Treaty have had a considerable impact on trends in privatization activity. These treaties were aimed at liberalizing typically competitive markets asserting, as in the case of Article 130 of the Maastricht Treaty, that industrial policy measures must comply “with a system of open and competitive markets.” In doing so, national funds were forbidden from aiding industries that might distort competition between member states, with some exceptions. Thus, since the 1980s the EU has stressed coordination and network economies when discussing public utilities. As such, the attitudes of member states has varied considerably on the role of state ownership and control over public utilities, leaving some, such as France, more cautious about privatization than others, such as the UK, where almost all of the utilities have been privatized (Parker, 1998). However, as stated above, this trend is changing, most notably with the advent of new technologies. As for EU Commission control over all public utilities, this remains a hot-
button issue for most member states. These nations are reluctant to turn over national sovereignty to the commission in the public utilities sector. Instead, separate market-liberalization policies have developed for each utility sector, stressing the need for nondiscriminatory universal service. The progress on these directives has been haphazard depending on opposition to and opportunities for liberalization in the respective member state.

Obviously, with directives aimed at changing trade regulation within the EU, the nature of ownership in these formerly state protected industries is being transformed. With deregulation comes the introduction of private sector competition, forever changing the relationship between the state and publicly owned and operated utilities, particularly, Parker (1998) suggests, in the elimination of state subsidies. Thus, member states have been forced to reexamine the advantages of state-owned enterprises, especially in the face of large private sector firms with ready access to capital markets. At the very least, Parker (1998) continues, competition can be expected to worsen the finances of the incumbent state-owned utilities, necessitating large capital injections. Changes underway in the public utilities sector include: how to balance efficiently operating public utilities; the public’s concern for “fairness” in public service delivery and pricing; the propensity of national governments to want to retain partial control of these industries; and a properly operating internal, competitive market (Parker, 1998). The EU faces a significant challenge in its ability to satisfy respective publics, while maintaining liberalizing measures to ensure fair competition. A concise analysis of the progression of EU policy toward electricity supply, one of the sectors that appear in the dependent variable of this dissertation, will serve as an illustration of this balancing act.

The liberalization of EU electricity markets, one of the most vital markets with respect to “services of general economic interest,” has proved to be problematic. As in other network
industries, the reorganization of state-owned enterprises has been impacted by technological change and by the kind of regulatory framework. Most European public electricity companies trace their origins to after World War II, where they were conditioned by the technological path of development that favored large-scale public corporations, which determined the optimum plant size; the electricity grid transmission system required a single nationwide switching and control (Clifton et al., 2003). Clifton et al. (2003) suggest that the economies-of-scale derived from this sector ensured that they were considered to be a natural monopoly, which led to the consolidation and nationalization of the companies in the electricity sector to state-owned enterprises such as France’s EdF in 1946 and the UK’s Central Electricity Generating Board in 1947. Technological change in the 1980s brought about a trend toward small-scale companies, and competition within the industry was favored. The development of small top-up gas turbine plants reduced the size of the optimum plant of electricity generation and considerably reduced transmission interconnection, allowing greater autonomy for a large number of regional generating utility companies (Clifton et al., 2003). Moreover, advances in information and communication expertise aided in the reduction of control costs associated with transmission interconnection, giving more autonomy to a large number of generating utility companies. Thus, Clifton, et al, asserts, advances in technology has been an important reason for the promotion of nationalization and privatization policies at different intervals.

The 1988 White Paper on the Internal Energy Market (Parker, 1998, pp. 26-27) advocated liberalization; however, member states disagreed on the matter of competition, especially with respect to cross-border suppliers, concluding in deadlock on the actual proposals for cross-border competition. The UK is still the exception in its degree of market liberalization within the EU. Other member states, for example France, still have integrated monopolies, while
others, such as Germany, have a collection of mixed-owned or publicly owned \textit{de facto} regional monopolies.\footnote{According to Parker (1998) and Clifton et al., (2003), Germany has nine large, integrated regional monopolies, 40 regional distributors and around 1,000 local suppliers. Mixed (public and private) ownership dominates. A publicly owned national monopoly still exists for electricity in France.} In Sweden, the electricity sector was recently deregulated, however, to ensure competition in generation and supply, Vattenfall, the state-owned enterprise, lost control of the nation’s main transmission network. This is now a separate agency and other electricity companies may use it. The EU Commission proposed a negotiated third party access (NTPA) scheme, which would throw open all EU members’ electricity markets to generators and distributors from other member states. According to Parker, this was favored by Germany, which wished to see competition undercut its regional producer cartels, and the UK, with its privatized and liberalized electricity industry. However, France opposed the commission’s recommendations, concerned with the impact of unregulated cross-border supplies on its primary electricity supplier, Electricité de France (EdF). In France, the vast majority of electricity supply is generated by high fixed-cost, nuclear stations run by EdF. While the French government did not object to the EdF losing its monopoly of electricity supply, it did object to it losing control over transmission and distribution. Thus, EdF would be incapable of preparing its nuclear power supplies. In addition, unregulated cross-border electricity supplies would hamper the French government’s objective of maintaining the same price for electricity supplies across the country. Subsequently, France has proved willing to allow its largest energy consumers to bargain with foreign producers for cheaper power, but insists that power imports must pass through a single buyer, i.e. the EdF or an alternative state-run organization, to control distribution and prices. Finally, in June of 1996, a compromise was reached opening roughly 22 percent of the EU electric market to competition and liberalization (Parker, 1998).
By the end of the 1990s, the UK remained the sole EU country with its entire electric supply sector privatized. Ownership in electricity generation, transmission and distribution, remains public or mixed in most EU member states. The primary reason, Clifton et al. (2003) suggests, is that the development of alternative systems of distribution is not practical and only one company can operate in each region, while the regional competition between various local monopolies makes it contradictory to achieve efficiency comparisons. Thus, regulation of utilities via public ownership has been replaced by control by a regulatory agency that faces some of the traditional problems of regulation. Countries with large public enterprise sectors, such as France and Ireland, are also those in which electric utilities are under state control and owned by central governments. In these countries, Clifton et al. continues, the structure of the electricity sector reflects a high grade of vertical and horizontal integration in generation, transmission and distribution, in contrast with the other nations. The privatization of national, centralized state-owned enterprises presented fewer restrictions and required less legal reforms than in multiple decentralized enterprises owned by federal and local governments (e.g., Germany). It seems prudent now to examine the second dependent variable, health care, particularly their role in privatization in the transition nations.

Contracting Out for Health Care Provision

Private provision of health care services is a particularly contentious issue among the recent market reforms around the world. This is not surprising given the significance of the subject at hand: the maintenance of health and welfare for a society. At issue is whether the

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3 The Electricity Act of 1989 implemented the privatization of the electricity supply industry, breaking up the vertically integrated state electricity industry, beginning with the sale to the public of the Regional Electricity Companies in 1990 (Cook, 1998, pp. 231-236).
government, the private sector, or the non-profit sector better accomplishes the provision of health care. This question is particularly acute for the transition nations that have had no option other than planned government support for this sector. Eastern European nations have experienced a major transformation with the broad market reforms underway in the wake of the fall of communism. Even among the developed market economies, there is a long history of socialized medicine that is not about to be dramatically altered any time soon.

Surprisingly, there is little research dedicated to understanding the organizational form that health cares takes, i.e., whether a provider of health care and health insurance is a for-profit, non-profit, or public organization, and possible differences in the systems that may be attributable to the organizational form (Anheier, 2003). For example, not only does the U.S. include a substantial amount of private providers, but a number of public arrangements in the form of Medicare and Medicaid and public hospitals. Even large welfare states, such as the UK and Sweden, also combine all three forms, albeit limited, in some from or fashion. Moreover, not only is organizational form absent from discourse, so too is a comparative, international perspective on health care provision (Abel-Smith et al., 1995; Anheier, 2003; Schneider et al., 1992). In general, the debate has tended to focus on health care reform in a national or local setting. Thus, this dissertation will address a major gap in the health policy literature, addressing citizen concerns with respect to for-profit involvement in health care provision.

Governments throughout the world finance health services either directly or indirectly. These services are sometimes provided directly by the government, or through government financed enterprises in both the public and private sectors (Eggleston & Zeckhauser, 2002). The justification for such financing may be based on efficiency, delivery, or political reasons. What generates the most political debate according to Eggleston and Zeckhauser (2002) is the form of
ownership that provides health care services most effectively. The next issue to consider, the scholars assert, is whether comparatively speaking such services should be placed in the for-profit, non-profit, or government sectors, given no expenditures across the three respective sectors are not divergent.

Health data provided in Table 1.1, compiled by the Organization for Economic Cooperation and Development (OECD), provides a useful comparison of several of the nations in this dissertation (Eggleston & Zeckhauser, 2002). The data track the percentages for public financing of health care in these OECD countries and private share of inpatient care beds (Paris, 1999). Worthy of note is the private/public mix of provision found in many of these countries. Not surprisingly is the fact that the government is involved in some form or fashion in the financing of health care. The more interesting comparison to consider is the private share measured by inpatient care beds. This assessment includes nations where the private share is considerable (United States, Japan, Australia) to negligible (Norway, Canada, United Kingdom, New Zealand, and Poland). Eggleston and Zeckhauser’s (2002) examination of health notes the extensive significance of government contracting for health care and the heterogeneity of purchasing and delivery systems, particularly among developed market economies. The data above suggest that the development of a health care system in any nation is a composite of several factors. The public and the private sectors are interrelated in the development process, impacted by political and social trends.

One way to make sense of the data is to use some classification of health care systems as an organizing point of reference. Literature (Anheier, 2003; Mechanic & Rochefort, 1996; Roemer, 1993) suggests three health care systems for purposes of classification. Under *Entrepreneurial health care systems*, government has a limited role in the provision and
financing of health services. In addition, emphasis is placed on private provision, and the absence of compulsory health insurance coverage. While government responsibility for health care financing has improved, private insurance and provision remains dominant. The U.S. serves as the best and possibly only examples of this type of system among developed market economies (DME).

Table 1.1 Percentages for Public Financing of Health Care

<table>
<thead>
<tr>
<th>Country</th>
<th>Health Expenditure as Share of GDP</th>
<th>Public share of Total Health Expenditure</th>
<th>Private Share of Inpatient Care Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>13.9%</td>
<td>46.4%</td>
<td>66.8%</td>
</tr>
<tr>
<td>Norway</td>
<td>7.5</td>
<td>82.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Japan</td>
<td>7.2</td>
<td>79.9</td>
<td>65.2</td>
</tr>
<tr>
<td>Canada</td>
<td>9.2</td>
<td>69.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Australia</td>
<td>8.4</td>
<td>66.7</td>
<td>56.6</td>
</tr>
<tr>
<td>Germany</td>
<td>10.7</td>
<td>77.1</td>
<td>51.5</td>
</tr>
<tr>
<td>France</td>
<td>9.6</td>
<td>74.2</td>
<td>35.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>6.3</td>
<td>76.7</td>
<td>n.a.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.8</td>
<td>84.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>8.6</td>
<td>83.3</td>
<td>23.6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7.6</td>
<td>77.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>7.2</td>
<td>91.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>6.5</td>
<td>69.1</td>
<td>n.a.</td>
</tr>
<tr>
<td>Poland</td>
<td>5.2</td>
<td>90.4</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Welfare-oriented regimes, such as those in Germany, Japan, and France, exemplify the next health care systems. Typically, theses systems have national health insurance plans in place, apportion greater overall responsibility to the public sector, and allow for plurality in both health care financing and provision. Health care coverage is primarily derived from employment-based contribution schemes and on direct government funds only secondarily. The

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financing of health care is associated directly with other benefits and social services as part of a general welfare plan. *Comprehensive health care systems* devote the largest portion of service delivery to government. Health care coverage is universal and choice of provider is usually somewhat limited. Financing of health care is tax-based, and provision takes place through a system of public health institutions such as the National Health Service (NHS) in the UK or the local county councils in Sweden.

The casual reader might infer from the synopsis above that health care is a mixture of approaches dominated by either the public sector or the private sector. However, much of the world is undergoing pressure to reform current welfare systems, especially in the West and Central and Eastern Europe. Globalization and social crises are frustrating the delivery of traditional state-centered social policy. How DME nations have tended to cope with such problems differs respective of each nation (Daly, 2001; Ferge, 2001; Ginsburg, 2001; Kosonen, 2001). For example, Germany has held quite firm to its welfare-oriented regime, only slightly altering its health care services in accord with EU measures and the reunification with East Germany. In France, significant changes have been made to the labor market, anti-employment policies, and rights and funding priorities for health care. In that nation, these policy changes were spurred by a financial crisis of the social insurance fund led by strong political leadership committed to reform. Even the Nordic countries have seen substantial reorientations to their health care systems, cutting replacement rates, introducing waiting periods, tightening qualifying conditions, and a reduction in public services (Kosonen, 2001). Like other countries in Western Europe, these changes were brought about by economic recession and EU convergence policies. Thus, Kosonen (2001) concludes deregulation decisions and macroeconomic policies have been the main reasons for changes in Scandinavian welfare systems.
This impetus toward reform is particularly acute in the transition economies (TE) of Central and Eastern Europe, where the formation of welfare states is only part of a much deeper reaching process of societal reform encumbered by financial, organizational, and ideological problems (Ferge, 2001; Sachße, 2003). Recent health care reforms in Hungary, and the Czech Republic, have adopted the welfare-oriented system as their model. These TE nations are attempting to establish a mixed health care economy, with health insurance as the backbone of the new system. The elements of the mix are different in each country, due to particular national traditions and political power structures. For example, the case of health care reform in Hungary has proven somewhat complicated due to the existence of an informal health care sector that operated alongside the official state-run system prior to 1989. While in the Czech Republic, a particularly stable political and economic situation has contributed to deeper reaching institutional reforms in health care than in other Central and Eastern European nations.

The general trend in health care, Sachße (2003) asserts is privatization, but a privatization process that is much more complex than in the DME nations. Privatization is only one element in a much broader process of societal reform. The TE nations of Central and Eastern Europe have the complex task of trying to establish a health care system when adequate political and social structures do not yet completely exist. The basic aim of these TE nations has been to change the role of the state and the market in a fundamental way in the provision of social services. Since the fall of communism, the state in TE nations has slowly withdrawn from the welfare sector with both positive and negative externalities. According to Ferge (2001), an indicator of this retrenchment is the dramatic drop in social expenditures to GDP over the 1990s. This has proven particularly burdensome for families and more particularly women. However, there have been gains in welfare pluralization: the rebirth of “civil society,” of the voluntary
sector, and non-governmental organizations (NGOs). In contrast to the DME nations, health care reforms have been more rapid, and less resistant to neo-liberal trends in market reform.

**The Role of Banks in the Privatization Experience**

In the changeover from a centrally planned economy to a market system, the problem of financing private firms is significant for all transition countries. In order to implement capitalism, a strong financial system is necessary for its achievement. Thus, in the transition process, it is vitally important to recognize the correlation between the privatization of the banking sector and firms, and in particular the strong influence of banks in the post-privatization process of industrial restructuring. Without a doubt, the banking system has a crucial role to play in the post-privatization process, fulfilling its major functions with respect to investment and access to financing (Dudzinski & Szymkiewicz, 2003, pp. 225-244). Moreover, in order to ensure that these functions are feasible, transition economies must have in place a viable regulatory framework. As has been noted in transition case studies (Iatridis & Hopps, 1998; Kalyuzhnova & Andreff, 2003), poor regulation has led to difficulties during the privatization process and afterwards. It seems prudent, especially given the operation of banks as a dependent variable in this dissertation, to explore its impact on the privatization process further.

Transition countries were given the duty of transforming state-owned enterprises into privately owned, competitive, capital markets. The role of the financial system in this transformation is threefold (Dudzinski & Szymkiewicz, 2003, pp. 225-244). Monetarily, a market economy needs a strong currency in use to enhance performance, to support exchange relations, and to secure transactions. The next function is related to income redistribution and capital allocation. As an alternative to administrative investment decisions, the market financial
system must dominate the allocation of capital. It has to channel the transformation and alternative use of savings. The third function is related to financial discipline and its control. In effect, the activity of economic players and their compatibility with market efficiency requirements is submitted to a monitoring process of this system that conveys much of the information about companies’ situation and the effects of funds’ use. The banking system is responsible primarily for the enforcement of these three functions of finance in a privatized economy and bank-firm relationships play a vital role in their performance. Furthermore, relations between the financial system and the mode of governance during the transformation process greatly influence the dynamics of economic development.

Banks contribute to the regulation of the economic system, while firms are autonomous actors, albeit subject to its rules and regulations. In the initial phase of transition, although having a different economic function and behavior, banks and industrial firms were not really differentiated with respect to the need of privatizing them. Obviously, loss-making firms must be privatized. However, the dilemma arises as to the method of privatization. Additionally, property rights arrangements, which result from privatization, influence the performance of firms. The poor performance of one individual firm (despite its size) cannot harm the economic outcome of the economy as a whole. However, a bank’s default or bankruptcy may strike all of the financial system through disruption of the monetary circuit and the payments network, and eventually it may affect other banks’ viability. Bank failure incurs systemic risk. It is the reason why a strict regulation of the banking business is expected. Therefore, banks should be financially sound prior to their entry into the privatization process; one should “wait for flow problems to be resolved and a regulatory framework to be established before moving to privatization.” The above implies that in a privatization drive, firms and banks are to be dealt
with in different ways. This is due to the specific role of the banking business and financial sector in the regulation and stabilization. The example of Poland provides insight with regard to the importance of bank/firm relationships in the transition process.

At the beginning of Polish transition several new commercial banks were established within a still poorly regulated environment (Szymkiewicz, 2001). Legislation adopted in January 1989 enforced a two-tier banking system and by February 1989, nine regional agencies of the National Bank of Poland (NBP) were transformed into independent state-owned commercial banks, entitled to expand their banking activity across the whole Polish economy (Dudzinski & Szymkiewicz, 2003, pp. 225-244). Consequently, NBP acquired the status of a central bank while retaining some commercial deals, primarily in investment finance. At the end of 1989, the Polish banking system comprised 18 state-owned commercial banks and 1,555 (small) co-operative banks (Dudzinski & Szymkiewicz, 2003, pp. 225-244). In 1990-91, after the adoption of liberal rules regarding the establishment of new banks, 62 commercial banks were established with the participation either domestic or foreign capital. An initial problem of the banking system was its deep instability owing to macroeconomic conditions and the lack of experienced bankers. However, by early 1993, an innovative “Enterprise and Bank Financial Restructuring Programme” was adopted. The achievement of this program restored the state-owned banks’ solvency and upgraded their market value. In addition, NBP took several measures in order to restructure private banks’ accounts. Subsequently, licensing policy became very restrictive, and the General Inspectorate of Banking Supervision (established within NBP) has provided increasingly effective oversight (Balcerowicz & Bratkowski, 2001, p. 14).

The first bank privatization program in Poland was adopted in 1991, involving nine commercial banks emanating from the break-up of NBP during the period 1993-96, after
undergoing corporatization. However, complete privatization had to wait until the second half of the 1990s. In 1994-96, these banks were only partially privatized through an IPO, sometimes with foreign capital involvement (Dudzinski & Szymkiewicz, 2003, pp. 225-244). An overall political reluctance to dispose of majority stakes in the banking industry to foreign banks led the latter to a relatively small role. This translated into a restrictive licensing policy towards foreign bankers by NBP. In the middle of the first decade of transition, the banking industry was nearly stabilized due to the impact of this policy. According to Dudzinski and Szymkiewicz, well-defined rules of the game were fixed, bank solvency restored, banks’ balance sheets cleared and bad debts severely reduced. Nevertheless, the most significant banks were still under state control and their under-capitalization was stalling. With the return of a liberal government to power in 1997, the privatization process was accelerated. In order to improve governance of the banks further, the decision was made to attract strategic foreign investors. Consequently, foreign banks have been fully allowed to claim a controlling stake in Polish banks. Foreign capital share in privatized banks has increased sharply, holding a majority share in 13 out of the 15 largest banks, and supplying 70 percent of overall credit (Dudzinski & Szymkiewicz, 2003, pp. 225-244). Currently, the banking sector operates in a relatively regulated institutional environment since NBP has become an independent central bank. In 1998, a new Banking Law was adopted and this reinforces banks’ supervision and regulation through strict prudential conditions.

After completing the privatization process, restructuring is a necessary next step establishing new relationships between firms and banks, with the latter providing adequate financial support to the enterprises that have undergone privatization changes. At least, according to Dudzinski and Szymkiewicz (2003), that is the theory. Thus, the question that needs to be clarified is the extent to which banks contribute to the process of enterprise restructuring,
and subsequently, the post-privatization process as a whole. In the case of Poland, progress in privatization is illustrated by the fact that credits to state-owned companies have diminished and credits granted to the private sector have increased (Dudzinski & Szymkiewicz, 2003, pp. 225-244). In 2000, more than half of total long-term credit went into the Polish manufacturing industry and energy sectors, with manufacturing and trade attracting three quarters of short-term credits. This, according to Dudzinski and Szymkiewicz, confirms the fall of credit for public enterprises, primarily in mining or infrastructure. Additionally, with respect to ownership structure, decreases in total net credit issued by commercial banks with state capital has decreased over the past decade, while simultaneously, total net credit issued by these banks with private sector capital by 2001 had increased by more than five times the 1993 rate, illustrating the particular importance of private banks, and especially those with foreign capital majority stakes (Dudzinski & Szymkiewicz, 2003, pp. 225-244).

In the case illustrated above, progressive steps on the privatization route of both banks and firms gave rise to restructuring. Although initially hesitant, banks began to take direct stakes in Polish firms. Banks became partial owners, generally disengaging themselves from direct governance problems. However, in such situations, the firms are financially under control. They are constrained to respect the general financial rules in their activities. One of the banks’ requirements is high profitability. In this respect the banking system plays a selective role, assisting the growth of financially sound firms and leaving the rest to rely on their own forces. Recent stabilization of the institutional environment and the establishment of the rule of law in economic relations have favored the acceleration of growth in the context of progressive privatization of banks and firms (Dudzinski & Szymkiewicz, 2003, pp. 225-244). This does not however, eliminate the role of the state completely from the process. Dudzinski and
Szymkiewicz, state that there is still much to be done in improving the effectiveness of legal rules, institutional guarantees in long-term financing, and risk-sharing solutions. In such endeavors, state involvement still appears to be necessary.

**Conclusion**

Examining the dependent variables gives us a better appreciation for the contentiousness of the issue of market reform. Several industrial sector reforms have proven to be much more complicated than when initially sold to the public. This is particularly so for the nations of Western and Eastern Europe, which have a long tradition of public involvement in these sectors after World War II. Indeed, the former communist nations of Central and Eastern Europe have functioned solely through the state provision of these services. Thus, the issue of privatizing SOEs in these former Soviet satellites is a particularly thorny issue, given the extensive nature that any such reforms that these respective sectors would have to undertake.

The next chapters will give further insight into the market reforms, specifically privatization, that have been employed as alternatives to service delivery. The sections below will detail country specific reforms in order to shed light on the experiences of some of the nations analyzed. From this description, we will ascertain that some of the nations (specifically the DME nations) have had a longer period of time to experiment with piecemeal privatization efforts. Contrarily, the TE nations have had less time to test these initiatives, but their incidence is much more extensive.
CHAPTER 2
PRIVATIZATION IN DEVELOPED MARKET ECONOMIES

Introduction

The proponents of the New Public Management (NPM) have embraced many mechanisms for implementing their transformation of governance. One such mechanism advocated by proponents of public management reform is the privatization of state-owned enterprises. Proponents argue that the privatization of industries (such as, transportation, telecommunication, energy, and banking) is one of the best approaches to counter the inefficiencies and bureaucratic pathologies associated with public sector ownership (Ingraham, 1997). This is especially true, proponents assert, given the highly competitive environment that is the result of an increasingly global community.

The motivation for privatizing state-owned enterprises in the EU has been attributed to a number of critiques, dating back to the 1970s, on the ineffectiveness of public enterprises. However, it would be prudent first to examine the historical record of ownership in Europe during the twentieth-century, in particular the period during and immediately following the Great Depression. Since the end of the Second World War, the United States and its allies sought various changes in the way they organized government to deal with economic policy. The new governments in post World War II Europe and elsewhere advocated an increased public presence in the economy based on a new sense of nationalism, the rise of organized labor, and Keynesian economic policies (Clifton et al., 2003; Parker, 1998; Toninelli, 2000; Yarrow, 1999). The “new sense of nationalism”, or nationalization of industry in this context, may be defined as the “direct
control of a company by the state,” justified by the publics’ or “natural” interest (Clifton et al., 2003). A major expansion of state enterprises ensued, subsequently, identifying this era with the rise of public enterprises as natural monopolies in select industrial sectors. Governments throughout the Western world rationalized this approach on the market failures emblematic of the Great Depression era leading up to World War II. In order to prevent economic depression and industrial decay, it was argued that nation-states must intervene in the economy to promote a robust and mature industrial sector (Clifton et al., 2003; Parker, 1998; Toninelli, 2000; Yarrow, 1999). For instance, banking immediately after World War II was still in private sector hands. Difficulties controlling monetary policy led to market instability. The result was the nationalization of several banks and the formation of Central State Banks such as the Bank de France in France and Deutsche Bank in West Germany. This post war era of “statisation” presented a negative view of privatization, associating it with “denationalization,” or the potential sale of public enterprises to foreign subsidiaries.

It was not until the late 1970s that serious privatization efforts began to take place in Europe beginning with the Conservative Party’s rise to power in the United Kingdom. This is not to say that privatization activity did not exist prior to this period. A political consensus was present in Western Europe favoring the existence of a mixed economy as early as the late 1960’s. In fact, there was considerable neutrality on the issue of state ownership, despite an essentially liberal economic climate in Western Europe. Governments of different political leanings were reluctant to interfere substantially in the ownership of economic assets and in a number of countries, such as West Germany and Sweden, there was a decentralization of economic power.

One may argue that the state expansion started before and during the World War II era with the rise of fascism and control of large sectors of industry under Nazi Germany and Mussolini’s Italy. However, for the purpose of this dissertation we are interested in the era after World War II when these regimes were toppled and the modern states we know today were established.
which restricted the sale of state assets owned by regional governments (Länder in West Germany) and municipalities (Parker, 1998). Indeed, nominal privatization activity took place in West Germany, the UK, and Ireland during the intervening years. However, this activity was more a gesture for political power than a real effort at systematic reform. It was not until the 1970’s, an era characterized by market and political instability that many governments began to rethink their devoted relationship with public sector enterprises. These crises led to change based on several factors, including but not limited to, the pro-market philosophy of the “Washington Consensus,” advances in technology, and developing public consensus for pro-market initiatives (Clifton et al., 2003). During this era economic theorists associated with the “Washington Consensus,” such as Milton Freidman, asserted that public intervention was bad for business. He and other economists suggested that the state was a bad business manager, and should be limited to its traditional roles of defense and diplomacy (Clifton et al., 2003; Parker, 1998; Toninelli, 2000; Yarrow, 1999). A denationalization trend was initiated, turning over public industries to private ownership. This transition was made easier as technological innovations allowed private firms to administer services in a more cost efficient manner (e.g., deregulation in the electricity, gas, and water sectors). Thus, privatization was posited as a credible alternative to public enterprise in light of efficient commercial practices.

The turmoil of the 1970’s was marked by the perception of mixed economies as poor performers and was compounded subsequently by debt crises in developing countries in the 1980s, and the collapse of centrally planned economies before and during the post-Cold War era (Clifton et al., 2003). This consequently led to the rise of pro-market forces in the EU nations.

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6 In fact, one can trace privatization efforts back to Roman times when the building of aqueducts was awarded to private contractors, and Elizabethan England.
7 U.S. President Gerald Ford in his 1975 State of the Union address to Congress referred to this period as “not good,” one of the only times in American history.
and the trend to denationalize the state. These pro-market forces were fostered by market globalization, technological change, pro-market reforms associated with political and economic integration of certain geographical regions (e.g. the Single Common Market and the Maastricht Treaty with respect to the EU, and the North American Free Trade Agreement), and pressures from lending institutions such as the World Bank and International Monetary Fund to liberalize national economies (Clifton et al., 2003; Durant & Legge, 2002; Henry et al., 2001; Parker, 1998).

Privatization of state-owned enterprises (SOEs) was one of the market-like mechanisms promulgated by pro-market forces that attacked the usefulness of public bureaucracies in favor of an age of economic efficiency (others include contracting out, load shedding, sale of state assets, vouchers, franchise agreements, deregulation, and other arrangements for transferring production of governmental goods and services into private hands) (Clifton et al., 2003; Fernandez et al., 2002). The motivation for privatization, scholars assert, is closely associated with it as a market mechanism (i.e. ‘a technical tool for economic policy’) rather than a cause championed by a particular ideology or political party (i.e., conservative forces in Thatcher’s Britain, and forces on the Left in Mitterrand’s France) as sometimes argued (Clifton et al., 2003; Durant, Legge, and Moussios, 1998; Durant & Legge, 2002). However, researchers should not underestimate the importance of socio-political forces in the privatization process. The literature is quite emphatic in its insistence that the choice to privatize, what to privatize and how to privatize are driven by political as well as economic considerations (Clifton et al., 2003; Durant & Legge, 2002; Parker, 1998). The 1990s saw more nations in the EU experimenting with the idea of privatization. Privatization activity increased during the early 1990’s motivated by two principal economic pressures, liberalization of markets at the EU level and government budgetary difficulties.
Continuing with our analysis of trends in privatization in EU nations, the experiences of several nations in the data set employed in this dissertation will serve to illustrate this activity in the early 1990s. While it is beyond the scope of this dissertation to describe the experiences of all nations, an effort is made to identify the major experiences in capitalist nations.

**Privatization in the United Kingdom**

In 1979 privatization began in earnest in Western Europe under Margaret Thatcher’s stewardship in the UK. The new Conservative government, in power from 1979 to 1997, was dedicated to diminishing the role of the state in the economy following years of poor national economic performance. While the UK was not the pioneer nation to embark on privatization policies, the Conservative program has become a point of reference due to its radical, ambitious and experimental nature, as well as its broad application (Clifton et al., 2003, pp. 49-51; Cook, 1998, pp. 218-241). Although there was a mix of pragmatic economic and political goals behind the privatization program, the Conservative Party’s agenda was particularly vitriolic and ideological, issuing harsh criticisms of public enterprise performance. This confrontational approach was a far cry from the long history of favoring mixed economies and remaining neutral on the issue of state ownership in Western Europe. Motives for the Conservative Party’s privatization program over the past two decades include, increasing efficiency, enhancing freedom of choice and promoting people’s capitalism through wider share-ownership, relieving budgetary pressure, weakening trade unions, encouraging employee share-ownership, reducing government involvement in enterprise decision-making, easing public pay determination, and gaining political advantage (Cook, 1998, pp. 220-221; Heald & Steel, 1982; Vickers & Yarrow, 1988). When it became clear that there would be no decisive opposition from management,
unions or the public, and large privatization flotations would be supported by investors, the Conservative parliament guardedly established its privatization program, extending its implementation to the public utilities, namely telecommunications (Durant, Legge, and Moussios, 1998) (1984), gas (1986), water (1989), electricity (1990-91), and the railways (1995-97).

Most scholars (Clifton et al., 2003, pp. 49-51; Kettle, 2000) describe the British privatization experience in several phases that more or less coincide with the four Conservative Party administrations in their period of power. In the first stage “popular capitalism” was created with the success of the Conservative Party’s policy of creating a society of home owners through the sale of over one million council houses. The second stage was distinguished by a period of massive denationalization of state-owned enterprises. Chief among these was the initial public offer (IPO) of British Telecom in 1984, which became a model for the privatization of public utilities (Durant, Legge, and Moussios, 1998). It was not uncharacteristic of privatization initiatives to be tied in with publicity campaigns, and accompanied by a policy of artificially undervaluing shares in order to promote a shareholder society. Beginning in 1987, the third phase of privatization activity was extended to public services and to previously untouchable areas such as health and education; subsequently, decisions were taken to privatize the water and electricity industries (distribution and generation). The privatization program was extended under Thatcher’s successor, John Major, in 1990. In this fourth period the privatization of British Telecom and other large companies was finalized, while some of the more controversial privatizations were begun, including contracting out within the National Health Service and the Prison Service and, at the same time, privately-operated prisons were established. Finally, two of the most controversial privatizations were implemented, Railtrack and British Energy (nuclear
energy). By 1997, the total value of UK privatization sales had risen to around £65 billion and the share of nationalized industries in GDP had fallen from 9 per cent in 1979 to 2 per cent in 1997 (Cook, 1998, pp. 218-241; Parker, 1998, p. 12). These efforts differed drastically from the rest of the EU in the 1980s, where privatization activity was implemented on a much smaller scale.

However, some scholars (Clifton et al., 2003, pp. 49-51) assert that the Conservative government’s policies that were intended to create popular capitalism, or a shareholder society, were not fully realized in the long term. After the sale of council houses and the initial issuance of shares in BT, the proportion of small shareholders fell notably, and this ratio fell further as subsidies disappeared and costs of management and investment portfolio monitoring increased. By the mid-1990s, as the impetus for privatization was accelerating in the EU, support for privatization was declining in the UK (Feigenbaum & Henig, 1998; Milward, 1998). Although Conservative MPs continued to view privatization as the only real solution to a host of social problems, disillusion was spreading. According to public opinion polls conducted during this period, the public’s perception was that there was a direct relationship between privatization and unemployment. Simultaneously, there were huge increases in salaries and incentives for the new directors of these formerly state-owned enterprises.

With the formation of the Labour government in 1997, the UK underwent a slight change in privatization policy. This administration’s agenda avoided an overall dogmatic approach to the privatization/nationalization debate, but has instead considered each industry on a case-by-case basis. There was, however, general support for the Private Finance Initiative in the areas of the National Health Service, schools, prisons, and, in some cases, public transport systems such as the London Underground and the railways. Certain sectors such as the postal system and
public broadcasting have not been privatized although they have been in other European
countries.

Given the long history of experimentation with privatization in the UK, one would
expect that there would be a great deal of research on the success or failure of these experiments.
In fact, the body of literature is limited and in many cases the results appear to be mixed. There
have been a number of studies illustrating gains in profitability in enterprises in the UK after
privatization (Cook, 1998, p. 237). What these studies do not evaluate, however, is
improvements in efficiency once there is a change in ownership in these industries. For
example, scholars (Cook, 1998; Durant, Legge, and Moussios, 1998) have cited the privatization
of British Telecom as a model of profitability and service quality. However, these gains have not
carried over to the gas and electric industries after transfer of ownership (Cook, 1998, p. 237).
Parker (1995) concludes that privatization can improve performance but performance
improvement is much more about changing the internal workings of companies, including their
business cultures than simply about changing ownership. A more lasting impact on the UK
privatization process has been the liberalization of markets and the creation of a regulatory
regime to coordinate post-privatization activities in industry. Cook states that the development
of a regulatory environment to curb monopoly abuses and ensure that a wide variety of interests
(consumer, industry, and government) are taken into consideration has been a necessary
accompaniment to privatization. Without the vigilance and authority of an array of regulatory
institutions designed to facilitate privatization, Cook continues, improvements in economic
performance and levels of service could not be achieved.

It should be noted that this chapter begins with the British experience due to its
importance as a catalyst for market reform in the rest of the world, particularly in Western
Europe and other English speaking countries. As will be demonstrated below, the reforms in the UK reverberated to the rest of the capitalist nations experimenting with privatization. In many instances, the UK experience was adapted with little or no indication as to the success or failure of these reforms.

Privatization in France

The only exception to serious privatization activity being undertaken during the same period of transformation in the UK is France. These efforts were orchestrated by the Gaullists under the leadership of Prime Minister Jacques Chirac and Finance Minister Edouard Balladur between November 1986 and January 1988. The Gaullist plan called for the denationalization of 65 banking, financial, and industrial firms. In the first phase of privatization in France, the Right of centre government privatized 14 large industrial, banking and financial trusts during their tenure in power (de Bandt, 1998, pp. 88-100; Durant & Legge, 2002; Parker, 1998, pp. 12-13). These firms included the oil company Elf Aquitane in September of 1986, Saint-Gobain (glass) in November 1986, Paribas (financial holding company) in January 1987, and Alcatel-Alsthom (telecommunications systems) in May 1987. Several of these firms had been nationalized under the Socialists, along with their Communist allies, in the early 1980s, the result of poor national economic performance stemming from high oil prices and recessions in the 1970s. Indeed, Socialist President François Mitterrand embarked on the last great wave of nationalization in France, nationalizing five of the nation’s most important industrial groups: Compagnie Generale d’Electricite (electrical engineering), Saint-Gobain (glass), Rhone-Poulenc (chemicals), the aluminum business Pechiney, and Thomson SA (electronics), along with 39 of the largest French banks (de Bandt, 1998, pp. 88-100; Borde & Dang-Tran, 1997; Durant & Legge, 2002). Soon
after the extensive privatization initiatives of the Gaullists in the mid 1980s, the finicky French public put a halt to the activity with the re-election of the socialists to power in 1988. However, Mitterrand took a neutral stance (“ni-ni”) on the privatization activity, neither privatizing any additional industries, nor renationalizing what the Gaullists had privatized.

In March of 1993, the centre-Right government returned to power, continuing the privatization initiative cut short by the Socialists in 1988. The Privatization Law of 1993 slated 21 enterprises for privatization and since then shares have been sold in a number of French state enterprises, including Elf Aquitaine (petroleum), the insurance group UAP, Renault (auto), Rhone Poulenc (chemicals), the bank BNP, Usinor Sacilor (steel) and Pechiney (aluminum). This second phase, like the first, was part of the general trend to privatize in total, or partially, large state-owned enterprises in both the industrial and service sectors, particularly banking and insurance. Thus far France has chosen to concentrate on privatizing industrial and commercial firms operating in competitive markets rather than monopolistic firms such as public utilities, although it has entertained the idea of a partial sale of France Télécom (de Bandt, 1998, pp. 88-100; Parker, 1998, pp. 12-13). The debate on the future of French public utilities, examined below, reveals the diversity of logics entertained with respect to privatization in this sector.

Some aspects of the French experience are worth noting. There was no market valuation of the companies during the privatization process, due to the fact that the state had total ownership. Audits conducted during the privatization process demonstrate that French companies have been neither strict nor systematic in the application of accounting rules, also making it difficult value firms. This in turn has impacted the public view of owning shares in these newly privatized firms. Public opinion has generally considered the sales of shares in privatized companies as being mishandled (de Bandt, 1998, pp. 88-100). Poor performance of
respective stocks has negatively impacted the general image of privatization in the minds of the French public. Additionally, a central component of the French case is that fact that prior to the sale of part of the shares to the public, the government (more specifically the Ministry of Finance) systematically set up a limited network or subset of big financial or institutional groups, which were supposed to become a core group of permanent shareholders (the noyaux durs). The Ministry of Finance has set up these groups in order to concentrate a decisive proportion of shares in their hands. This scheme was part of an overall goal of reorganization and control over French financial structures and capitalism. Proceeds from privatization have been used to recapitalize firms which have remained in the public sector and to fill state coffers for budgetary reasons. The French continue to experiment with privatization programs from both the Gaullists and the Socialists, voting in the Socialists in 1997, and then returning the Gaullists to power in recent elections.

Privatization in Germany

Previously, this analysis mentioned early privatization efforts in the late 1950s and early 1960s, specifically in West Germany. These early privatization efforts in the German Federal Republic included denationalization efforts from 1959 to 1965. The Adenauer government implemented an agenda aimed at ensuring greater efficiency in business, to cut taxes and slim down state intervention, develop a shareholder democracy and encourage a fairer distribution of productive property (Clifion et al., 2003, pp. 55-56; Esser, 1998, p. 107). Several companies offered sales in shares, however, these initial offerings were unsuccessful; the public refused to invest in equity, preferring to invest in guaranteed returns. Although these efforts were carried out gradually and in a consensual way, further privatization was restricted by the federal political
system and by the political consensus in favor of a mixed or social market economy.\textsuperscript{8}

Germany’s national economy has traditionally comprised two sectors; the first being key private sector industries that compete internationally (e.g., the automobile industry, chemicals, and electronics) and the second a politically regulated sector comprised of transportation, postal services and telecommunications, public utilities, and public banks and savings institutions (Esser, 1998, p. 110). The reluctance of the Federal Republic of Germany to privatize, given these early experiments, can be traced to the fact that the country had a smaller public enterprise sector in comparison to European averages, in particular in the industrial sector; a moderate degree of public debt; less political pressures on the state budget; and was governed by political consensus due to the federal configuration of the state (Clifton et al., 2003, pp. 55-56). The economic miracle of the 1950’s made for a strong economy, despite the strong presence of the state.

However, as the economic and political crises in the 1970s and early 1980s continued, Germany was forced to deal with reduced budgetary resources, obliging the government to come to the assistance of indebted enterprises, in reality transferring funds to depressed regions that perceived public enterprises as providers of social and regional aid. With pressure mounting in neo-liberal circles and professional investors, by the mid-1980s, the German Federal Republic revisited the idea of privatization. In 1982, Helmut Kohl’s ruling Christian Democrat (CDU/CSU) coalition with the Free Democratic Party (FDP) implemented its policy of “great change.” Until the 1980s, privatization had been limited to isolated instances such as the environment and drainage services. In 1985, the then Federal Minister of Finance outlined a

\textsuperscript{8} The reader should be cognizant of the federal organization of government in Germany. Due to this organization, federal and local governments strongly resisted the extension of privatization to their respective regions throughout the 1970s and 1980s. The German economic model has strongly relied on Keynesian concepts, with some scholars (Esser, 1998, p. 105) calling the German model an “organized private market economy” or “social market economy.”
general privatization program affecting 13 firms, with the intent that the government would retain a substantial shareholding and in some cases a majority holding in the firms. Excluded from this program were the loss-making steel, coal and shipbuilding industries and state banks, the railways, posts and telecommunications and research industries (Esser, 1998; pp. 101-122; Parker, 1998, p. 15). Nevertheless, even these limited privatization plans met with resistance from the trade unions and in March 1985 the government drastically reduced the number of firms targeted to just five.

It should be emphasized that the 1985 efforts were largely symbolic and modest at best. The German industrial sectors that were of long-term strategic significance in the global market were already in the private sector, and the public sector was not very extensive at the federal level. As mentioned earlier, one must distinguish between property owned by the Federation, and that which belongs to the Länder (regional and state governments), towns, and other local authorities. With several key assets in the hands of these regional authorities, if and when the Federal government decides to embark on privatization policies, they will have little or no impact without the cooperation of theses authorities.

Privatization in West Germany continued cautiously until the fall of the Berlin Wall in 1989. The reunification with the German Democratic Republic ushered in an extensive privatization program for that former communist state. Moreover, privatization activity increased with new pressures and a renewed theoretical debate on the need for deregulation and privatization under the auspices of EU directives. This debate placed serious doubt on the organization of the infrastructure and public service sectors, including telecommunications, the

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9 The Länder, towns, and other local authorities count among their duties garbage collection, public health and public housing, gas and electricity supply, education and training, transport and road systems, and most notably several influential state banks (Esser, 1998, p. 103). As a point of fact, the percentage of the public sector controlled by the Federal government was significantly less than its counterparts in Europe.
post office, energy supply and transport. The federal government’s shareholdings in the industrial sector essentially ended during the period 1990 to 1994, with the selling of nine entire enterprises and three partially in the former West Germany (Esser, 1998; pp. 101-122; Parker, 1998, p. 15). The largest privatization sale in the EU was implemented by the Germans in 1996, with the flotation of Deutsche Telekom, more than doubling the total value of (West) Germany’s privatization sales (Parker, 1998). Parker (1998) suggests that the privatizing of Deutsche Telekom is indicative of the problems some countries in the EU face when reducing state ownership. Until 1996, under Article 87 of the German constitution, the privatization of the railways and postal services (including telecommunications) required a two-thirds majority in the Bundestag and Bundesrat. To get the necessary support for the sale of Deutsche Telekom, the centre-Right government comprised of the Christian Democrats and their Bavarian counterparts (CSU), had to agree to the demands of the main opposition party, the Social Democrats (SPD), that a measure of state control should continue to exist over the company following the introduction of private capital. This measure was implemented to ensure the continuance of universal service.

In spite of this shift in privatization activity, the Länder continue to have major shareholdings in public credit institutions, insurance companies, power supplies, transport, construction and property, and some manufacturing firms (Esser, 1998; pp. 101-122; Parker, 1998, p. 15). Scholars (Clifton et al., 2003, pp. 55-56) suggest the federal political system of Germany makes for a unique comparison. After reunification, there was an accelerated privatization program which affected the majority of industrial enterprises in the Democratic Republic of Germany (DGR). This process contributed to delaying the process of reorganization, integration and privatization of enterprises that were still publicly owned by the
Federal Republic of Germany (FRG), such as in the telecommunications, postal and railway sectors. Conversely, a slow privatization process took place at the local and regional levels. At present, there is still much that remains that could be privatized, including public services, or services of general economic interest, including water, electricity, public transport and waste collection. Unlike the British and French cases, the West German experience with privatization is limited. However, in East Germany, there was a more radical transformation due to the collapse of the communist government.

Privatization in Scandinavia: The Swedish Experience

Even the most ardent supporters of state welfare and public intervention were not immune to the spread of privatization activity. Sweden developed a substantial welfare state in Europe after 1945, but like its other Scandinavian neighbors saw little need for extensive state ownership of industry. Taken together the experience of these neighbors has scholars asserting the uniqueness of the “Scandinavian model,” characterized by a large welfare state, a small public enterprise sector, political dominance by the Social Democrat Party, and significant degrees of local autonomy (Clifton et al., 2003, pp. 61-62; Parker, 1998, pp. 15-16; Willner, 1998, pp. 172-190). The private sector in this region is viewed as the primary generator of wealth on which large taxes can be levied to pay for welfare services. When referring to privatization in Scandinavia, the term may apply not only to changes that reduce shareholdings and eliminate state control, but also when industry goals become commercial without a change in ownership.

In the 1970s, Sweden, like the rest of the world, was a casualty of poor economic performance resulting in a number of failing companies that had to be rescued by the state,
notably in shipbuilding and steel. In fact, this time of poor national economic performance meant that between 1976 and 1982 the non-socialist government nationalized more companies than at any time (Willner, 1998, pp. 172-190). Besides operating the postal services, telecommunications, railways and electric power, by the mid-1980s the state sector included steel plants, mines, a bank, food and pharmaceutical companies and timber enterprises. In total there were around 70 state-owned joint-stock companies and nearly 1,400 local government enterprises. What's more, the state had become heavily involved in some leading Swedish corporations such as Volvo and Astra. The socialization of the entire industrial sector was threatened in the early 1980s with the establishment of wage earner funds (Löntagarfonder), intended for investment in shares in private sector companies and financed by profit levies (Clifton et al., 2003, pp. 61-62; Parker, 1998, pp. 15-16). However, there were deregulations in financial markets, telecommunications, buses, flights, agriculture, and TV and radio during the Social Democrats’ tenure in power from 1982 to 1991 (Willner, 1998, p. 177).

The defeat of the Social Democrats in the September 1991 election led to a major change in policy under the Swedish Conservatives led by Prime Minister Carl Bildt. A privatization commission was set up in early 1992 within the government and subsequently a privatization bill was passed by parliament in December 1992. The result was a plan to sell 34 state firms, including the electricity company Vattenfall, Nordbanken, Procordia in biomedicine and food products, Celsius in shipping and ASSI and Doman AB in forestry (Parker, 1998, pp. 15-16; Willner, 1998, pp. 172-190). In the same year the wage earner funds (Löntagarfonder) were dismantled. Swedish Conservatives, like their British counterparts, were interested in developing a shareholder society and encouraging competition. However, progress in privatizing companies proved slow at first because of a crisis in the Swedish economy and the wider European
recession. More recent years have seen some escalation of privatization activity including sales of shares in Procordia, Nordbanken, Stadshypotek AB, AssiDoman and Celsius. In addition, state organizations such as Vattenfall have been turned into joint-stock companies and given commercial objectives.

In total, between 1991 and 1994 the government sold shares in 20 companies, involving assets worth Skr 24 billion. Sixty percent of the shares were sold to the general public and employees and the rest to institutional investors (Parker, 1998, pp. 15-16; Willner, 1998, pp. 172-190). However, the Swedish Conservatives hold on power was short-lived, ending with the re-election of the Social Democrats in 1994. The Social Democrats return to government led to a reassessment of the privatization program and the implementation of a new case-by-case implementation policy of privatization. The new government agreed to go ahead with the privatization of Nordenbank but not the other planned sales, including Vattenfall, whose future remains uncertain.

In sum, the Swedish policy of creating public enterprises and privatization is to achieve active control through deregulation and the restructuring of enterprises, rather than through changes in ownership. This position has not changed since the country’s induction into the EU in 1995, and taking into consideration growing industrial sector deregulation in areas such as telecommunications or energy. The main objective of the Swedish government has been value creation through professionalization of public enterprise management while serving specific societal interests wherever possible. Since Swedish public enterprises have been seen as profitable and competitive by international standards, the public enterprise sector has been transformed from being smaller that the European average in 1970 and 1980 (6.2 percent and 8.3 percent in comparison with 9 percent between 1975 and 1985) to representing over the average
of 7.6 percent in comparison with the drastic fall of the European average (4.8 percent) in 1999 (Clifton, et al, 2003, pp. 61-62).

Privatization in Ireland

The approach to privatization in Ireland has been characterized as being cautious, resulting in no mass state-assets sales comparable to those discussed above. The Irish government has undertaken only modest privatizations which include sales of shares in state-owned insurance firms and sugar production. State ownership has played a key role in Irish economic policy, as well as in political life and national identity. Following independence from the UK in the 1920’s, the Irish government strongly encouraged interventionist policies as a means of promoting prosperity after years of economic decline under British rule. Ireland’s neutrality during the Second World War kept the nation out of the ownership debates in the post war reconstruction period, reinforcing the role of the state as vital to economic prosperity in the platforms of all political parties in the country (Barrett, 1998, p. 139). State economic intervention was a policy of the Irish government up until the 1980’s, reinforced by its membership in the European Monetary System in 1979. However, by the 1980s financial losses in state industries produced growing pressure for a transfer of some industrial and commercial assets to the private sector. State-owned enterprises in transportation, electricity supply, and telecommunications grew to be associated with high costs and overmanning, products of regulatory capture by government departments (Barrett, 1998, p. 139). Barrett asserts that clientelism and patronage in the staffing of the Irish public sector was a significant impediment to the evolution of political support for privatization. Even with growing disillusionment with state intervention, little was done by the major political parties to develop a strong drive for
privatization. It took until 1985 with the establishment of the Progressive Democrat Party, that privatization had advocates in government.

Three major privatizations occurred during the period 1989 to 1992: the Irish Sugar Company (later renamed Greencore), the Irish Life Assurance Company, and Irish Shipping (Barrett, 1998, pp. 136-149; Clifton et al., 2003, pp. 64-66). Years of inefficiency in the operating of these public firms led to their being privatized during the early 1990s. Interestingly, privatization proved to be a boon to profits for all three companies in the years immediately following their initial offering to the public. Further privatization efforts were not introduced until 1995 by the centre Left and Fine Gael coalition, later than activity on the continent. Despite the liberalization directives of the EU, the privatization program was rejected unless employment could be protected and the government would ensure its participation in public enterprises. In 1996, the new centre Right government of Fianna Fáil and the Progressive Democrats did not adopt an ideological approach to privatization nor did they act under financial or fiscal pressures, since the Irish treasury was quite healthy. In fact, these disparate governments showed a discernible degree of continuity when it came to considering their approach to privatization. The Irish electricity sector serves as an excellent illustration of the government’s approach. According to EU liberalization directives, the Irish government transformed the electricity sector in 1998, liberalizing 22 percent of the distribution network. In order to do so, the Department of Transport, Energy and Communication (DTEC) set up a productivity compensation plan for the employees of the Electricity Supply Board, as well as a concession contract with Finland’s IVO (Barrett, 1998, pp. 136-149; Clifton et al., 2003, pp. 64-66).
During this period of privatization in the 1990s, the Irish government saw a reduction in the public enterprise sector following the general trend in the EU. In the first half of the decade, this was due to the sale of financial and industrial enterprises, and in the second half, because of the sale of enterprises in the telecommunications, energy, steel, and transport sectors. Irish privatization policy is ongoing and remains pragmatic, with government party coalitions continuing to implement a consensual approach to the process.

**Privatization in the USA**

While it is true that the American reforms touched more parts of government faster than anywhere else in the developed world, these reforms are quite different in content than the other cases discussed in this chapter. Reforms examined so far tend to focus on real institutional reform, impacting governmental structures and processes. In contrast, the reforms in the U.S. have emphasized changing bureaucratic behavior rather than more fundamental transformations (Kettl, 2000). This is due in part to the more partisan nature engendered by reform in the states. Scholars (Boardman, Laurin, and Vining, 2003) make the distinction in defining the term “privatization” in the U.S. context. Typically in the U.S., “privatization” involves contracting out and outsourcing, where the government maintains responsibility for selecting the contractor and financing the delivery of service. In the other cases included in this dissertation, “privatization” is usually restricted to asset divestitures of commercial enterprises (i.e., SOEs), where the government generally relinquishes financial support or control, although occasionally specified subsidies have been granted.

Though the tendency is to focus on the reforms initiated under the Clinton administration beginning in 1992, it is prudent first to explore deregulation in prior decades. From the late
1970’s to the present, U.S. policymakers have made many changes in the extent of regulators’ sphere of influence with respect to efficacy. Extensive deregulation has occurred in the areas of surface transportation, financial services, and airline industries. Scholarship (Berg, 2000) asserts there is essentially widespread agreement among economists that this policy was proper, since firms in these industries are either not natural monopolies, or the markets are contestable. Berg (2000) posits that deregulation of the airlines is probably one of the crowning achievements of regulatory economic analysis, particularly since it was conducted under the constant scrutiny of the public. Although partial deregulation has been achieved, the telecommunications, natural gas and electricity industries are still works in progress.

The Clinton administration’s efforts, spearheaded by Vice President Al Gore, were to identify opportunities for decreasing waste and improving management. These efforts were labeled the National Performance Review (NPR), formalizing procedures in a report in 1993 that detailed 384 recommendations that promised to save $108 billion and to reduce the federal work force by 12 percent within a five year period. The administration’s “reinventing government” plan recruited federal employees, formed them into teams, and sent them out to agencies to promote this effort at downsizing. In addition, the administration pushed for procurement reform through passage of the Government Performance and Results Act (GPRA) in 1993 and the Federal Acquisition Streamlining Act in 1994 (Kettl, 2000). GPRA required by law that all federal agencies to set strategic plans for their activities and indicators for measuring their outcomes by March 2000. The latter act simplified procurement regulations and gave managers more flexibility in buying goods off the shelf. Moreover, reformers proposed changing the orientation of government service toward “customer service.” These initial transformations

intended to borrow from the private sector model in order to improve efficiency and effectiveness in the way the public sector operates.

Early success in their undertakings was challenged by the Republican takeover of Congress in the 1994 election. Republicans countered the Clinton administration’s plan by proposing to shrink the size of government radically. Although there were substantial budget cuts and highly publicized government shutdowns, Republican reformers did not achieve most of their proposals. In 1998, Vice President Gore shifted focus, changing the reinventing government motto to the National Partnership for Reinventing Government. The administration’s new round of reform was aimed at imitating “best practices” from the private sector.\textsuperscript{11} The aim was to utilize advances in the information age to generate efficiency in government. In so doing, the administration promised to build a “safe and healthy America,” “safe communities,” a “strong economy,” and the “best-managed government ever” (Kettl, 2000, p. 18).

Assessing the results of NPR has proven complicated. While there were indisputable reductions in costs related to procurement reform and fewer federal employees, Kettl (2000) posits that calculating “which of the recommendations produced which savings” is impractical. The difficulties envisaging costs had the NPR not been implemented and the government’s cost accounting system have complicated the difficulty of assessing savings.\textsuperscript{12} From recent scholarship (Kettl, 2000), it would appear that the impact of the Clinton administration’s reinventing government program has produced mixed results at best. Kettl (2000) asserts, while procurement reform and customer service achieved success, employee attitudes from surveys


\textsuperscript{12} This lapse in US accounting is contrary to the Westminster-style reforms in the UK, Australia, and New Zealand, where more precise measures were taken for assessing financial gains through reform (Kettl, 2000).
indicated wide disparity in perceptions on reform efforts among agencies, clearly favoring agencies where political appointees placed a high priority on NPR initiatives. Nevertheless, the administration was able to slash over 300,000 positions by the late 1990’s, bringing the federal workforce to a level lower than any time since the early 1960’s (Kettl, 2000). While downsizing accounted for most of the cost savings in government, efforts in procurement, information technology, and administrative processes, proved more ambiguous and difficult to measure. In addition, many critics point to the fact that the majority of the employment reduction can be attributed to cutbacks in the nation’s defense establishment with the end of the Cold War, with wider variations among federal agencies. With most reductions coming from support positions versus the bloated middle-management sector, Kettl (2000) posits that “quite simply, the reality did not match the rhetoric” of the Clinton administration.

In the U.S., there has been far less privatization activity largely because there was less government ownership. Three privatizations of note are the public offering of the government’s 85 percent stake in Consolidated Rail Corporation (Conrail) in 1987, and recent Internet offerings for the backbone network and the domain name system (DNS) (Boardman, Laurin, and Vining, 2003). Conversely, there has been considerable activity in the contracting out of public services over the last decade. Contracting out has prevailed as an alternative delivery in the states in diverse areas such as solid waste disposal, street construction, facilities operations, building repair, ambulance services, vehicle maintenance, engineering and architectural services, and increasingly information technology services (Globerman & Vining, 1996; Hirsch & Osborne, 2000). However, although states have reported significant budget savings, there is plenty of anecdotal evidence to question the efficiency and welfare effects of privatization in the U.S.
The Purpose of Privatization in the West

While the transition in ownership in the West may have been perceived as straightforward technologically, politically and socially, it remained a fervently debated topic, demonstrated by mass protests then and now (e.g., most recently, protests at various World Bank and IMF conferences). What is clear is that all the nations in the EU have seen some privatization activity, although the economic significance varies considerably. This reflects a difference in the degree of enthusiasm for and opportunity to privatize from country to country. Obviously it has had a significant impact in the UK where total privatization receipts represented 9 percent of the 1996 GDP. Whereas in (West) Germany, the same figures illustrate less of an impact; total privatization receipts were only 0.1 percent of 1996 GDP (Parker, 1998, p. 18).

At the policy level, the rationale for privatization seems to vary as well across nations. Emulating the UK experience (i.e., privatizing will lead to efficiency gains) has become a well accepted notion across parts of Europe and the world. In general, however, privatization policies elsewhere in the EU have been more pragmatic and less ideological than in the UK and more recently in France. While in the UK the supposed superior efficiency of private ownership was a main drive of privatization policy for the Conservative governments of 1979 to 1997, for some governments this is not so. In (West) Germany public enterprises have generally operated commercially with business interests represented on their supervisory boards. Even where efficiency is a major issue, the post-privatization structure of industry has often been poorly articulated.

As noted above, another motivation to “denationalize” was a greater role for public input, illustrated by the UK’s popular capitalism and shareholder society policies. This “demand-side” approach to policy called for a citizen oriented perspective on policy-making. More specifically,
in the case of the European Union (EU), EU citizens require consumer protection and defense at the supranational level; thus, they are specified certain rights as users of goods and services of so-called ‘economic general interest’ (Clifton et al., 2003, p. 104). Instead of the efficiency argument, sometimes more prominent have been arguments to do with capital market development and government financing. The desire to promote the national capital market has been important in many EU member states, particularly as a means for promoting international investment and encouraging investors to own shares.

Relevant to the nations examined in this dissertation is the impact of monetary union in the EU under the rules of the Maastricht Treaty (Parker, 1998). After ratification of the treaty, government financing through asset sales became more important, acutely driving privatization activity leading up to the issuance of the Euro. The European Commission has ruled that privatization receipts cannot be taken into account when calculating budget deficits under the Maastricht criteria; however, privatization receipts can be used to reduce the public debt – another treaty criterion – and a lower debt reduces interest payments made by government and therefore, indirectly, the budget deficit. In France, for example, privatization receipts are seen as a less politically sensitive way of reducing the state debt than either spending cuts or tax increases. Additionally, privatization sale proceeds have been used to recapitalize the firms or remaining state-owned enterprises in the absence of adequate state financing. In the UK in the 1980s, privatization share issues were purposely priced high in order to raise the maximum revenue possible for the budget and industry restructuring. As the link between privatization and

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13 The Maastricht Treaty criteria for ‘sustainable economic convergence’ and eligibility to join the European Monetary Union are: (1) an inflation rate in the previous year of 1.5%, at most, above the three member states with the lowest inflation; (2) long-term nominal interest rates in the previous year not exceeding by more than 2% the average rate in the three member states with the lowest rates; (3) general government net borrowing and nominal gross debt below 3% and 60% of GDP respectively (known as the fiscal convergence requirement); and (4) a stable currency within the narrow band of the EMS without realignments or ‘severe tensions’ for at least two years (Parker, 1998).
government finances became stronger over the past two decades, EU states regularly announced targets for annual sales as part of their budget forecasts. In France, legislation has been passed to limit the use to which privatization receipts can be put. Under French legislation in 1986, privatization receipts were to go into repaying public debt or recapitalizing the remaining state-owned enterprises. Amended in 1993, legislation now calls for receipts to go into the general budget.

The discussion above highlights the fact that there appears to be no general, overarching purpose for privatization in the west. Some governments promote privatization to achieve efficiency gains (e.g., the UK), while at least as important in others is the potential of privatization sales either to expand the capital market or meet the Maastricht criteria for monetary union (e.g., France). Several governments have apparently pursued all of these objectives, even though, Parker (1998) suggests, they many not be compatible. For example, to achieve efficiency gains industry may benefit from restructuring ahead of a sale to promote competition, but by removing the opportunity for monopoly profits sale receipts are reduced and therefore, so are the proceeds to the state budget. Promoting a domestic capital market may mean restricting foreign ownership, but foreign investors may help promote a more effective capital market constraint on managerial behavior. Nevertheless, the expansion of the EU and the implementation of its criteria for membership continue to impact privatization activity.

**Conclusion**

The contentiousness of privatization therefore deserves attention given the philosophical underpinnings of NPM and privatization. The impact of this pro-market agenda tends to be erratic, taking prominence in some countries periodically. The result, scholars suggest (Clifton
et al., 2003; Parker, 1998), is that discussion on privatization initiatives contains many contradictions, over-simplifications, and mistaken assumptions. Since the EU is made up of a diverse set of nations, each with their own respective attitude towards state or private ownership, the process involves a disparate implementation of privatization policy across the continent and elsewhere in the developed world. These attitudes are dictated by a complex combination of historical, economic, social and cultural characteristics. The development and implementation of privatization policy is thus a patchwork of emulation that follows a regional basis and reflects the specific socio-economic attitudes of the respective nation-states.

Privatization raises important questions about the direction of economic policy which extends beyond matters of immediate economic efficiency gains, to encompass issues to do with longer-term industrial performance and income distribution or welfare effects. Within the EU there are different views about whether privatization can promote economic prosperity and maintain social cohesion. However, despite the viability of privatization as an alternative in the delivery of public services, enthusiasm remains persistent in developed capitalist nations. Scholars suggest that this advocacy for alternatives continues due to oversimplified and inconsistent critiques of public enterprises (Goodsell, 1994; Rainey, 1996), resulting in privatization being the *sin qua non* of alternative service delivery (Clifton et al., 2003).

Although there are clear market influences at work in the logic of privatization, even the most fervent proponents of such stimuli contend that public opinion is a formidable force (Savas, 2000). Since the citizen is the nucleus to many of the NPM reforms, particularly with respect to improvements in service delivery, it would behoove us to gain a better understanding of just what citizens think about the reforms. Specifically, how do citizens feel about the privatization of state-owned entities in their nations, how do they reason these opinions, and do these opinions
vary among different segments of the public? Drawing on a framework developed by Durant and Legge (2002) for the assessment of consent in France for market reforms, the proposed dissertation seeks to enlighten practitioners and researchers further about the formation, nature, depth, and durability of public support for or opposition to privatization of state-owned enterprises. Scholarship suggests that very little is known about public opinion regarding privatization (Durant & Legge, 2002; Gabel, 1998; Gabel & Palmer, 1995; Kaufman & Zuckerman, 1998). The majority of research in the area of privatization has tended to focus on the finances of such endeavors, at the expense of social and political consequences (Clifton et al., 2003). More recently, the initiative has shifted away from the economic consequences of privatization and toward the perspective of citizens as it relates to socio-political consequences (Clifton et al., 2003). It is my purpose to close the gap on this literature.
CHAPTER 3

PRIVATIZATION IN TRANSITION ECONOMIES IN CENTRAL AND EASTERN EUROPE

Introduction

From the analysis above, one might ascribe the phenomenon of NPM and pro-market reforms of its ilk to democracies of Western Europe and the developed capitalist nations. In fact, a large proportion of the literature on pro-market reforms in recent years has focused on the Westminster-style governments in countries such as Great Britain, Australia, and New Zealand, which have taken efforts to reform the traditional systems of government services quite seriously. The result has been nationwide reforms aimed at improving public management. Additionally, as noted earlier, the United States has also undertaken efforts to transform the way the federal government operates, albeit in a more inconsistent manner than its Anglo allies. The reform efforts in the United States have been mixed, making any normative conclusions thorny (Kettl, 2000; Savas, 2000). Furthermore, research has focused on market reforms on the European continent. Specifically, these efforts, as noted above, have concentrated on the reforms prompted by liberalization efforts in the European Union in nations such as Germany, France, and Italy. The emphasis on the respective developed capitalist nations mentioned above does not imply that other countries are not involved in pro-market reforms. The fall of the Soviet Union and with it the collapse of collective economies placed Russia and its former satellites on the path to economic and political reform. The past decade has seen a growth in scholarship dedicated to studying the transformation of these nation-states.

14 Unless the Westminster-style reforms, the federal government is unable to direct reforms at the state and local level, as is the case for London, Canberra, and Wellington respectively.
The reform efforts underway in these former Soviet satellites deserve further analysis. Since the collapse of the Soviet Union in the early 1990’s, these nations have undertaken dramatic shifts in institutional arrangements. These shifts can be characterized broadly by the change from command-and-control political and economic institutional frameworks to that of market/democratic institutional structures akin to the developed capitalist states mentioned above. These reforms involve dramatic changes not only in the way the state does business, but also in the relationship of the state to its citizens. These changes differ sharply from the recent reforms in the developed world detailed above that have taken place gradually, over an expanded period of time, and isolated toward economic or market reforms. The changes in these former satellites have also been introduced rapidly and applied in the 1990’s with little time for trial and error, drastically altering the lives of its citizens. It is because of the nature and speed of these reforms that research has naturally turned an inquisitive eye toward the impact of these reforms on the future of these societies.

Indeed, there are a number of works that have focused on the attitudes of citizens with respect to the reforms that are taking place at a break-neck pace in Russia and the former satellites of the Soviet Union (Dalton, 1994; Finifter, 1996; Finifter & Mickeiwicz, 1992; Gibson, 1996; Legge & Rainey, 2003; Miller, Hesli, and Reisinger, 1997; Reisinger, Miller, and Hesli, 1995). This research has focused on the processes of democratization and marketization respectively in the former communist states. To clarify, democratization in this research refers to support for democratic institutions and processes such as freedom, rule of law, majority rule, equal opportunity, pluralistic media, multi-party system, competitive elections, and political tolerance. The process of marketization, which is interrelated in many ways with the democratization process, includes support for market-based institutions and processes such as
price liberalization, free labor markets, income differences, and privatization (Finifter & Mickeiwicz, 1992; Gibson, 1996; Miller, Hesli, and Reisinger, 1997). As stated earlier, practitioners and scholars know very little empirically about how citizens from diverse nations feel about market-based reform efforts, specifically the privatization of state-owned enterprises (SOEs). Further research in this pursuit seems prudent given the normative, political, and instrumental importance of these efforts, particularly in the countries of Eastern Europe that were not so long ago dominated by command economies and authoritarian regimes, and are now experiencing rapid economic changes.

Privatization in particular has a unique perspective in the transition process of many of these Central and Eastern European nations (Nivet, 2003; Schwartz & Lopes, 1998). In the developed countries examined above, privatization has focused on the changeover of alternative, primarily private, management structures for public ones, the goal of which is to improve the delivery of public services – such as electricity, hospitals, and banking – asserting an expanded role for the private sector in the economy through liberalization measures. In the Central and Eastern European countries examined in this research, privatization has involved much more. In fact, as mentioned above, privatization has transformed societies in these nations from a planned, state economy to a market economy and private ownership (Iatridis, 1998). For a society used to the omnipotent presence of the state, this means a radical change in the relationship between citizen and state. In the analysis above, we noted the use of privatization as an economic and management tool. In the case of Central and Eastern Europe, privatization has been used as a tool for fundamental societal reform. Privatization thus becomes a more complex tool in the east not only for the restructuring of management, but also for the transfer of government ownership, in many cases for the first time, to the control of private entrepreneurs. The privatization process
can take the form of destatization, the transfer of state-owned enterprises to nongovernmental entities, or divestiture and denationalization, referring to the transfer of ownership only (Iatridis, 1998, Kornai, 2003). The extensive goal of market reform in Central and Eastern Europe, according to Iatridis (1998), is the privatization of ownership; monetary stabilization, followed by price reform that makes market measures the criteria for economic activity; the dismantling of monopolies; and the creation of markets for capital, labor, and goods.

Privatization in the east has broad social, political, cultural, ideological, and legal ramifications (Iatridis, 1998; Kornai, 2003). It transfers the control of government institutions and property to private ownership. This challenges the long held notions of the states as the sole entity in the provision of goods and services. The state is no longer the omnipresent institutional provider of goods and services. With privatization comes free enterprise, the distribution of goods and services by multiple producers. This transformation challenges long held notions of societal structure in these nations. Those formerly at the top (communist party leaders, military leaders, etc.) and those at the bottom (workers, workers unions, etc.) must find a place in this reformed society. Given the drastic changes in these societies, it seems prudent to gauge public sentiment for privatization.

Public opinion thus becomes an important tool in public administration research in measuring citizen support for or opposition to market and democratic reform. In the case of Central and Eastern Europe, it becomes a valuable instrument in understanding a unique framework of analysis for market reforms in societies undertaking rapid and dramatic transformations. Public opinion research becomes a tool in understanding attitudes and public well being in the east. Given the dramatic changes to society in such a short time frame, we assume that citizens of the nations examined would have much to say about the changes taking
place in their respective societies. A key hypothesis of this research is that attitudes in the east will differ from those in the developed capitalist nations examined above. These differences can be attributed to a number of socioeconomic, demographic, and political factors. These factors include striking differences in population, gross domestic product, the number of political parties, infant mortality rates, and migration rates (Iatridis, 1998). In order to resolve many of these discrepancies, the nations of Central and Eastern Europe have looked to the capitalist societies noted above for assistance. The problem is to which other nations do these Central and Eastern European states hold as a model for change given the specific differences in the experience with privatization in developed capitalist nations?

As noted in the above analysis of developed capitalist nations, the countries used in this analysis have a diverse range of options to choose from in the replication of market reform in the form of privatization. Outlined in the above section, these options include: pluralist market capitalism, corporate market capitalism, state-guided market capitalism, and worker self-managed capitalism. The point being that privatization in the east represents a rejection of the traditional components of Stalinist communism: centralism, state ownership, and massive state subsidies. Capitalism replaces guaranteed employment, collectivism, public ownership, workers’ rights, and free health care, with capitalist markets, individualism, profit, competition, and parliamentary democracy (Iatridis, 1998). This transition necessitates broad, swift restructuring of society in the east in order to guarantee the success of market reforms. In the developed capitalist nations, the capitalist tenants listed above have been in place for several centuries in most cases, a luxury the east never had. Privatization in capitalist countries comprises values of managerial efficiency and cuts in public expenditures, mere modifications that are far from being the sweeping dogmatic shifts in the east. Privatization in the west involves considerable
taste for poverty, unemployment, inequality, economic insecurity, and discrimination. This is no easy transition for these emerging democracies.

Acknowledging the long history of political and economic oppression in these former communist nations, one would assume that change in any form would be a welcome alternative. In fact, initial public sentiment for market reform and democratization was for the most part favorable (Gibson, 1996; Iatridis, 1998; Mason, 1995; Miller, Hesli, and Reisinger, 1997). This initial public support for market and democratic reform has changed given the results of the first five-year phase (1990-1995) of the transformation process, evidenced by the cross-tabulation illustrated in Table 4.2 and discussed in the “Results” of the dissertation. This change in public sentiment has been attributed to the gross discrepancy in what Iatridis (1998) calls an “expectation gap.” The anticipated prosperity that many of the citizens of Central and Eastern Europe envisioned as complementary to market reform differed greatly from the actual results of tough measures put in place after the collapse of communism. This expectation gap has led to growing dissatisfaction with market democratization.

This dissatisfaction has been the result of a number of social and economic issues attributed to privatization that have remained prevalent in Central and Eastern Europe. Scholarship suggests that privatization in these nations’ economies has been a tenuous achievement at best (Andreff, 2003; Iatradis, 1998; Schwartz & Lopes, 1998). Advocates of privatization assert the transition to market economies has led to distinct economic benefits in Central and Eastern Europe, which include the reduction of inflation and budgetary deficits, control of the money supply, freeing of prices from administrative control, the establishment of free trade, the development of a convertible currency, and the eradication of the long lines of the proletariat waiting to purchase scarce goods that were endemic of state-planned economies in the
former Soviet satellites (Iatridis, 1998). Furthermore, mass privatization has reduced inflation, governmental expenditures, and budgetary deficits. Additionally, these nations have experienced increases in GDP, investments, sales, profits, ownership, and shareholders (Andreff, 2003; Iatridis, 1998). Conversely, opponents contend that the transition has also created acute socioeconomic problems that include: falling income levels; increased unemployment, poverty, and social uncertainty; larger gaps in equality of income and wealth between the poor and rich; discrimination by race, gender, ethnicity; the proliferation of crime, particularly organized crime; corruption in the public and private sectors; and business depressions (Andreff, 2003; Iatridis, 1998).

Given this stark contrast in the pros and cons of transition to a market economy, is it any wonder that these nations had the political fortitude to challenge the traditional full employment and high labor market participation part and parcel of state-planned economies? So, why did Central and Eastern Europe decide to privatize? Once the decision was made to privatize, to what extent were these nations willing to go to transform their economies into the capitalist model? As was noted earlier, in the case of the west, public ownership was a response to economic failures in the era prior to World War II. Then, in the 1970’s as these state-owned enterprises became less profitable due to crises and changes in the global economy, privatization initiatives and deregulation became the universal remedy. These crises and changes in the global economy did not solely impact the west. Turmoil during this time had a significant impact in Central and Eastern Europe as well, ushering in economic liberalism in the form of Soviet sponsored market reforms such as “Perestroika” and “Glasnost.” Central and Eastern Europe’s planned economies exemplified how production outcomes in the public enterprise sector may have little to do with cost-effectiveness or consumer choice. Long-term economic planning
stressed increasing supply levels with little or no concern for demand, markets, or prices. Socialist ideological concerns, such as full employment, and mandated restrictions on production, illustrate the central role of labor in communist regimes. State-owned enterprises under this structure placed little regard toward the goal of efficiency, seeking only to sustain given output quotas. Given this trade off, state-owned enterprises knew they would remain in business despite their financial performance.

The result of trading off efficiency for meeting government quotas became progressively more untenable and was reduced drastically. Beginning in the 1980’s, states implemented early reforms with the liberalization of prices; the introduction of competition, particularly foreign competition; the launching of privatization programs that accompanied the demise of central planning; and large governmental subsidies to state-owned enterprises. It was then that the zeal for economic liberalization became particularly acute with the collapse of the Soviet Union in the late 1980’s. Privatization became an integral part of economic reform policies and has been the principal catalyst in the economic transition of Central and Eastern Europe, with this region witness to a sharp rise in privatization proceeds during this initial transition period from 1988-1993 (Schwartz & Lopes, 1998).

During the collapse of the Soviet Union, privatization thus became the *sin qua non* of market reform tools in the transition of Central and Eastern Europe. Privatization, however, was not the only option available to these transition economies. In fact, Schwartz and Lopes (1998) suggest that there are two alternatives to privatization for reforming state-owned enterprises while improving efficiency and financial viability. These strategies included improving financial discipline and control in the public sector, improving financial reporting and monitoring, and strengthening management accountability; and improving the pricing of public enterprise outputs.
and corporate taxation, controlling the enterprises’ access to financing, and rationalizing the allocation of subsidies and other budgetary expenditures. Collectively, these strategies are meant to strengthen the traditional instruments of fiscal policy that impact the performance of state-owned enterprises. Privatization was the preferred method of reform implemented by Central and Eastern European countries. The authors assert that it was often seen as the more likely means of enforcing market discipline, promoting the efficient allocation and use of resources, and alleviating the state of its various responsibilities of tax collection, regulation, supervision, and ownership. Privatization sought to achieve market liberalization through such measures as contracting private management for public enterprises to opening up previously restricted economic sectors to private sector activity or, more radically, privatizing public enterprises (Schwartz & Lopes, 1998). Unfortunately, the privatization of the extensive public enterprise sectors in Central and Eastern Europe proved to be especially difficult in practice.

The Difficulty of Privatization

While empirically, the impact of privatization continues to be debated, practical applications in the Central and Eastern European region have frequently been accompanied by socioeconomic unrest, slowing down the implementation of reform policies. The region has provided ample evidence from employment restructuring and social costs with respect to whole industries in this region that were hopelessly overstaffed and in need of restructuring to achieve the gains in efficiency that were needed to ensure competitiveness. But this competitiveness has been mitigated by the lack of effective institutional safeguards meant to insure increased and fair competition, such as a viable framework for corporate taxation, labor relations, accounting standards, and environmental safety measures. In many instances, large state-owned enterprises
have been replaced by large private enterprises exhibiting monopolistic behavior, endangering efficiency and consumer welfare much as the bloated public enterprises of the past sustained. Additionally, many of these recently privatized industries retain their communist management, fostering corruption and organized crime. As a result, considerable numbers of citizens were forced from safe employment into an open labor market in which there were few jobs and where they had little or no instruction for obtaining employment. Thus, in order to meet public demand, state-owned enterprises must have reasonable prospects for becoming profitable and maintaining competitiveness. Failure to demonstrate prudence in the privatization process can lead to needless restructuring, modernization, and recapitalization, resulting in misspent budgetary resources and taxpayers’ money, further tempering an already irate public. Scholars can reasonably conclude from the discussion above that privatizing state-owned enterprises, particularly in Central and Eastern Europe, usually involves a number of economic, financial, legal, and political hurdles, as well as conflicting goals and interests that frequently impose constraints and lead to unavoidable trade-offs (Andreff, 2003; Schwartz & Lopes, 1998). These hurdles and trade-offs were exacerbated further by the break-neck speed of the reforms following the collapse of communism.

The extent of these hurdles is linked to the degree of market reform in these respective transition democracies. Some of the countries of Central and Eastern Europe (e.g., the former East Germany, and Hungary) have made significant progress while others (e.g., Russia) have languished in controversy over the exact path to a capitalist economy (Kornai, 2003; Schwartz & Lopes, 1998). Though some countries harbored significant doubts about the economic and societal benefits of market reform and have barely begun to pursue such reforms, others have managed to sustain political support for liberalization and privatization, kept reform objectives
simple, and vigorously implemented reform policies. While the economic environment has
tended to worsen in the former group of countries, significant economic benefits have begun to
materialize in the latter group (Schwartz & Lopes, 1998). However, the authors assert that the
results of privatization and the reform of state-owned enterprises have, so far, fallen short of
expectations in many of the countries of Central and Eastern Europe, particularly with respect to
generating the proceeds of privatization and improving economic efficiency. This has carried
over into continued public disfavor for the reforms (see Results) that initially carried populist
appeal with the promise of instant riches through free or discounted share distributions to
workers and the general population as a result of privatization. The next section of the chapter
will illustrate the privatization experiences of several transition economies. The cases below
were selected in order to highlight successes (e.g., Poland), mixed successes (e.g., the Czech
Republic), and failures (e.g., Russia) in transition toward market economies in Central and
Eastern Europe.

**Privatization in the Czech Republic**

The privatization process in the Czech Republic began in the wake of the “velvet
revolution” in November 1989 and its separation from Slovakia. Prior to privatization, the vast
majority of the national economy was monopolized under state central planning with little
experience in consumer markets and almost no legal and institutional basis for a market
economy. Thus, with almost no private sector to account for in the Czech economy, the typical
firm in the initial privatization phase (1991-1995) was huge, state run, and faced no competition.
However, unlike other post-communist transitions in the East, the Czech Republic initially
benefited from fair economic conditions (Hopkins, 1998, pp. 61-62; Zemplinerová & Machacek,
A substantial industrial sector and a self-sufficient agricultural sector provided the Czech Republic with wide latitude in privatization decisions.

This latitude in decision making provided for non-standard privatization practices in the Czech Republic. President Vaclav Havel faced no initial opposition in late 1989 to the concept of privatization. With the failure of centrally planned economics, proposals for modest reforms favored either gradual or rapid privatization. The choice was made for rapid privatization, given a worsening national economy and growing technological gap with the West. The Board for Temporary Administration and Privatization of National Property was established in April of 1990, favoring two forms of privatization: the sale of small enterprises by cash auction and the distribution of ownership shares in large enterprises via voucher auctions (Hopkins, 1998, pp. 61-62; Zemplinerová & Machacek, 2003, p. 205). The goal of the new government was to achieve a similar ratio of private and state-owned property similar to that in the fully developed market economies. The best approach to accomplishing this goal was thought to be the latter of the two approaches to privatization, emphasizing speed and magnitude. The basic laws that set privatization in motion were adopted in October 1990 for small enterprises and in February 1991 for large ones.15

The large-scale privatization program was implemented during 1991-1995 and involved about 5,000 medium-sized and large enterprises in manufacturing, water supply, sewage, transport services and roads, railways, airlines, energy utilities, gas import and transit, airport administration and air traffic control, finance, mass media and healthcare - - sectors which many developed nations refused to let go from state control (Zemplinerová & Machacek, 2003, p.205). The government picked a transfer process – voucher, auction, other sale (to a pre-selected party),

15 The laws also included restitution to former owners. Property nationalized or expropriated after February 1948, the date when the communists came to power in the former Czechoslovakia, was returned to the original owners or their heirs (Zemplinerová and Machacek, 2003, p. 205).
or transfer without sale for each enterprise on the list (Hopkins, 1998, pp. 61-62). Small-scale privatization proceeded without major complication. The privatization of small businesses was important symbolically even though, total shares of the book value of state assets that were privatized in this manner were small compared to the state’s share from restitution and from the voucher process.

Through the voucher transfer process, citizens could exchange vouchers for ownership shares in large firms that were formerly state-owned enterprises. The use of vouchers allowed widespread citizen ownership to develop without the need for substantial capital. The voucher bidding process was preceded by the government’s establishment of an initial offering price based on the book value of an enterprise – the historical capital cost less an arbitrary depreciation allowance (Hopkins, 1998, p. 65). The largest was Volkswagen’s purchase of a substantial portion of the Czech auto manufacturer Skoda for joint-venture operations beginning in April 1991. Yet, little investment capital was available domestically, and extensive foreign ownership was not imminent. Thus, the vouchers initially lacked popular appeal, and by January 1992, fewer than 1 million books had been purchased (Hopkins, 1998, p. 65). This situation changed rapidly once investment funds began aggressively marketing their promises to guarantee a tenfold return on the purchase price of vouchers one year after the share of the newly privatized firms had been distributed to stockholders (Myrant, 1993). By mid-1994, the private sector accounted for some 65 percent of the GDP, a substantially higher figure than in other transitional countries in the region (Hopkins, 1998, p. 63). These former state-owned enterprises were transformed into joint stock companies, with shares kept by the National Property Fund and offered through the electronic stock exchange (RM System) created for this purpose (Zemplinerová & Machacek, 2003, p. 205).
Following the completion of the privatization program during 1991-95, Czech stocks grew rapidly on the exchange through 1997. However, contrary to expectations, the Czech economy experienced a recession during 1997-99. The recession revealed the weaknesses in the national privatization program – inept legal institutions and a lack of systematic reorganization of large firms (Hopkins, 1998, p. 63). Unfortunately, Zemplinerová and Machacek conclude, the Czech Republic’s attempt to create national capitalism through the distribution of state assets to citizens failed. Even though a majority of the former state-owned enterprises were quickly privatized, the state continued to fund the enterprises through large banks that remained under its control. As a result, the moral hazard of private owners and poor corporate governance became almost ubiquitous (Frait, 2000). Scholars (Cook, 1998; Zemplinerová & Machacek, 2003, p. 205) posit that privatization programs require certain supervisory institutions and ethical features for success. Thus, Zemplinerová and Machacek assert, the lack of both transparency and regulation in the Czech program resulted in the stock exchange not generating prices that would be related to the market values of the enterprises traded. In this economic environment, foreign investment withdrew from the Czech equity market.

Without important foreign investors, the Czech state run banks went deeper into debt as privatization expanded. This resulted in their eventual privatization to foreign strategic investors beginning in 1998, part of a new wave of privatization during 1998-2002. Along with the banks, industrial sectors such as telecommunications, energy, petrochemical, metallurgy, and mining are also being considered for privatization (Zemplinerová & Machacek, 2003, pp. 216-218). These industries have proven difficult to transfer ownership, particularly the energy sector in transition economies, as they are labor intensive and thus posses a great deal of social leverage.
Successful in its initial phase, with its experimentation in standard and non-standard methods, the privatization program lost speed by the mid-1990s. The Czech reliance on non-standard privatization methods (vouchers) and emphasis on domestic investors led to stagnant management practices in an industrial sector in need of massive reorganization. The resulting failure in management led to the state having to bail out public and partially privatized firms over the period of economic recession. Zemplinerová and Machacek (2003, pp. 219-221) suggest that if a proper regulatory framework had been established early on and competition expanded abroad, the Czech Republic would not be searching for foreign investors to take over these firms from the state in order to improve public finances.

Privatization in Poland

After Solidarity’s victory in partially free elections in May of 1989, the first non-communist government took power in September of that year. The Balcerowicz plan (named after the minister of finance who formulated the plan) was presented to Parliament in October 1989 and was introduced, after a short period of preparation, on January 1, 1990. The plan was an audacious program of marketization (systematic institutional changes) and stabilization. Marketization consisted of the liberalization of almost all prices; the elimination of almost all subsidies; the abolition of the administrative allocation of resources and goods produced; freedom to establish private businesses; the liberalization of international economic relations, which included free access to foreign trade by all; and the internal convertibility of a 32 percent devaluation of the Polish currency (Klich, 1998, p. 85). In addition, highly restrictive monetary, fiscal, and income policies were introduced. The government regarded liberalization, demonopolization, and privatization as necessary for improving economic efficiency. In general,
the Polish public’s great expectations of the benefits to be gained from privatization encouraged
the introduction of the concept to Poland. Little opposition was also to be found in the Polish
workers’ councils and trade unions, which was attributable to their inclusion in the decision-

The ratification of The Act on the Privatization of the State-Owned Enterprises on July
13, 1990 launched the Polish privatization process. Under the act, the Ministry of Ownership
Changes (Privatization Ministry), the Parliament, and founding bodies (branches of the central,
provincial, or local government that, in the Soviet-type economies, were the holders of state-
owned enterprises), all shared the responsibility of privatization. By law, privatization can
follow one of two routes in Poland: commercialization or liquidation. Following
commercialization, the next step in the process is individual, customized, or mass privatization.
Individual privatization is carried out by public offer or direct sale to domestic and foreign
investors; it has been deemed more appropriate for large and economically viable enterprises
with over 1,000 employees (Klich, 1998, p. 85). Liquidation in the Polish process refers to the
sale of SOEs without first being converted to commercial enterprises (the SOE disappears as a
legal entity, and the business is then sold or merged with another firm).

Interestingly, it is not by massive transfer of state-owned assets that the share of private
ownership has increased in Poland. Rather, it is a real dissolution of the public sector and the
rise of a viable small business sector in its place, encompassing the transfer of public units such
as restaurants, retail outlets, etc., into private hands on a decentralized basis. Duchêne and Rusin
(2003, p. 146) and Dudzinski & Szymkiewicz (2003, p. 227) suggest that it is this burgeoning
new private sector of small-scale enterprises that has transformed Poland in a small time period.
Privatization of these burgeoning firms starts with the transformation of the enterprise into a
single-holder state company. Shares are then offered to employees and managers, groups of private individuals, and private domestic or foreign firms. This process may be initiated by the firm, by a potential buyer with an offer to purchase a major block of shares, by the founding body, or by the Ministry of Ownership Changes (Klich, 1998, p. 85). Poland is a typical example of a nation that has experienced macroeconomic “shock therapy” at the beginning of its transition, without implementing any kind of “radicalism” in privatization. Moreover, the emergence of the new private sector was allowed by a tough liberalization policy.

This new domestic private sector represented 12 percent of the total value added in 1989 (excluding for small agriculture); after a decade, its share jumped to 59 percent (Duchêne & Rusin, 2003, p. 146). The speed of transition, Duchêne and Rusin posit, is explained not only by the “small-scale privatization,” but simultaneously by the collapse of the state sector (whatever the form it takes in the course of transition), revealing the state’s low and sometimes negative profitability. Along with continued enforcement of liberalization policies, small business sector activity has expanded in Poland. Within a ten year period, that is, between 1988 and 1998, the official number of entrepreneurs rose from 700,000 to 1.6 million and the number of active “micro-enterprises” has grown yearly on average by 200,000 units since 1996 (Duchêne & Rusin, 2003, p. 147).

In August 1992, the Polish government, through the Ministry of Ownership and changes, initiated an unconventional approach to privatization, the mass privatization program (MPP). After initial objections, the Act on National Investment Funds (NIFs) and Their Privatization, a reformed proposal of the MPP, was passed by Parliament on April 30, 1993. The MPP is implemented in three stages: commercialization of the SOEs, establishment of NIFs in the form of joint-stock companies, and the distribution to each Pole aged eighteen and over of a certificate
for one share in each NIF on payment of the registration fee. In addition, two-thirds of the seats on the board of directors of each NIF would be reserved exclusively for Polish citizens.\textsuperscript{16} Klich (1998) suggests the MPP has been attractive due to its ability to transform the ownership of big and medium-sized SOEs, its assistance in countervailing the lack of capital, and its securing of jobs in the transformed enterprises. NIFs management of the privatized enterprises has spread the risk through certificates of ownership in each NIF to individuals.

The adoption of particular rules or institutions at the beginning of the transition process might have played a role in the long-term evolution of the marketization process. Transition countries have followed various trajectories that are not always connected to specific initial conditions. Poland’s initial progress in these areas prevented barriers to large enterprise restructuring and entrepreneurship. Programs of debt restructuring and reduction were quickly set up for firms, and the tax on the excessive increases of salaries (\textit{popiwek}), which had been adopted in the first months of the transition period, was quickly eliminated and replaced by a more convenient wage bargaining system (Duchêne & Rusin, 2003, p. 153). In Poland, a tripartite socio-economic commission intended to regulate the labor market has worked since 1995 to define a maximum wage growth index for the whole country, which the employers of the private sector practically use only as a simple indication. After the initial phase of the transition, the process of reorganization pushed employee and employer syndicates towards a strategy of mutual concessions and the current practice of being social partners is to seek co-operative solutions rather than industrial strife.

In Poland, the formalities required to register an enterprise are inexpensive, especially a small enterprise, usually taking at a minimum less than a week. Less legal instability (frequent

\textsuperscript{16} Of the total number of shares of ownership in a given company participating in the MPP, 33 percent belong to a given leading NIF, 27 percent belong to other NIFs, up to 15 percent are given free to the employees of companies being transformed, and up to 25 percent are held by the state treasury (Klich, 1998, p. 91).
changes of regulation) and institutional weakness (instability to enforce private contracts), but also less macro-economic instability, are positive factors in the daily functioning of firms in Poland. Poland appears much more attractive for entrepreneurs from every point of view. The explanation is to be found in an extremely advantageous tax system: micro-enterprises are able to opt for a lump sum tax – independent from the business volume. The early establishment of bankruptcy laws in 1991 also assisted stability. Clearly, both from the viewpoint of large enterprise restructuring and of small firm creation and development, legal and societal obstacles are much less of a barrier in Poland than the rest of the CEE (Duchêne & Rusin, 2003, p. 155). This has made Poland the best performer over the past twelve years in the former communist bloc.

Nevertheless, mass privatization has remained in many cases at the level of intentions, and has not been implemented so far. In the case of Poland, this is explained by the fact that the emergence of a new private sector – mainly composed micro-enterprises, at least at their start – was much quicker and powerful than expected. In a survey of 23 nations, Poland holds the world record share of population “preferring to be self-employed than to be an employee” (Duchêne & Rusin, 2003, p. 155).

Privatization in Russia

Contrasted with the cases above, where some initial difficulties were experienced but were overcome through market regulations and institutional restructuring, Russia’s privatization experience has proved disappointing thus far. Russian economic deficiencies become even more pronounced when compared with the long-established market economies of the developed nations. Although the communist government experienced with quasi-privatization in the 1980’s
in the form of spontaneous (*nomenclatura*) bureaucratic privatization, managerial privatization, and lease buy-outs, privatization in the 1990’s still proved to be difficult (Hare & Muravyev, 2003; Weisskopf, 1998). A great deal of the negative experience in Russia can be attributed to the struggle to balance the restructuring of former state-owned enterprises under the Soviet regime with the formation of a prosperous private sector.

In the case of Russia, it appears that too much attention was given to organizing and implementing privatization rapidly (Hare & Muravyev, 2003; Weisskopf, 1998). Thus, the Russian government initially neglected institutional restructuring policies essential for the transition of the communist system into a thriving private market. For example, rapid privatization has often resulted in dramatic labor market fluctuations that have impacted the financial as well as the political capital of the regime (Kornai, 2003). Russia experienced a stagnant economy during much of the 1990’s, the result of a privatization process which experienced relatively few market entries and closures.

Consequently, the Russian mass privatization program from 1992-1994 was initiated during a turbulent economic period. The failure of the government to provide price stabilization and budget constraints during this period led to high inflation and substantial government deficits, with Russian firms practicing the same lack of financial discipline (Hare & Muravyev, 2003). Three categories of enterprises were established for the duration of this initial privatization phase. These included small enterprises, to be sold by competitive bidding or lease buy-out; large enterprises, to be initially corporatized through joint-stock companies, then privatized through the mass privatization program; and medium enterprises, which could utilize either method. Enterprises, such as most public utilities and defense firms, were exempted from
this initial round of privatization (Hare & Muravyev, 2003; Supyan, 2000, pp. 15-19; Weisskopf, 1998).

Two methods essentially characterize the Russian mass privatization program: management-employee buy-outs and the mass privatization itself (Hare & Muravyev, 2003; Supyan, 2000, pp. 15-19; Weisskopf, 1998). Privatization of each SOE was initiated by the development of a privatization plan defining the measures needed for the sale of shares as well as the proportions offered to various groups of potential investors. Employees and managers were the most significant of these potential investors, placed within limits allowed under privatization regulations. The plan was subsequently approved by the State Committee for the Management of State Property (GKI), the main Russian privatization agency, or its regional offices.

At the general meeting of the firm, generous entitlements were offered to managers and employees via the mass privatization plan, giving insiders the prerogative to choose from three privatization options (Hare & Muravyev, 2003; Supyan, 2000, pp. 15-19; Weisskopf, 1998). Option 1 entitled workers and managers to receive 25 percent of equity in the form of non-voting shares for nothing, plus the right to purchase a further 10 percent of voting shares using cash or vouchers. Senior enterprise managers could purchase an additional 5 percent of the stock in the form of voting shares under Option 1. Option 2 provided for a “buy in” of 51 percent of voting shares for workers and managers in the form of cash or vouchers. The third option provided for a managing group,17 which upon taking responsibility for the implementation of the privatization plan and the prevention of SOE bankruptcy, could buy 30 percent of the voting shares; an additional 20 percent could be purchased by management and workers (regardless of whether they were part of the managing group) at a 30 percent discount. Additionally, employee

17 The managing group could be comprised of existing management and workers, or any other physical or legal person (Hare & Muravyev, 2003).
shareholdings could be augmented through Employee Privatization Funds (FARP). Voting shares amounting to 10 percent of a firm’s charter capital could be assigned to these funds for subsequent sale to employees on preferential terms.\(^\text{18}\)

This initial period of privatization saw a significant number of SOEs transferred to private ownership. The mass privatization plan resulted in substantial ownership in the newly privatized SOEs by insiders (managers and employees) and scarce influence from outsiders (Hare & Muravyev, 2003; Logue & Bell, 2000; Weisskopf, 1998). Unfortunately, the funds generated from voucher sales did not provide firms with adequate financial resources. Shares in poorly performing privatized firms were generally viewed as “illiquid” and did not pay dividends. In addition, although new firm entries were initially impressive, by the latter part of the 1990’s entry was discouraged by bureaucratic obstacles and various forms of corruption and criminal activities. Furthermore, a lack of adequate bankruptcy laws, and a great deal of official protection for firms deemed “too big to fail” ensured that the turnover in the enterprise sector remained low (Hare & Muravyev, 2003).

In 1995, a Russian government desperate to bridge impending budget shortfalls shifted policy priorities. Policy now focused on the need to maximize revenues from privatization, most notably in the form of loans-for-shares (Hare & Muravyev, 2003). Orchestrated by a syndicate of Russia’s largest banks, the plan called for the lending of funds to the government from the banks, in exchange for blocks of shares in large and strategic enterprises as collateral. These blocks of shares would be auctioned off, the bank offering the largest loan receiving said block. This in turn gave the bank certain shareholder rights. Scholarship on the part of Hare and Muravyev (2003) suggests that the loans-for-shares program was “questionable,” causing a public outcry due to the non-transparency of the auctions. The result was in many cases either

\(^{18}\) If an enterprise followed Option 2 of privatization, the limit was 5 percent (Hare & Muravyev, 2003).
buy-outs of SOEs by their own managers supported by banks or direct, non-competitive sales of blocks of shares to the interested banks or financial-industrial groups (FIGs). This program further exacerbated insecurity of property rights and postponed restructuring in some of the companies involved.

From 1996 – 2001, the privatization policy of maximizing revenues was sustained, but privatization was increasingly implemented on a case-by-case basis. The majority of these case-by-case transactions were conducted with a known buyer in mind, typically insiders. Most of the revenues during this period resulted from the sale of shares in one or more of the major SOEs, primarily from the oil and gas sector. The most successful year during this period was 1997, when revenues exceeded US$3bn, of which US$1.875bn resulted from the sale of a 25 percent plus one share stake in Svyazinvest, the national telecommunications holding company (Hare & Muravyev, 2003). In 2000, President Putin announced that the reform of public utilities would be a priority for his government. However, given that very little has been done since the utilities were corporatized and partially privatized in 1992, this will be a demanding task for the new government. According to the Putin government, the public utilities reform program will include the separation of electricity generation from electricity transmission and procedures to stimulate competition among independent producers (Hare & Muravyev, 2003). The state will relinquish majority ownership in the national holding company, Unified Energy System (UES), retaining sole control in the company established to own the grid. Eventually, generating capacity, as well as the local distribution networks, will be privatized. Furthermore, in order to remove monopolistic barriers, the government plans eliminate cross-subsidization and guarantee that electricity prices are financially viable.
Hare and Muravyev (2003), Merkl (2000), and Weisskopf (1998) note several observations on the Russian privatization experience. Much of the Russian economy is now privatized, across virtually all sectors achieving an unprecedented volume of privatization transactions within an exceptionally short period. The primary exceptions to this privatization are defense firms and the majority of public utilities, SOEs which were for the most part exempted from the initial privatization period. However, there have been some significant moves toward privatization in these two sectors, and substantial efforts to strengthen economic regulation to constrain the abuse of monopoly power. Nevertheless, Hare and Muravyev (2003) assert the huge volume of privatization activity in Russia has not yet been accompanied either by sufficient restructuring of production or by dramatically improved economic performance as measured by profitability, productivity, or export performance.

Hastily implementing mass privatization, provoked by political considerations, has resulted in the emergence of firms substantially owned by their employees and managers (Hare & Muravyev, 2003; Logue & Bell, 2000). Hare and Muravyev (2003) posit that this ownership structure has proven inefficient from the viewpoint of enterprise restructuring and performance. Insider ownership persists as an obstacle to the revitalization of Russian firms, even though its frequency is in decline. In addition, a combination of institutional, political, and economic policy shortcomings has led to ineffectual performance within the privatization process. While institutions and procedures to manage Russia’s privatization process were established early in the initial transition phase, eliminating or reducing the incidence of various abuses has proven quite taxing. The Russian government has been politically unable to tolerate high rates of unemployment, even temporarily. In many areas, pervasive soft budget constraints, compounded by a sluggish development in the necessary legal and regulatory institutional structures to
support a prosperous market economy have hampered further development (Hare & Muravyev, 2003; Healey & Leksin, 1998, pp. 38-48; Weisskopf, 1998). Additionally, a lack of competition throughout the Russian economy has further aggravated deficiencies.

Conclusion

This dissertation will use the sample of nations from the ISSP data set in a comparison of attitudes toward privatization with respect to traditional “East/West” differences. Research into citizen attitudes on political and economic reform have concentrated on comparisons of Central and Eastern European, post-communist States, or comparisons of traditional Western democracies, capitalist states, with very little in the way of East/West comparisons (Mason, 1995). Relevant research with respect to East and West Germany makes East/West comparisons more plausible (Dalton, 1994; Legge & Rainey, 2003). Indeed, this research focuses on democratic attitudes and predicting support for privatization in the two Germanys. The efforts of Legge and Rainey (2003) demonstrated significant relationships between individuals’ personal characteristics, their attitudinal dispositions with respect to East and West residence, and their support for privatization of several major services in Germany – banks, hospitals, and electric power.

The publics’ view has had an important impact on how privatization initiatives have fared in many cases throughout the world. Research on public opinion toward privatization can add to the understanding of how citizens form opinions about various aspects of government and public policy more generally (Durant & Legge, 2002; Legge & Rainey, 2003). This dissertation will seek to demonstrate a deeper understanding of this formation process by probing citizen attitudes around the world. The 1996 International Social Survey Program (ISSP) data provides an
opportunity to assess support for, or opposition to privatization initiatives from an East/West perspective. Not surprisingly, Eastern Europeans are more likely to oppose such efforts compared to westerners given the tumultuous government reorganizations in the post-Cold War era (see Table 4.2). This resentment against privatization is primarily motivated by the fact that it has not improved their economic position. Many of the millions of citizens once employed by large state-owned enterprises have been laid-off as a result of downsizing and liberalization in the market. Many of these citizens were moved from a safe employment environment into an open labor market in which there were few jobs and where there was little in the way of preparation for obtaining new employment and government social guarantees like that experienced under the command economies (Legge & Rainey, 2003). Therefore, it is prudent that scholarly research seek to answer why citizens in Central and Eastern Europe are overwhelmingly opposed to the market reforms that have been underway. Like Durant and Legge (2002) this research will establish a calculus of consent for the reforms being implemented in these countries.

Thus, 1996 once again proves to be an opportune time not only to gauge Western assessment of privatization initiatives, but also to assess the attitudes of Eastern Europeans in the turbulent reform period of the post-Cold War era in the 1990s. Indeed, the first five-year phase (1990-1995) is a critical time period for analyzing market and democratic reforms in these Central and Eastern European nations (Iatridis, 1998). This dissertation will provide evidence of how citizens in both the West and East have formed opinions about the privatization initiatives underway in their respective nations. Consequently, the analytical framework for assessing these attitudes, for anticipating and dealing strategically with the perceived consequences of
denationalization efforts, and for refining the calculus of consent for market reforms will be strengthened further.
CHAPTER 4
METHODOLOGY

Description of Survey

Research on public opinion concerning privatization of state-owned enterprises (SOEs) in the United States and elsewhere is not plentiful. This does not imply that the need for such research is superfluous. On the contrary, literature on privatization in general asserts the need for ascertaining citizen perceptions regarding the privatization of public enterprises (Kettl, 2000; Clifton et al., 2003). Based on the analysis conducted by Legge and Durant (2002), several factors are identified that could account for differences in how satisfied citizens are with the privatization of SOEs. Perusing the literature on public-opinion formation generally, on public attitudes toward market-based administrative reforms in particular, and on the concerns of privatization critics, the authors identify six factors: utilitarian concerns, economic judgments, leadership and government support, ideology, generational value orientations, and emulation. More specifically, these six factors illustrate the manner that support for privatization policies are impacted by personal self-interest; retrospective and prospective financial and economic well-being; government leaders and programs; political philosophy; private versus public-regarding values; and the positive or negative attributes of other nations.

For purposes of this analysis, data compiled by the International Social Survey Program (ISSP) will be used for research on public opinion concerning privatization of state-owned enterprises. The ISSP (1996) is an ongoing annual program of cross-national cooperation on surveys exploring important topics in the social sciences. The program assembles pre-existing
social science projects and coordinates research goals and in so doing adds a cross-national, cross-cultural perspective to the individual national studies. According to annual plenary meetings of the ISSP, a questionnaire is adopted that is relevant to all the member countries and expressed in as equivalent manner as possible in all languages.

The 1996 ISSP data for this research are concerned specifically with the role of government (titled Role of Government III). The first of these surveys concerning the role of government was conducted in 1985-86 and the second in 1990. Several of the countries in the 1996 survey did not respond to all of the questions, thus this dissertation will only examine Australia, Bulgaria, Canada, the Czech Republic, France, Germany, Great Britain, Hungary, Ireland, Japan, New Zealand, Norway, Poland, Russia, Slovenia, Sweden, and the United States. Citizens’ (persons aged 18 years and older in the participating nations) opinions were elicited regarding the functions of their national governments and on what governments should and should not be doing. Respondents were asked whether they approved of economic policies such as wage and price controls, job creation programs, including public works projects, support for ailing private industries, the forced reduction in the industrial work week, and reductions in government spending and business regulations. Government spending was another topic, with respondents questioned as to their support for greater spending on the environment, health care, police and law enforcement, education, military and defense, culture and the arts, old age pensions, unemployment benefits, and housing for the poor. A number of questions deal with respondents’ attitudes regarding democracy, political power, and protest. Respondents were asked for their views on the rule of law when it is in conflict with private conscience, various

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19 The earlier studies are not incorporated in this research for longitudinal research due to question inconsistencies for the three surveys.
20 Cyprus, Israel, Italy, Latvia, the Philippines, and Spain participated in the 1996 ISSP but failed to respond to all of the questions in the survey.
forms of anti-government protest (public meetings, protest marches and demonstrations, nationwide strikes), whether the right to protest should be afforded to those who advocate the overthrow of the government by revolution, and the conflict between security needs and privacy rights. Other questions focus on the role of elections in democracies, including voter understanding of political issues, the impact of elections on governments to confront pressing political issues, the power of certain institutions (unions, government, business and industry) to affect election results, politicians’ faithfulness to election promises, trust in civil servants to perform in the public’s interest, and whether various industries (power companies, hospitals, banks) are better off being run by the private sector or by the government. Opinions were also elicited as to whether government has a legitimate role in the redistribution of wealth in the country, by tax policy or otherwise. Demographic variables include age, sex, education, marital status, personal and family income, employment status, household size and composition, occupation, religion and church attendance, social class, union membership, political party, voting history, and ethnicity (ISSP).

Employing the data provided by the ISSP, the primary measures of privatization consist of three questions. The questions are phrased in the following manner:

*Do you think each of the following should mainly be run by private organizations or companies, or by government? [Electricity (USA: electric power), Hospitals, Banks]*

The distribution of these variables is presented in Tables 4.1 and 4.2. The data illustrate that there are varying levels of support for privatization of the respective industries in the East and West. Citizens in the East demonstrate far less eagerness toward the privatization of electricity, hospitals, and banking. This is not unusual given the history of market reform in these post-
communist states conveyed above. Current high unemployment in these nations no doubt causes many citizens to long for the greater job security offered by former state-owned enterprises. It would appear that citizens in the East are more guarded about privatization initiatives.

The data for the West are not as unified on the concept of privatization. One can see clear differences with respect to the Scandinavian countries, which are strongly opposed to the idea of privatization in the electricity and hospital sectors. On the other hand, the United States and Japan demonstrate more interest in the idea of privatization than the other nations in the cross-tabulation. In the area of electricity, the only nations dissenting regarding private ownership are Australia, Great Britain, Norway, and Sweden. In the cases of Great Britain and Australia, this may reflect the recent privatization initiatives in this industry which have resulted in higher prices and unreliable service (Clifton et al., 2003). The case for hospitals shows that only the United States and Japan favor privately owned services. This too is not unexpected given the long history of socialized medicine in the other Western nations. Additionally, the data illustrate unanimous support for private ownership in the banking industry. The influence of capitalism in these Western states certainly would predict these results.

Finally, it is important to note the clear differences in opinion between citizens of the DME nations as opposed to the TE nations. I have established that the transition respondents are far more cautious than their developed counterparts regarding privatization in these industrial sectors. Again, this is not surprising given the recent socialist history of these nations in contrast to those of the developed world. A long tradition of government provision of these services has only recently given way to market reform. This comparison will provide for further analysis with respect to “east-west” differences in citizen preferences in the multivariate model. The multivariate analysis will allow us to determine if these bi-variate differences are spurious.
Table 4.1
Support for Privatization in Developed Market Economies

<table>
<thead>
<tr>
<th>Privatization Category</th>
<th>Australia</th>
<th>Germany (West)</th>
<th>Great Britain</th>
<th>France</th>
<th>USA</th>
<th>Ireland</th>
<th>Norway</th>
<th>Sweden</th>
<th>New Zealand</th>
<th>Canada</th>
<th>Japan</th>
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</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
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</tr>
<tr>
<td>Mainly run by private organizations</td>
<td>751</td>
<td>37.0%</td>
<td>1148</td>
<td>56.0%</td>
<td>387</td>
<td>44.2%</td>
<td>689</td>
<td>56.6%</td>
<td>932</td>
<td>79.7%</td>
<td>472</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>1279</td>
<td>63.0%</td>
<td>903</td>
<td>44.0%</td>
<td>488</td>
<td>55.8%</td>
<td>528</td>
<td>43.4%</td>
<td>237</td>
<td>20.3%</td>
<td>471</td>
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<tr>
<td><strong>Hospitals</strong></td>
<td></td>
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<tr>
<td>Mainly run by private organizations</td>
<td>425</td>
<td>21.4%</td>
<td>788</td>
<td>37.2%</td>
<td>100</td>
<td>11.1%</td>
<td>326</td>
<td>26.6%</td>
<td>853</td>
<td>73.8%</td>
<td>252</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>1564</td>
<td>78.6%</td>
<td>1320</td>
<td>62.8%</td>
<td>797</td>
<td>88.9%</td>
<td>901</td>
<td>73.4%</td>
<td>303</td>
<td>26.2%</td>
<td>695</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>1989</td>
<td>2108</td>
<td>897</td>
<td>1227</td>
<td>1156</td>
<td>947</td>
<td>1262</td>
<td>1158</td>
<td>1130</td>
<td>1103</td>
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Table 4.1 continued
Support for Privatization in Developed Market Economies

<table>
<thead>
<tr>
<th>Privatization Category</th>
<th>Australia *</th>
<th>Germany (West)</th>
<th>Great Britain</th>
<th>France</th>
<th>USA</th>
<th>Ireland</th>
<th>Norway</th>
<th>Sweden</th>
<th>New Zealand</th>
<th>Canada</th>
<th>Japan</th>
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<tbody>
<tr>
<td>Banking</td>
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<tr>
<td>Mainly run by private organizations</td>
<td>1402 71.2%</td>
<td>1478 73.1%</td>
<td>652 78.1%</td>
<td>923 78.0%</td>
<td>902 77.9%</td>
<td>530 58.2%</td>
<td>797 69.4%</td>
<td>653 63.3%</td>
<td>873 81.4%</td>
<td>769 73.0%</td>
<td>756 74.9%</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>568 28.8%</td>
<td>544 26.9%</td>
<td>183 21.9%</td>
<td>560 22.0%</td>
<td>256 22.1%</td>
<td>381 41.8%</td>
<td>351 30.6%</td>
<td>378 36.7%</td>
<td>200 18.6%</td>
<td>285 27.0%</td>
<td>253 25.1%</td>
</tr>
<tr>
<td>Sum</td>
<td>1970</td>
<td>2022</td>
<td>835</td>
<td>1483</td>
<td>911</td>
<td>1148</td>
<td>1031</td>
<td>1073</td>
<td>1054</td>
<td>1009</td>
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</tr>
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Table 4.2
Support for Privatization in Transition Economies in Central and Eastern Europe

<table>
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<tr>
<th>Privatization Category</th>
<th>Germany (East)</th>
<th>Hungary</th>
<th>Czech Republic</th>
<th>Slovenia</th>
<th>Poland</th>
<th>Bulgaria</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
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<td></td>
</tr>
<tr>
<td>Mainly run by private organizations</td>
<td>265 27.2%</td>
<td>94 6.7%</td>
<td>190 18.9%</td>
<td>113 12.3%</td>
<td>179 17.9%</td>
<td>90 9.8%</td>
<td>92 5.8%</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>710 72.8%</td>
<td>1318 93.3%</td>
<td>815 81.1%</td>
<td>804 87.7%</td>
<td>823 82.1%</td>
<td>828 90.2%</td>
<td>1489 94.2%</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>975</td>
<td>1412</td>
<td>1005</td>
<td>917</td>
<td>1002</td>
<td>918</td>
<td>1581</td>
</tr>
<tr>
<td><strong>Hospitals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mainly run by private organizations</td>
<td>139 13.6%</td>
<td>129 9.1%</td>
<td>176 16.9%</td>
<td>142 15.0%</td>
<td>194 18.8%</td>
<td>109 11.7%</td>
<td>81 5.1%</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>881 86.4%</td>
<td>1293 90.9%</td>
<td>867 83.1%</td>
<td>803 85.0%</td>
<td>836 81.2%</td>
<td>822 88.3%</td>
<td>1522 94.9%</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>1020</td>
<td>1422</td>
<td>1043</td>
<td>945</td>
<td>1030</td>
<td>931</td>
<td>1603</td>
</tr>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mainly run by private organizations</td>
<td>383 41.1%</td>
<td>403 29.7%</td>
<td>244 24.3%</td>
<td>262 28.4%</td>
<td>299 30.3%</td>
<td>200 22.9%</td>
<td>192 13.3%</td>
</tr>
<tr>
<td>Mainly run by government</td>
<td>548 58.9%</td>
<td>956 70.3%</td>
<td>760 75.7%</td>
<td>660 71.6%</td>
<td>688 69.7%</td>
<td>673 77.1%</td>
<td>1257 86.7%</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>931</td>
<td>1359</td>
<td>1004</td>
<td>922</td>
<td>987</td>
<td>873</td>
<td>1449</td>
</tr>
</tbody>
</table>
Method of Analysis: Heteroskedastic Probit Analysis

Social science research has typically employed the use of multiple regression for the estimation of multivariate statistical models. When the dependent variable is continuous, measured by data that are meaningful and numerical in valuation, multiple regression has proven to be an invaluable tool for analysis. However, when the dependent variable is not continuous, as is the case for the present dependent variables, what recourse do scholars have to ensure the reliability of statistical properties? This section makes the case for using heteroskedastic probit analysis. The following methodological materials are based on the recent work of Alvarez and Brehm (2002) on performing sophisticated statistical models with public opinion data related to public policy.

Non-interval dependent variables can be either binary (yes or no, agree or disagree) or ordinal (agree strongly, agree weakly, disagree weakly, or disagrees strongly). For instance, the dependent variable used in the ISSP data set is binary, so the responses are “mainly run by private organization” or “mainly run by government.” When the dependent variables are non-continuous, statistical techniques known as discrete choice models are employed.

A main point of disparity between discrete choice models and multiple regression is in the interpretation of the estimates of the models (Alvarez & Brehm, 2002). The discrete choice models in this analysis will be nonlinear statistical estimations which make clear-cut interpretation problematic. In multiple regression models, estimates are used to interpret marginal change as a 1-unit variation in the independent variable upon the dependent variable. The process is complicated by the use of probit and logit model estimates in nonlinear statistical modeling, making the estimated impact of one independent variable on the explanatory variable
dependent upon the values of other independent variables and their estimated impact on the explanatory variable as well.

Alvarez and Brehm’s (2002) work seeks to test different propositions regarding citizen beliefs on various aspects of public policy. Specifically, they are interested in explaining how diverse predispositions and values impact the beliefs which citizens form on public opinion. Additionally, they are interested in discerning the variability in responses on specific issues across respondents. The scholars assert that there are theoretical reasons to consider as to why some respondents have greater underlying and unobserved variability in their responses to survey questions concerning public policy than other respondents. Thus, the inferential nature of discrete choice modeling serves as a methodological tool for testing both the direct effects of predispositions on policy opinions as well as for uncertainty, equivocation, or ambivalence on the variance of survey responses.

The specific discrete choice model depends on the nature of the variable being utilized. When the data are in the form of binary responses (yes or no, agree or disagree) the proper statistical tool is the binary probit model. When there is an assumption of implicit ordering in the response choices, as is the case in ordinal responses, the proper statistical model is the ordinal probit model. Heteroskedasticity, or unequal variance across observations, is a particularly acute problem in nonlinear modeling. Unlike the typical least squares estimation, heteroskedasticity is usually a problem in both binary and ordinal choice models. Because of the fact that both binary and ordinal choice models are nonlinear, unequal variance makes the maximum likelihood estimates inconsistent and the estimate of the covariance matrix of the model estimates incorrect. Nonlinear choice models have both inconsistent and inefficient estimates because the heteroskedasticity will affect both the coefficient estimates and the estimated variances of the
parameters (Alvarez & Brehm, 2002, p. 11; Greene, 2003). Thus, in order to obtain consistent estimates in the analyses for this dissertation, heteroskedasticity will be tested and modeled.

Alvarez and Brehm (2002, p.12) assert that preferences for public policy choices are not identically distributed and that the process of generating responses to policy choices is heterogeneous. This implies that some respondents are more uncertain, more ambivalent, or more equivocal than others causing a wider underlying distribution of choices. The result is inconsistent estimates from standard probit analysis. In order to address this inconsistency, the authors model the heterogeneity based on a “multiplicative heteroskedasticity” approach. An equation is estimated to account for a person’s policy beliefs as a linear combination of interests leading the respondent to opt for a particular choice. Sets of control variables are added to obtain accurate estimates about the effects of the core beliefs and predispositions on preferences and to test alternative hypotheses about what determines particular policy preferences (Alvarez & Brehm, 2002, p. 13). Variables accounting for alternative explanations, multiplicative heteroskedasticity, are modeled in a second equation. Using the techniques described by Alvarez and Brehm (2002), this dissertation will employ a heteroskedastic binary choice model to account for the “wider underlying distribution” in respondents’ choices.

Hypotheses and Variables of the Choice Model

With respect to the explanatory variables employed in this dissertation, the factors noted above in the framework for analysis have been modified for empirical testing. Included in this research are the utilitarian concerns, leadership and government support, ideology, and generational value orientations factors. Absent from this analysis, which were present in the framework of Durant and Legge (2002), are economic judgments, and emulation variables due to
the fact that specific questions related to these variables were not asked in the ISSP survey. Subsequently, two new variables have been added to the analysis based on the research presented earlier (Clifton et al., 2003; Durant & Legge, 2002). These include the economic role of government and a measure of political efficacy. More specifically, these variables attempt to ascertain citizen perceptions of the responsibility of government in the economy and the function of citizen input in democratic governance. The following sections detail the reasoning of, empirical support for, and expected direction of these relationships in the context of the nations surveyed.

The Utilitarian Hypothesis

The literature suggests that public perceptions toward privatization of SOEs are a function of how citizens perceive polices impact them directly (Gabel, 1998; Gabel & Palmer, 1995; Tsoukalis, 1993; Wessels, 1995). With respect to socioeconomic characteristics, citizens are inclined to put themselves in an advantageous position in order to benefit from policies or conversely to avoid loss in the case of negative externalities. Accordingly, persons are disposed to policy assessment, prospectively and retrospectively, based on their perceived impact of the policy on them or persons of like circumstances (Durant & Legge, 2002).

Therefore, based on the literature cited above, I hypothesize that citizens with lower incomes (and possibly less skilled) will be more likely to expect or experience the threatening effects of privatization on jobs and social welfare. I also hypothesize that these citizens will be less sympathetic toward privatization than their more affluent, highly educated, and more skilled or professionalized peers. Finally, I hypothesize that citizens employed in the public sector and

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21 For a complete list of the questions and variable coding see the Appendix.
members of trade (labor) unions will view the privatization of SOEs more negatively. Respondents associated with both have much to lose if privatization of SOEs and other austerity measures affecting their respective industries result in downsizing.

The Leadership/Government Support Hypothesis

Practitioners and scholars may expect that perceptions of privatization toward SOEs are a function of general levels of support for specific government institutions. This assertion has frequently been cited in research on parliamentary systems and issue attitudes (Clarke & Stewart, 1995; Clarke, Stewart, and Whiteley, 1998; Dunleavy & Husbands, 1985; Kaufman & Zuckermann, 1998; Rose & McAllister, 1990). If one is to take criticisms of reform efforts seriously, then one would expect this function to have a role in citizens’ calculus of consent for the privatization of SOEs. Citizens may be more likely to look to political leaders and civil servants they trust to implement privatization initiatives, given the complexities associated with such endeavors.

Many government leaders, be they presidents or prime ministers, have staked their political reputation on the success or failure of market-based reforms, including privatization initiatives (e.g., Thatcher, Balladur, Clinton, MPs, members of Congress, etc.). Accordingly, so too have civil servants staked their reputation, sometimes not of their own free will, on the outcome of these reforms. Therefore, citizen evaluations of these respective players in the privatization process add weight to the explanatory power of this analysis.

Additionally, 1996, the year that the survey instrument was distributed, corresponds to a time when privatization initiatives were at their pinnacle, especially in European Union countries. Citizen attitudes toward their respective elected representatives and civil servants in
1996 would be a most opportune indicator for enhancing the descriptive power of this research. Thus, I hypothesize that the more positively citizens evaluate immediate political stakeholders (those in office or in the public work force in 1996), and thus express support for the public sector, the more likely they are to oppose the privatization of SOEs. At the same time, the less positive citizens are about these public servants, the more likely they are to support market-based initiatives toward SOEs.

**The Party Preferences Hypothesis**

A major factor in the formation of opinions suggested by comparative public opinion literature is the Left-Right ideology of citizens (Gabel, 1998). Thus, it is reasonable to propose that one would expect that public ideological tendencies from Left to Right will influence their view of privatization. Durant and Legge (2002) assert that the “hardness” of the privatization issue may lead many voters to be more susceptible to rhetorical appeals to ideology. For instance, extremist parties on both the Left and Right, such as communists and the National Front in France, do not support privatization. Thus, it is reasonable to suggest that the relationship between ideology and positive attitudes toward privatization may be curvilinear, given the history of centrist parties to propose market-based reforms in the countries in this analysis prior to 1996 (Clifton et al., 2003).

Comparative literature pertaining to the history of SOEs and their subsequent privatization in the past few decades has suggested that the impetus for market-based reforms

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22 While Durant and Legge (2002) utilized a combination of an ideology scale and party preferences for their ideological hypothesis, this dissertation employs only party preferences as a proxy for ideology.
have been ideologically neutral, with vary few exceptions. Scholars note that national governments from both ends of the political spectrum have experimented with privatization as a neoliberal economic policy tool (Durant & Legge, 2002; Clifton et al., 2003). In fact, these policies have been backed by political consensus within the governments at both the national and supranational (i.e., the European Union) level (Clifton et al., 2003). However, it has been suggested by Durant and Legge (2002) that extreme parties on both the Left and Right have lacked the consensus illustrated by the mainstream parties of their respective political spectrums. Parties representing the extreme Left exhibit an intense antipathy toward neoliberal market policies generally, and worry about “Eurocrats” in the European Union requiring a smaller share of GDP for the public sector (i.e., a less generous social welfare system) and pushing for deregulation. On the other hand, extreme Right parties have energized their base by appealing to populist fears of big business, corporate greed, and foreign involvement that privatization of SOEs symbolizes. Thus, I hypothesize that respondents who identify with parties on the Left will evaluate privatization of SOEs less positively than those who identify with the parties on the Right.

The Value-Orientation Hypothesis

Scholars may posit that the public’s “general value orientation towards markets” influences their evaluation of the privatization of SOEs. This hypothesis is based on a well-known yet contentious set of theories Inglehart asserts in his postmaterialist thesis on the formation of public opinion (1990). This thesis avers that a “silent revolution” has taken place

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23 Clifton, et al, assert that scholarship within the European Union has pointed to privatization as an ideological tool of right-wing governments, most notably the Conservative Party’s efforts under Margaret Thatcher in Great Britain. Other right-wing efforts include Greece in 1989, Sweden in 1991, and Spain in 1996 with varying degrees of success.
with respect to value orientations that relates directly to levels of economic prosperity and national defense. With Maslow’s hierarchy of needs as a foundation, Inglehart asserts that as nation-states satisfy their economic and physical security wants (lower-level needs), they socialize younger generations to be more concerned about postmaterialist values, rather than materialist values (Anderson, 1990; Brown & Carmines, 1995; Clarke & Dutt, 1991; Dalton, 2002; Davis & Davenport, 1999; Granato, Inglehart, and Lablang, 1996; Jackman & Miller, 1996).

Examples of values considered “materialist” include individualistic physical and economic security, and national identity. “Postmaterialist” values incorporate collectivist and noneconomic concerns for egalitarianism, self-actualization, and quality-of-community-life concerns. Subsequent to the thesis posited by Inglehart, public opinion toward privatization may perhaps be influenced more by socialization experiences in their formative adolescent years than by immediate utilitarian or economic judgments. Conversely, there are those (Anderson & Reichert, 1996; Gabel, 1998; Janssen, 1991; Peters, 1996) who propose that the expansion of global markets indicates a self-reflective turn on the part of individuals toward their own needs versus those of society as a whole.

The controversial nature of these theses has led to the inclusion of both in empirical analysis (Durant & Legge, 2002). Variables related to the two theories are included in this model. I hypothesize that postmaterialists (in the analysis presented here, individuals who are more concerned with environmental issues and social welfare, anti-trade (labor) unions, and a negative predisposition to industry) will be less positively inclined to privatization of SOEs than other respondents. Their views are reflected in the assertion that privatization may lead to a decline in the availability of jobs in the short term, increase job competition with migrants, cause
an indirect spike in social security costs, and threaten the patronage associated with SOEs and party faithful. In addition, I hypothesize that individualists (materialists who view markets and the profits associated with industry in a more favorable light) will be positively inclined toward the privatization of SOEs. Respondents who are less concerned with environmental issues and social welfare, and who view trade (labor) unions unfavorably will likewise view the privatization of SOEs favorably.

**The Economic Role of Government Hypothesis**

Following the Second World War, the United States and its allies sought various changes in the way they organized government to deal with economic policy. The new governments in post World War II Europe and elsewhere advocated an increased public presence in the economy based on a new sense of nationalism, the rise of organized labor, and Keynesian economic policies (Clifton et al., 2003; Parker, 1998; Toninelli, 2000; Yarrow, 1999). Nationalism, in this context, may be defined as the “direct control of a company by the state,” justified by the publics’ or “natural” interest (Clifton et al., 2003). Subsequently, this era can be identified with the rise of public enterprises as natural monopolies in select industrial sectors. Governments throughout the Western world rationalized this approach on the market failures emblematic of the Great Depression era leading up to World War II. In order to prevent economic depression and industrial decay, it was argued that nation-states must intervene in the economy to promote a robust and mature industrial sector (Clifton et al., 2003; Parker, 1998; Toninelli, 2000; Yarrow, 1999). For instance, banking immediately after World War II was still in private sector hands. Difficulties controlling monetary policy led to market instability. The result was the nationalization of several banks and the formation of Central State Banks such as the Bank de
France in France and Deutsche Bank in West Germany. This post war era of “statisation”
presented a negative view of privatization, associating it with “denationalization,” or the
potential sale of public enterprises to foreign subsidiaries.

Market and political instability in the 1970’s, prompted many nations to reconsider their
close ties with public sector enterprises. Calamities during this period led to several changes
based on pro-market reforms implicating public intervention as the root of instability, especially
economic instability (Clifton et al., 2003). Denationalization of SOEs was posed as an
alternative to public service delivery, providing the public with an opportunity to capitalize on
efficient administrative practices from private ownership. Privatization was chief among the
market reforms being implemented.

The transition to market friendly public services may have been straightforward
technologically, but politically and socially, it remains a contentious issue. As noted above, one
of the motivations to “denationalize” was a greater role for public input. This “demand-side”
approach to policy called for a citizen oriented perspective on policy-making. More specifically,
in the case of the European Union (EU), EU citizens require consumer protection and defense at
the supranational level, thus they are specified certain rights as users of goods and services of so-
called ‘economic general interest’ (Clifton et al., 2003). The contentiousness of this issue
therefore deserves attention given the philosophical underpinnings of NPM and privatization. I
hypothesize that those respondents who are in favor of a strong presence of government in the
economy will be less likely to view privatization favorably. Privatization may not provide
adequate protection of consumer economic rights, irrespective of any efficiency argument, that
the state can provide. Conversely, efficiency concerns should lead respondents who advocate a
more traditional role for government to be in favor of pro-market reforms such as privatization in
the economy.

The Political Efficacy Hypothesis

It is fair to say that a great deal of literature has recently focused on the input of citizens in the policy-making process (Dalton, 2002; Norris, 2000; Norris, 2002). A sizable portion of this focus on citizen input has come from the literature associated with NPM. There are even those who contend that the success or failure of NPM is closely linked to how ingrained the reforms of this movement are in a nation’s governance system, including its political institutions, public expectations, and civil society (Kettl, 2000). It would then seem pertinent that researchers and scholars should be interested in what citizens’ considerations are concerning NPM reforms, specifically those associated with privatization. As noted earlier, marketization has been a driving force in the New Public Management movement. This strategy seeks to transform the typical command-and-control systems of public bureaucracy into systems that adhere to the market strategies imbued in the private sector. The privatization of state-owned enterprises is one of the many methods capitalized upon by the adherents to this movement.

Unlike the hypothesis above that relates to support for specific institutions, this section of the analysis is interested in using the data to ascertain citizen perceptions of their impact on the system as it relates to policy-making. The literature devoted to theories of political activism (Dalton, 2002; Bell, 1999; Inglehart, 1997; Norris, 2002) can be used as a footing for the inclusion of this hypothesis among the several factors that were identified earlier to account for differences in how satisfied citizens are with the privatization of SOEs. Specifically, the civic volunteerism model developed by Verba et al. (1995), which stresses social inequalities in
resources (i.e., educational skills and socioeconomic status) and motivational factors (i.e., political interest, information, and confidence), as measures of participation (Norris, 2002). Efficacious citizens tend to be more affluent, knowledgeable, and politically motivated. Moreover, efficacious citizens demonstrate more interest in political discourse and unconventional forms of participation (Inglehart, 1997). This literature leads us to believe that citizens who perceive they can affect the political system will be more likely to place their confidence in the state, but at the same time, are willing to support the state in its market reforms. In contrast, those who have for whatever reason developed a certain cynicism toward government and the political process will be more likely to feel their confidence in the political system is being misplaced through market reform. Therefore, I hypothesize citizens who deem they have an impact on the political system, would be more inclined to support the privatization of SOEs. Citizens who tend to believe their impact on the policy-making process is negligent, would be more likely to oppose the privatization of SOEs.

**The Variance Model**

Recent research highlights the importance of variance estimation in determining the sources of variability in the responses (Durant & Legge, 2005; Legge & Durant, 2005). Information is a key factor in assessing variability of perceptions toward market reforms. Furthermore, understanding the notion of information and its impact on responses will be improved if it is considered in conjunction with another dimension of market reform: the potential benefits of privatization. Thus, although the cross-tabulations have illustrated a good deal of skepticism with privatization, particularly transition respondents, at least some respondents will hold the belief that privatization may be useful.
The overall hypothesis of the variance model is that citizen preferences for privatization are likely to vary depending upon the level of education and political interest of the respondent. The possibility exists that response variability on privatization within this particular sample of respondents may be firm. Therefore, I hypothesize that as a general rule, as greater levels of education and political interest are realized, respondents should be able to become more focused in their responses and reduce uncertainty in making a policy choice. Conversely, respondents may become ambivalent as levels of education and political interest are achieved especially because they are less likely to encounter so many opposing and conflicting arguments. This may be particularly timely in the case of privatization with respect to hospitals and TE countries, where history and tradition view market oriented changes to the system with a great deal of skepticism. It may be difficult for these respondents to become more consistent even with higher levels of education and political interest.

Components of the variance model for this dissertation consist of variables that determine the effects of information on citizen attitudes. Literature suggests that there are two primary categories of information that citizens receive: chronic information (or general information about politics or particular policies) and domain-specific information, which taps the amount of information received specific to a policy question. Based on previous analysis, education is employed as a proxy variable for the amount of chronic (general) information a respondent receives (Alvarez & Brehm, 1998). This is premised on the notion that educated individuals process more general information involving politics and policy over the course of their lifetimes. In addition, subsequent to their education, these respondents were probably more exposed to media and individuals with similar levels of schooling, thereby adding to the data already

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24 The model in this dissertation is limited to chronic information measures due to the lack of any domain-specific information in the data set.
received. In general, chronic information has outperformed domain-specific information in determining variation among survey respondents across a variety of policy issues (Alvarez & Brehm, 2002; Durant & Legge, 2005; Legge & Durant, 2005).

Additionally, another variable is utilized in order to tap the impact of chronic information on respondent perceptions. As noted in the previous chapter, the notion of political activism has been used in the past as a measure of citizen involvement and interest in the political environment (Bell, 1999; Dalton, 2002; Inglehart, 1997; Norris, 2002; Verba, 1995). The level of political interest employed in this variance model is a measure of the level of interest the respondent has in general politics. As asserted by the research of Durant and Legge (2005) political interest serves as an additional measure of chronic information for privatization. Those who assert that they possess a great amount of information regarding politics would be more likely to be well-versed on matters of public policy, such as privatization. While the effects of this measure may be limited by the reality that it is self-reported, the logic behind the hypothesis is similar to the education variable: the better informed should exhibit less response variation than others.

When analyzing the variance results, it is important to consider the direction of the coefficients. Significant coefficients exhibiting a negative sign indicates a narrowing of variance, and thus a more focused response from citizens. Contrarily, significant positive coefficients denote ambivalence in the citizens’ responses. This distinction should be considered when reviewing the results presented in the tables below.
CHAPTER 5
RESULTS

Choice Model: All Nations

The choice part of the heteroskedastic probit model performs very well in predicting attitudes toward privatization. The findings are very strong and consistent across the three dependent variables. In addition, the models demonstrate significant heteroskedasticity. For each equation, the Wald chi-squares and the likelihood ratio tests both illustrate that it is extremely unlikely that these results are due to chance. Thus, it would appear safe to reject the null hypothesis of no heteroskedasticity.

The upper portion of Table 5.1 illustrates that most respondents do not favor privatization in the electricity and hospitals sectors. In the electricity and hospital sectors, just 39.6 percent and 24.1 percent of respondents respectively favor privatization. Only 56.1 percent of respondents favor privatization when it comes to the banking sector. With such a high aversion to private sector involvement in hospitals and electricity, one would predict little variability in opinion. One would also expect little variability in respondents’ opinions indicated by their preference for private sector involvement in the banking sector. However, probit statistics indicate that this is not the case in the electricity and hospital sectors. Also of interest is the dummy variable for “capitalist nations.” The significant and positive results indicate an obvious partiality toward privatization among developed nation respondents. The coefficient demonstrates that the strong differences between DME and TE nations presented in Tables 4.1
and 4.2 are maintained when other variables are introduced into the analysis. Thus, the initial findings are not spurious – citizens of DME and TE nations view privatization quite differently.

In the methodology section, I hypothesized that unemployed respondents and those with lower incomes would be less sympathetic toward privatization. These hypotheses are confirmed in large measure in Table 5.1. The positive coefficient for the income variable demonstrates that more affluent respondents tend to support privatization. This statement is true for all respective industrial sectors. With respect to those respondents who were unemployed, although the sign of the coefficient is in the correct direction, it barely misses the .10 significance level with respect to electricity. However, the hypothesis is confirmed for the hospitals and banking sectors respectively, demonstrating less support in these industries for privatization among the unemployed.

The other explanatory variables behave much as expected. The age coefficient demonstrates that the older a respondent, the less likely the individual is to support privatization in the electricity, hospitals, and banking sectors. This may be due to a belief among older citizens that government should be more responsible for their care in their retirement years. This is especially true for most of the countries in the model that have a long history of socialized retirement pension systems, medicine, etc. Although the sign of the coefficient is as expected across sectors, gender is only significant for banking, just missing the .10 level for electricity. This indicates that women are less likely to support privatization in the banking sector. Women in general have tended to support government programs more that men do, especially those that impact their children such as hospitals and schools (Lowi & Ginsberg, 2000).
Table 5.1
Heteroskedastic Probit Estimates:
Support for Privatization
All Nations

<table>
<thead>
<tr>
<th>Percent in Favor</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>39.6%</td>
<td>24.1%</td>
<td>56.1%</td>
<td></td>
</tr>
</tbody>
</table>

**CHOICE COMPONENT**

**Utilitarianism**

<table>
<thead>
<tr>
<th>Component</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalist Nations</td>
<td>1.095** (0.053)</td>
<td>0.350** (0.029)</td>
<td>0.940** (0.046)</td>
</tr>
<tr>
<td>Income</td>
<td>1.66e-07** (5.53e-08)</td>
<td>1.19e-07** (5.06e-08)</td>
<td>1.66e-07** (5.01e-08)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.007** (0.001)</td>
<td>-0.002** (0.001)</td>
<td>-0.004** (0.001)</td>
</tr>
<tr>
<td>Gender</td>
<td>-0.031 (0.022)</td>
<td>-0.014 (0.021)</td>
<td>-0.177** (0.021)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>-0.079 (0.051)</td>
<td>-0.145** (0.045)</td>
<td>-0.101** (0.044)</td>
</tr>
<tr>
<td>Government Employee</td>
<td>-0.306** (0.032)</td>
<td>-0.328** (0.032)</td>
<td>-0.068** (0.026)</td>
</tr>
<tr>
<td>Public Firm Employee</td>
<td>-0.323** (0.052)</td>
<td>-0.266** (0.045)</td>
<td>-0.095** (0.041)</td>
</tr>
</tbody>
</table>

**Support for**

**Government/Leadership**

<table>
<thead>
<tr>
<th>Component</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust in Politicians and Civil Servants</td>
<td>-0.030** (0.006)</td>
<td>-0.027** (0.006)</td>
<td>-0.006 (0.006)</td>
</tr>
</tbody>
</table>

**Party Preferences**

<table>
<thead>
<tr>
<th>Component</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
<th>Coefficient (SE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right</td>
<td>0.221** (0.028)</td>
<td>0.186** (0.026)</td>
<td>0.190** (0.026)</td>
</tr>
<tr>
<td>Left</td>
<td>-0.169** (0.028)</td>
<td>-0.176** (0.028)</td>
<td>-0.012 (0.023)</td>
</tr>
</tbody>
</table>

* p ≤ .10     **p ≤ .05     Standard Errors are in parentheses.
Table 5.1 continued
Heteroskedastic Probit Estimates:
Support for Privatization
All Nations

<table>
<thead>
<tr>
<th>Percent in Favor</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
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<tbody>
<tr>
<td>39.6%</td>
<td>24.1%</td>
<td>56.1%</td>
<td></td>
</tr>
</tbody>
</table>

**CHOICE COMPONENT**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Orientation</td>
<td>- .121** (.017)</td>
<td>.076** (.012)</td>
<td>.101** (.013)</td>
<td>- .069** (.014)</td>
</tr>
<tr>
<td>Value Orientation</td>
<td>- .088** (.016)</td>
<td>.100** (.012)</td>
<td>.099** (.012)</td>
<td>- .025** (.013)</td>
</tr>
<tr>
<td>Economic Role of Government</td>
<td>Economic Intervention in Prices, Wages, and Declining Industries</td>
<td>- .245** (.018)</td>
<td>- .183** (.015)</td>
<td>- .394** (.021)</td>
</tr>
<tr>
<td>Economic Role of Government</td>
<td>Economic Intervention in Prices, Wages, and Declining Industries</td>
<td>- .245** (.018)</td>
<td>- .183** (.015)</td>
<td>- .394** (.021)</td>
</tr>
<tr>
<td>Political Efficacy</td>
<td>Citizen Influence in Government</td>
<td>.057** (.008)</td>
<td>.037** (.007)</td>
<td>.059** (.008)</td>
</tr>
</tbody>
</table>

**VARIANCE COMPONENT**

<table>
<thead>
<tr>
<th>Education</th>
<th>-.000 (.001)</th>
<th>-.000 (.000)</th>
<th>.004** (.001)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Interest</td>
<td>.040** (.013)</td>
<td>.024** (.011)</td>
<td>-.020 (.013)</td>
</tr>
<tr>
<td>Likelihood Ratio Test</td>
<td>9.25**</td>
<td>4.99*</td>
<td>16.52**</td>
</tr>
</tbody>
</table>

| N | 20,905 | 23,160 | 20,284 |

* p ≤ .10  **p ≤ .05  Standard Errors are in parentheses.
In addition, I hypothesized that the more positively respondents evaluated immediate political stakeholders in the privatization process, those in office or in the public work force in 1996, the more likely they are not to support the privatization of SOEs. Moreover, respondents who indicated they were employed in the public workforce, either working for the state or a public firm, would also demonstrate an aversion to the privatization process. The respective coefficients in Table 5.1 support this hypothesis in large measure. Respondents working in the public sector or public firms are less sympathetic to privatization, demonstrated by the strong and negative coefficients for each respective variable throughout the three industrial sectors. Additionally, the variable for leadership/government support indicates that those who look with favor on the political establishment tend to be against privatization in the electricity and hospitals sectors, illustrated by the negative coefficient. However, although the coefficient for support of political leaders for banking is in the right direction, it falls short of the .10 significance level.

With respect to party preferences, the probit estimates once again confirm the hypotheses in large measure. As expected, respondents who tend to align themselves to the Left of the political spectrum, and therefore favor a stronger role for government, are opposed to the idea of privatization in the electricity and hospitals sectors respectively, indicated by the negative and significant coefficients. However, although the political Left coefficient is in the correct direction, it falls short of the .10 significance level for banking. Conversely, respondents who align themselves to the Right of the political spectrum, and therefore favor a stronger role for the private sector, are in favor of privatization, indicated by the positive and significant coefficients in all three industrial sectors.

Regarding value orientation, I hypothesized that postmaterialists, respondents who were more concerned with environmental and social welfare issues, and negatively predisposed to
business and industry, would be less likely to support privatization of SOEs. Since high codes indicate a lower level of support for spending on social welfare issues, the negative coefficient demonstrates that the higher the support for government spending on such programs, the less likely respondents are to support privatization. This holds true for all three industrial sectors. Additionally, results confirm the rest of the value orientation hypotheses. With respect to government and trade unions, respondents who expressed concern with each of these sectors having too much power, the coefficient is positive, indicating that respondents are more inclined to favor private sector involvement for all three industrial sectors. On the other hand, respondents who believed business and industry to be too powerful tend to regard privatization with suspicion, as indicated by the significantly negative coefficients in all three industrial sectors.

It was also hypothesized that respondents who favored a strong role for the government in economic matters would be opposed to privatization. Once again, the probit coefficients confirm the hypothesis. The negative coefficient indicates that respondents, who favor a strong state presence in the economy, either through the control of prices and wages, or support for declining industries, oppose the idea of privatization consistently in electricity, hospitals, and banking.

Finally, I hypothesized that respondents who felt they were efficacious politically would be more inclined to support privatization of SOEs. This hypothesis is confirmed by the probit statistics. The positive coefficients for all three equations indicate that the higher the level of political efficacy, the more likely respondents are to support privatization.

In sum, it is helpful to revisit the findings with respect to the framework established by Durant and Legge (2002). With respect to the utilitarian variables, my results confirm the
disposition of government workers against privatization. In addition, results tend to support the hypothesis posed by Durant and Legge (2002) that attitudes toward privatization are linked to implementation leadership styles or reputations that take account of a jurisdiction’s political culture. Thus, respondents who tend to support public leaders are opposed to the notion of privatization. However, the results in this dissertation illustrate clear ideological differences that were not found by Durant and Legge (2002). Whereas these scholars found “convergence” for support for privatization by the centrist parties and opposition among extremists for both Left and Right, the present findings demonstrate that the Left is clearly opposed to the notion of privatization and the Right is in favor of such reforms.

The findings presented also support the value conclusions of Durant and Legge (2002). Just as these scholars found that those concerned with social welfare were opposed to the idea of privatization, here too the findings demonstrate that those who support government spending in such policy areas are against privatization. Also of importance is the fact that several variables from the Durant and Legge (2002) model that were not significant were powerful indicators in this analysis. In particular, we see that income, and important economic judgments behave as the scholars suggested and demonstrate statistical significance, the exception being education, which is analyzed below in the variance model. Perhaps the differences in the findings are attributable to the fact that Durant and Legge utilized a single nation (France), while the present analysis includes a broader cross section of nations in the east and west.

**Variance Model: All Nations**

The variance model is a vital component of the analysis, particularly its capability to demonstrate the reasons behind variation in attitudes among the respondents. The greater the
variance of the responses, the more ambivalence rather than certainty underlies a respondent’s attitudes. First, the variance model must be assessed in order to establish whether sufficient heteroskedasticity exists to include a variance component. Ordinary probit is utilized in the case of insufficient response variance in the model. However, it was established earlier that significant heteroskedasticity exists in the models. We now consider the variables which produce the heteroskedasticity.

Considering the chronic information measures (Table 5.1), the variables are somewhat inconsistent. Education tends to narrow response variance in one of the three equations for all nations as demonstrated by the negative coefficient for hospitals. Nonetheless, the variable attains statistical significance in only one of them – the estimation for the privatization of banks – demonstrating respondent ambivalence in this case. As education increases, ambivalence regarding the privatization of banks grows. With regard to how well the individual is interested in politics, the results are more promising.

Although the coefficient is negative in the case of bank privatization (indicating a narrow response variance), the variable achieves statistical significance in the cases of electricity and hospitals. The positive coefficient for the political interest variable indicates that response variance increases with the more political interest indicated by the respondent. In other words, the more political interest one perceives he/she possess, the more ambivalence is experienced in the sample. The reason for this finding is possibly that as one becomes more knowledgeable about the policy issue, a respondent may become aware of the benefits as well as the problems with said policy. This may be the case for market reforms, particularly privatization, in these nations.
Choice Model: Developed Market Economies

Given the strong differences between transitional and developed economies, it is useful to consider them separately and reexamine choice and variance components with regard to privatization. The analysis for all nations demonstrates that some interesting differences between the two groups of nations are masked when the data are considered in the aggregate. Thus, the aggregate findings deserve further investigation in separate multivariate analyses. Utilizing the data, we can now determine the calculus of consent for market reforms in DME nations versus transition economies. We will then be able to determine more fully if there are clear differences between developed and transition economies after controlling for extraneous variables. We first examine the case of DME countries. The prevalence of capitalism in these nations for the better part of the last century should indicate a greater tendency to accept market reforms than was evident in the aggregate analysis and as compared to the transitional economies.

On the whole, the choice part of the heteroskedastic probit model performs very well in predicting attitudes toward privatization for developed market economies (DME). The findings are very strong and consistent across the three dependent variables. In addition, the model as a whole demonstrates significant heteroskedasticity. For each equation, the Wald chi-squares and the likelihood ratio tests both illustrate that it is extremely unlikely that these results are due to chance. Thus, it would appear safe to reject the null hypothesis of no heteroskedasticity.

The upper portion of Table 5.2 illustrates that most DME respondents favor privatization in the electricity and banking sectors. 54.3 percent and 73.8 percent of respondents favor the privatization of the electricity and banking sectors respectively. However, these same respondents do not favor privatization when it involves hospitals. Only 29.5 percent of
Table 5.2
Heteroskedastic Probit Estimates: Support for Privatization
Developed Market Economies

<table>
<thead>
<tr>
<th>Percent in Favor</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>54.3%</td>
<td>29.5%</td>
<td>73.8%</td>
<td></td>
</tr>
</tbody>
</table>

**CHOICE COMPONENT**

<table>
<thead>
<tr>
<th>Utilitarianism</th>
<th>Income</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.35e-08**</td>
<td>1.18e-07**</td>
<td>1.87e-07**</td>
</tr>
<tr>
<td></td>
<td>(3.93e-08)</td>
<td>(4.96e-08)</td>
<td>(5.65e-08)</td>
</tr>
<tr>
<td>Age</td>
<td>-.003**</td>
<td>.002**</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>(.001)</td>
<td>(.001)</td>
<td>(.001)</td>
</tr>
<tr>
<td>Gender</td>
<td>-.004</td>
<td>-.007</td>
<td>-.126**</td>
</tr>
<tr>
<td></td>
<td>(.013)</td>
<td>(.026)</td>
<td>(.019)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>-.078*</td>
<td>-.171**</td>
<td>-.156**</td>
</tr>
<tr>
<td></td>
<td>(.035)</td>
<td>(.052)</td>
<td>(.047)</td>
</tr>
<tr>
<td>Government Employee</td>
<td>-.167**</td>
<td>-.336**</td>
<td>-.060**</td>
</tr>
<tr>
<td></td>
<td>(.028)</td>
<td>(.035)</td>
<td>(.025)</td>
</tr>
<tr>
<td>Public Firm Employee</td>
<td>-.239**</td>
<td>-.416**</td>
<td>-.077</td>
</tr>
<tr>
<td></td>
<td>(.049)</td>
<td>(.069)</td>
<td>(.056)</td>
</tr>
</tbody>
</table>

**Support for Government/Leadership**

| Trust in Politicians and Civil Servants | -.021** | -.032** | -.015** |
|                                         | (.004)  | (.006)  | (.005)  |

**Party Preferences**

| Right | .105** | .109** | .137** |
|       | (.021) | (.023) | (.026) |
| Left  | -.136** | -.147** | -.020 |
|       | (.022) | (.025) | (.022) |

* p ≤ .10  ** p ≤ .05  Standard Errors are in parentheses.
### Table 5.2 continued

Heteroskedastic Probit Estimates: Support for Privatization
Developed Market Economies

<table>
<thead>
<tr>
<th>Percent in Favor</th>
<th>Electricity (54.3%)</th>
<th>Hospitals (29.5%)</th>
<th>Banking (73.8%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHOICE COMPONENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value Orientation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support for Government Spending on Social Policies</td>
<td>-.060** (.012)</td>
<td>-.089** (.014)</td>
<td>-.090** (.015)</td>
</tr>
<tr>
<td>Power of Government</td>
<td>.045** (.009)</td>
<td>.066** (.011)</td>
<td>.037** (.011)</td>
</tr>
<tr>
<td>Power of Trade Unions</td>
<td>.037** (.009)</td>
<td>.068** (.011)</td>
<td>.054** (.011)</td>
</tr>
<tr>
<td>Power of Business and Industry</td>
<td>-.053** (.010)</td>
<td>-.010 (.012)</td>
<td>-.051** (.012)</td>
</tr>
<tr>
<td><strong>Economic Role of Government</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Intervention in Prices, Wages, and Declining Industries</td>
<td>-.108** (.016)</td>
<td>-.122** (.013)</td>
<td>-.283** (.022)</td>
</tr>
<tr>
<td><strong>Political Efficacy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citizen Influence in Government</td>
<td>.039** (.007)</td>
<td>.044** (.007)</td>
<td>.054** (.008)</td>
</tr>
<tr>
<td><strong>VARIANCE COMPONENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-.001 (.003)</td>
<td>-.003** (.001)</td>
<td>-.000 (.001)</td>
</tr>
<tr>
<td>Political Interest</td>
<td>-.157** (.031)</td>
<td>-.052** (.017)</td>
<td>-.086** (.018)</td>
</tr>
<tr>
<td>Likelihood Ratio Test</td>
<td>26.98**</td>
<td>15.79**</td>
<td>24.69**</td>
</tr>
</tbody>
</table>

N 13,186 14,675 12,847

* p ≤ .10  **p ≤ .05  Standard Errors are in parentheses.
respondents favor private sector involvement over state involvement in hospitals. This is more than likely due to the long history of socialized medicine in the countries in model with few exceptions. With such a high aversion to private sector involvement in hospitals, one would anticipate little variability in opinion. One would also anticipate little variability in opinion in the case for the partiality these same respondents afforded private sector involvement in the banking sector.

I hypothesized that unemployed respondents and those with lower incomes would be less sympathetic toward privatization. This hypothesis is confirmed in Table 5.2 for DME nations. The positive coefficient for the income variable demonstrates that more affluent respondents tend to support privatization. This holds true throughout the respective industrial sectors. With respect to those respondents who were unemployed, the negative coefficient confirms the hypothesis for all three sectors respectively, demonstrating less support in these industries for privatization among the unemployed.

The other explanatory variables illustrate interesting patterns. The age coefficient demonstrates that the older a respondent, the more likely the individual is to support privatization for hospitals, however this is not the case for electricity. The age coefficient for banking, although in the expected direction, is short of the .10 significance level. Although the sign of the coefficient is as expected across sectors, gender is only significant for banking, indicating women are less likely to support privatization in the banking sector.

Additionally, I hypothesized respondents with favorable views of immediate political stakeholders in the privatization process, those in office or in the public work force in 1996, would be more likely to not support the privatization of SOEs. Furthermore, respondents who

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25 Major exceptions toward this effort being the U.S. and Japan, where not surprisingly, respondents in these countries were in favor of privatization in hospitals as indicated by the cross tabulation in Table 4.1.
indicated they were employed in the public workforce, either working for the state or a public firm, would also demonstrate an aversion to the privatization process. The respective coefficients in Table 5.2 largely support this hypothesis, with the exception of public firm employees demonstrating a null relationship with regard to banking. Still, five of the six coefficients are significant and in the correct negative direction.

The variable for leadership/government support indicates that those who look with favor on the political establishment tend to be against privatization in all three industrial sectors, illustrated by the negative coefficient. Statistical significance is achieved for all three sectors, indicating a strong relationship between DME respondents and how they view their leaders with respect to privatization. It is evident that these citizens place a great deal of trust in their civil servants and politicians, favoring the public sector’s approach to service delivery over privatization.

With respect to party preferences, the probit statistics once again largely confirm the hypotheses. As expected, respondents who tend to align themselves to the Left of the political spectrum, and therefore favor a stronger role for government, are opposed to the idea of privatization in the electricity and hospitals sectors respectively, indicated by the negative coefficient. However, although the political Left coefficient is in the correct direction, it falls short of the .10 significance level for banking. Conversely, respondents who align themselves to the Right of the political spectrum, indicating a stronger role for the private sector in the supply of public goods, are in favor of privatization, indicated by the positive coefficient in all three industrial sectors.

Regarding value orientation, I hypothesized that postmaterialists, respondents who were more concerned with environmental and social welfare issues, and negatively predisposed to
business and industry, would be less likely to support privatization of SOEs. Since high codes indicate a lower level of support for spending on social welfare issues, the negative coefficient demonstrates that the higher the support for government spending on such programs, the less likely respondents are to support privatization. This holds true for all three industrial sectors. Additionally, results largely confirm the rest of the value orientation hypotheses. With respect to government and trade unions, respondents expressing concern with each of these sectors having too much power, the coefficient is positive, indicating that respondents would be more inclined to favor private sector involvement for all three industrial sectors. On the other hand, respondents who believed business and industry to be too powerful tend to regard privatization with suspicion, indicated by the negative coefficient in the electricity and banking industrial sectors. Although the coefficient for business and industrial power is in the correct direction, it falls short of the .10 significance level for hospitals.

It was also hypothesized that respondents who favored a strong role for the government in economic matters would be opposed to privatization. Once again, the diagnostic statistics confirm the hypothesis. The negative coefficient indicates that DME respondents favoring a strong state presence in the economy, either through the control of prices and wages, or support for declining industries, oppose the idea of privatization in electricity, hospitals, and banking.

Finally, I hypothesized that respondents who felt they had an impact on the political system would be more inclined to support privatization of SOEs. This hypothesis is once again confirmed by the probit statistics. The positive coefficients for all three equations indicate that the higher the level of political efficacy, the more likely respondents are to support privatization.

In summary, the results for the capitalist nations by-and-large mirror the results presented for all nations. Revisiting the findings of the overall model and the framework established by
Durant and Legge (2002) provides incentive for further analysis. Looking at both the overall model (Table 5.1) and the model for DMEs (Table 5.2) one can see consistency with the findings with the exception of the variable for age and attitude toward business and industry with respect to hospitals as discussed above. Turning to the utilitarian variables, the results once again confirm the disposition of government workers toward privatization. In addition, results tend to support the hypothesis posed by Durant and Legge (2002) that attitudes toward privatization are linked to implementation leadership styles or reputations that take account of a jurisdiction’s political culture. Thus, DME respondents who tended to favor public leaders were opposed to the notion of privatization. Once more though, the results in this dissertation illustrate clear ideological differences that were not demonstrated in the Durant and Legge (2002) model. The disparity may be attributable to the fact that Durant and Legge used extreme Left/Right ideological indicators versus the respondents’ party preferences employed in this probit model. The findings presented here also support the value conclusions of Durant and Legge (2002). Just as the scholars found that those concerned with social welfare were opposed to the idea of privatization, here too the findings demonstrate that those DME respondents who express support for government spending in such policy areas are against privatization. Also of importance is the fact that several variables from the Durant and Legge (2002) model that were not significant are powerful indicators in the DME analysis. As in the model comprising all nations, income and important economic judgments behave as the scholars suggested and demonstrate statistical significance, the exception being education, which is explained below in the variance model.
Variance Model: Developed Market Economies

The variance model once again has the potential to demonstrate the reasons behind variation in attitudes among the respondents, in this case those from DMEs. The greater the variance of the responses (and more positive the coefficients), the more ambivalence rather than certainty animates a respondent’s attitudes. Consideration of the Wald and likelihood ratio tests and their associated probabilities, demonstrates that a significant amount of heteroskedasticity exists for the DME model to include a variance component. Thus, the null hypothesis of no heteroskedasticity is rejected in each of the three models for DME nations.

It is evident from Table 5.2 that the chronic information variables are consistent with regard to sign for DME nations, unlike the case for all nations. Education tends to narrow response variance in all the three equations for DME nations as demonstrated by the negative coefficients. However, the variable attains statistical significance in only one of them – the estimation for the privatization of hospitals. With regard to how well the individual believes he/she is informed about politics in general, the results are more promising. The coefficients are negative and the variable achieves statistical significance in all three equations (indicating a narrow response variance). The negative coefficients for political interest indicates that response variance decreases with the more political interest indicated by the respondent. In other words, the more political interest one perceives he/she possess, the greater the certainty of the choice. The reason for this finding is possibly that the increase in political interest in DME countries may be the result of a better informed public with respect to government initiatives and the fact that privatization has been in place longer. DME respondents have experienced open societies where experimentation with capitalism is not a new phenomenon, especially in the case of banking. Thus, a DME respondent may be more firm in their choice to advocate or oppose a
particularly policy issue, such as privatization. Interestingly, the findings for the DME nations are in direct conflict to the case when all nations are considered. This leads to the logical conclusion that political interest fosters ambivalence in the transitional economies. We examine this hypothesis along with the choice component for TE nations below.

**Choice Model: Transition Economies**

Unlike the case for developed countries, the choice part of the heteroskedastic probit model is much weaker in predicting attitudes toward privatization for transition economies (TE). The findings are weak and less consistent across the three dependent variables. As asserted earlier, the model as a whole demonstrates significant heteroskedasticity. For each equation, the Wald chi-squares and the likelihood ratio tests both illustrate that it is extremely unlikely that these results are due to chance.

The upper portion of Table 5.3 illustrates that most respondents do not favor privatization in the electricity, hospitals, and banking sectors. Only 23.7 percent, 18.3 percent and 36.7 percent favor privatization in the electricity, hospitals, and banking sectors respectively. This is expected in an area of the world that not so long ago was dominated by cradle-to-the-grave government support in the form of communism. With such a high aversion to private involvement in the three sectors, one would anticipate little variability in opinion among TE respondents. However, diagnostic statistics indicate that this is not the case in the three industrial sectors.

Once again, referencing the methodology section, I hypothesized that unemployed respondents and those with lower incomes would be less sympathetic toward privatization. This hypothesis is in some measure confirmed in Table 5.3. The positive coefficient for the income
Table 5.3
Heteroskedastic Probit Estimates:
Support for Privatization
Transition Economies

<table>
<thead>
<tr>
<th>Percent in Favor</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23.7%</td>
<td>18.3%</td>
<td>36.7%</td>
</tr>
</tbody>
</table>

**CHOICE COMPONENT**

**Utilitarianism**

<table>
<thead>
<tr>
<th>Component</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>2.17e-07**</td>
<td>6.85e-08</td>
<td>1.33e-07</td>
</tr>
<tr>
<td></td>
<td>(9.71e-08)</td>
<td>(9.93e-08)</td>
<td>(9.91e-08)</td>
</tr>
<tr>
<td>Age</td>
<td>-.011**</td>
<td>-.015**</td>
<td>-.017**</td>
</tr>
<tr>
<td></td>
<td>(.002)</td>
<td>(.002)</td>
<td>(.001)</td>
</tr>
<tr>
<td>Gender</td>
<td>-.074</td>
<td>-.021</td>
<td>-.220**</td>
</tr>
<tr>
<td></td>
<td>(.048)</td>
<td>(.048)</td>
<td>(.047)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>-.010</td>
<td>-.088</td>
<td>-.039</td>
</tr>
<tr>
<td></td>
<td>(.088)</td>
<td>(.087)</td>
<td>(.085)</td>
</tr>
<tr>
<td>Government Employee</td>
<td>-.224**</td>
<td>-.105*</td>
<td>-.076</td>
</tr>
<tr>
<td></td>
<td>(.060)</td>
<td>(.058)</td>
<td>(.056)</td>
</tr>
<tr>
<td>Public Firm Employee</td>
<td>-.171**</td>
<td>-.095</td>
<td>-.142**</td>
</tr>
<tr>
<td></td>
<td>(.075)</td>
<td>(.072)</td>
<td>(.071)</td>
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</table>

**Support for**

**Government/Leadership**

<table>
<thead>
<tr>
<th>Component</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust in Politicians and Civil Servants</td>
<td>.008</td>
<td>.020</td>
<td>.011</td>
</tr>
<tr>
<td></td>
<td>(.014)</td>
<td>(.013)</td>
<td>(.013)</td>
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</table>

**Party Preferences**

<table>
<thead>
<tr>
<th>Component</th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
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</thead>
<tbody>
<tr>
<td>Right</td>
<td>.237**</td>
<td>.245**</td>
<td>.188**</td>
</tr>
<tr>
<td></td>
<td>(.059)</td>
<td>(.057)</td>
<td>(.058)</td>
</tr>
<tr>
<td>Left</td>
<td>.100</td>
<td>-.122*</td>
<td>-.033</td>
</tr>
<tr>
<td></td>
<td>(.060)</td>
<td>(.065)</td>
<td>(.060)</td>
</tr>
</tbody>
</table>

* p ≤ .10    **p ≤ .05    Standard Errors are in parentheses.
Table 5.3 continued
Heteroskedastic Probit Estimates:
Support for Privatization
Transition Economies

<table>
<thead>
<tr>
<th></th>
<th>Electricity</th>
<th>Hospitals</th>
<th>Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent in Favor</td>
<td>23.7%</td>
<td>18.3%</td>
<td>36.7%</td>
</tr>
</tbody>
</table>

**CHOICE COMPONENT**

<table>
<thead>
<tr>
<th>Value Orientation</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for Government Spending on Social Policies</td>
<td>-.121**</td>
<td>-.025</td>
<td>-.102**</td>
</tr>
<tr>
<td>(0.035)</td>
<td>(0.034)</td>
<td>(0.035)</td>
<td></td>
</tr>
<tr>
<td>Power of Government</td>
<td>.048**</td>
<td>.099**</td>
<td>.061**</td>
</tr>
<tr>
<td>(0.023)</td>
<td>(0.024)</td>
<td>(0.023)</td>
<td></td>
</tr>
<tr>
<td>Power of Trade Unions</td>
<td>.148**</td>
<td>.129**</td>
<td>.158**</td>
</tr>
<tr>
<td>(0.025)</td>
<td>(0.025)</td>
<td>(0.026)</td>
<td></td>
</tr>
<tr>
<td>Power of Business and Industry</td>
<td>-.036</td>
<td>-.061**</td>
<td>.028</td>
</tr>
<tr>
<td>(0.026)</td>
<td>(0.027)</td>
<td>(0.025)</td>
<td></td>
</tr>
</tbody>
</table>

**Economic Role of Government**

| Economic Intervention | -.334*  | -.290** | -.566** |
| Declining Industries   | (0.035) | (0.033) | (0.045) |

**Political Efficacy**

| Citizen Influence in Government | -.039*  | -.051** | .009    |
| (0.021)                         | (0.021) | (0.020) |

**VARIANCE COMPONENT**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>.000</td>
<td>-.000</td>
<td>.003</td>
</tr>
<tr>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.002)</td>
<td></td>
</tr>
<tr>
<td>Political Interest</td>
<td>.079**</td>
<td>.081**</td>
<td>.106**</td>
</tr>
<tr>
<td>(0.016)</td>
<td>(0.015)</td>
<td>(0.021)</td>
<td></td>
</tr>
<tr>
<td>Likelihood Ratio Test</td>
<td>24.64**</td>
<td>29.74**</td>
<td>27.18**</td>
</tr>
<tr>
<td>N</td>
<td>7,719</td>
<td>8,485</td>
<td>7,437</td>
</tr>
</tbody>
</table>

* p ≤ .10     **p ≤ .05     Standard Errors are in parentheses.
variable is in the correct direction, but only significant for the electricity sector. This is less consistent than was the case for the developed nations. More affluent TE respondents tend to support privatization only when it concerns the electricity sector. Referencing the results from DME respondents, note the significance with respect to income in all three sectors as opposed to the results for TE respondents. With regard to unemployed respondents, although the sign of the coefficient is in the correct direction, it misses the .10 significance level for all three sectors. Again, this is in contrast to the significance detected from DME respondents who were unemployed. These results suggest a lack of utilitarianism on the part of TE respondents. This is possibly attributable to dismal prospects with respect to the anticipated positive impact these market reforms were intended to produce. In addition, utilitarianism may be less prevalent in countries which up to recently possessed collectivist economies.

The other explanatory variables behave much as expected. The age coefficient demonstrates that the older a respondent, the less likely the individual is to support privatization in the electricity, hospitals, and banking sectors. Although the sign of the coefficient is as expected across sectors, gender is only significant for banking, just missing the .10 level for electricity. This indicates that women are less likely to support privatization in the banking sector. Like the developed nations, gender appears to be only a marginal factor in establishing attitudes toward privatization in transitional nations.

In addition, I hypothesized that the more positively respondents evaluated immediate political stakeholders in the privatization process, those in office or in the public work force in 1996, the less likely they are to support the privatization of SOEs. Moreover, respondents who indicated they were employed in the public workforce, either working for the state or a public firm, would also demonstrate an aversion to the privatization process. The respective
coefficients in Table 5.3 support this hypothesis in some measure. TE respondents working in
the public sector or public firms are less likely to support privatization in the electricity sector,
demonstrated by the negative coefficients. However, with respect to the hospitals and banking
sectors, the coefficients are in the expected direction, but do not retain significance levels
between the two sectors of state employees. Table 5.3 indicates that TE respondents working for
the state are opposed to privatization pertaining to hospitals, but not for banks, just missing the
.10 significance level. Respondents employed by public firms are disinclined to support
privatization related to banks, but not for hospitals, just missing the .10 significance level.
Interestingly, the coefficients for leadership/government support are not in the expected direction
and fall short of the .10 significance level for all three sectors. The results for these respective
hypotheses may be a reflection of dissatisfaction with the way reforms are being handled or
impatience with the progress of reforms in TE nations. Moreover, the mistrust detected by the
analysis for public leaders may be attributable to the long history of authoritarian rule in these
countries for most of the past century. Overall, there appears to be a disconnect between
leadership and support for privatization, a relationship which is established clearly in the
developed nations.

The probit statistics confirm the hypotheses in some measure for party preferences. TE
respondents, who tend to align themselves more to the Left of the political spectrum, and
therefore favor a stronger role for government, are opposed to the idea of privatization only in
the case of hospitals, indicated by the negative and significant coefficient. Although the political
Left coefficient is in the correct direction, it falls short of the .10 significance level for banking.
Interestingly, the coefficient is not in the expected direction for electricity and just misses the .10
significance level. Conversely, respondents who align themselves to the Right of the political
spectrum, and therefore favor a stronger role for the private sector, support privatization as indicated by the positive coefficients in all three industrial sectors.

Regarding value orientation, I hypothesized that postmaterialists, respondents who were more concerned with environmental and social welfare issues, and negatively predisposed to business and industry, would be less likely to support privatization of SOEs. Since high codes indicate a lower level of support for spending on social welfare issues, the negative coefficient demonstrates that the higher the support for government spending on such programs, the less likely respondents are to support privatization. This holds true for all three industrial sectors, but fails to achieve statistical significance in the case of hospitals. Additionally, results confirm the rest of the value orientation hypotheses. With respect to government and trade unions, respondents who expressed concern with each of these sectors having too much power, the coefficient is positive, indicating that respondents would be more inclined to favor private sector involvement for all three industrial sectors. On the other hand, respondents who believed business and industry to be too powerful tend to regard privatization with suspicion in the case of electricity and hospitals, indicated by the negative coefficient. However, the results are only significant in the case of hospitals.

It was also hypothesized that respondents who favored a strong role for the government in economic matters would be opposed to privatization. Once again, the probit statistics confirm the hypothesis. The negative coefficient indicates that respondents, who favor a strong state presence in the economy, either through the control of prices and wages, or support for declining industries, oppose the idea of privatization in electricity, hospitals, and banking. Clearly, government intervention in the economy has meaning in the transitional countries and results are similar to those of the developed nations.
Lastly, I hypothesized that respondents who felt they had an impact on the political system would be more inclined to support privatization of SOEs. This hypothesis is not confirmed by the probit statistics for TE respondents. Interestingly, dissimilar to the case for DME respondents, the negative coefficients for the electricity and hospital sectors indicate that the higher the level of political efficacy, the more likely respondents are to oppose privatization. Although the coefficient is in the right direction for banking, it is not significant. Once more, the results demonstrate obvious differences between DME and TE respondents. In the case of TE respondents, it may be that the promise of market reforms being largely unfulfilled has lead to a great deal of cynicism and skepticism on their part.

**Variance Model: Transition Economies**

Once more, the variance model is employed to demonstrate reasons behind variation in attitudes among the respondents, specifically those from TE nations. An examination of the Wald and likelihood ratio tests and their associated probabilities exhibits significant heteroskedasticity for the TE model. Thus, the null hypothesis of no heteroskedasticity is rejected in each of the three models for all nations.

Taking into account the chronic information measures (Table 5.3), the variables are consistent for political interest, unlike the case for all nations, but not so for education. Education tends to broaden response variance in two of the three equations for TE nations as demonstrated by the positive coefficients. Nevertheless, the variable does not attain statistical significance in any of the equations. With regard to how well the individual is interested about politics in general, the results are once again promising. And as expected, in the case of TE respondents, the coefficients are positive and the variable achieves statistical significance in all
three equations (indicating a broad response variance). The positive coefficients for political interest indicate that response variance increases with the more political interest indicated by the respondent. Contrary to the case of DME respondents, the more political interest one perceives he/she possess, the greater the ambivalence of the choice.

It seems clear that the results overall are quite a bit different between the DME and TE nations, especially with regard to the variance component. One possible explanation for these findings is the long history of political oppression and intolerance in TE nations under communism. Unlike the respondents of DME countries, TE respondents have only experienced an open political society for little over a decade. Research over the past ten plus years indicates that there are some clear attitudinal differences in the former Soviet satellites (Miller, Hesli, and Reisinger, 1995; Miller, Hesli, and Reisinger, 1997; Miller, Reisinger, and Hesli, 1996; Reisinger, Miller, and Hesli, 1995). This scholarship indicates that the explanation for this difference is the absence of various institutions and arrangements that encourage consistent attitudes among elites in western democracies, such as functioning political parties, lobby groups, and an investigatory media (Miller, Hesli, and Reisinger, 1995). Although the scholars’ findings indicate that the citizens in these countries are more participatory than past images may suggest, the organizational development of these societies remains limited due to the lack of democratic institutional support present in long-standing democracies (Reisinger, Miller, and Hesli, 1995). Findings subsequent to the collapse of the Soviet Union demonstrated increased preferences for socialism in the wake of early market reforms, expressed through rising nationalism and a growing nostalgia for communists (Miller, Reisinger, and Hesli, 1996). Miller, Reisinger, and Hesli’s (1996) findings indicated citizen disenchantment with certain aspects of the market economy, specifically increased social inequality attributed to the reform
efforts. The ambivalence indicated in the variance model may be a result of a lack of knowledge or understanding of market reforms and distrust in public leaders, aroused by privatization efforts. Thus, a TE respondent may be more unsure in their choice to advocate or oppose a particularly policy issue, such as privatization, even with increased levels of interest. More recent research indicates that citizens in TE nations have begun to identify with developing party systems and a more sophisticated understanding of politics in general (Miller, Erb, Reisinger, Hesli, 2000; Miller & Klobucar, 2000). This may be an avenue for further research with more recent data from the ISSP.

Examining Marginal Effects

So far in the results section, the account of change in dependent variables from heteroskedastic probit analysis has lacked precision. Since the analysis is non-linear, the coefficients and standard errors presented in Tables 5.2, 5.3, and 5.4 only describe whether the effects of the exogenous variables on the dichotomous choice are significantly different from zero.

Consequently, it is useful to calculate the effects of some of the more important independent variables on the dependent variable, particularly from the variance component. Examining the estimates for marginal effects may be considered as the change in choice probability expected conditioned by a shift in values across the independent variable(s) considered (Alvarez 2002). In the case of this model of citizen attitudes toward privatization, political interest is the one variable in the variance component that is consistent and it is interesting to view the impact of knowledge on choice probability. Generally speaking, the approach utilized in this section involves the concept of differencing along with a graphical
approach (Alvarez 2002). This can be accomplished by varying the values of particular choice or variance measures while holding constant the remaining variables at their mean value. In this case, the exogenous variables are constrained to their mean value while varying the possible value of political interest.

It was established in the variance analysis that political interest decreases response variability in the case of DME respondents. Conversely, for TE respondents, response variability increases with respect to political efficacy. The question posed for consideration here is whether political interest precipitates support or opposition for privatization. It has been established in earlier research (Durant & Legge, 2005) that when the opinions of respondents are firmly against a policy, higher levels of information can drive individuals away from the negative position and more toward an affirmative support for the policy. Thus, will support for privatization rise as political interest increases? The responses are provided in Figures 5.1 and 5.2 which plots the probability of supporting privatization against the level of political interest. These graphs display the relationship between political interest and the likelihood of expressing support for privatization in the electricity, hospital, and banking sectors for DME and TE nations.

Regarding DME respondents, Figure 5.1 demonstrates that as the level of political interest increases, the tendency to select the affirmative response toward privatization increases substantially for electricity and banking. With respect to hospitals, as the level of political interest increases, the tendency to become more negative on support toward privatization prevails. The variance model for Table 5.1 showed more certainty in their responses for privatization with respect to political interest. While clearly political interest is important in its impact on informed respondents, the tendency to drive the responses toward support or
opposition is obviously different for the three equations. As the level of political interest for DME respondents increases, they are clearly opposed to the notion of privatizing hospitals. As stated previously, the long history of socialized medicine in many of these nations is obviously impacting this negative inclination.

The analysis for TE respondents (Figure 5.2) illustrates that as the level of political interest increases, the tendency to select the affirmative response toward privatization increases substantially for all three equations. Although opinions of most TE respondents are firmly against privatization, Figure 5.2 shows that higher levels of political interest impels individuals away from the negative position and more toward the affirmative support of privatization. This is in spite of the fact that response variance is wide. It may be the case that TE respondents who are politically astute are more cognizant of market reforms in the west and their impact on the quality of service delivery as opposed to the communist model.
Figure 5.1 Predicted Probability of Support for Privatization (Developed Market Economies)
Figure 5.2 Predicted Probability Support for Privatization (Transition Economies)
CHAPTER 6

CONCLUSION

The foregoing chapters have used the 1996 International Social Survey Program data to address major and important gaps in the understanding of researchers about global efforts in the privatization of SOEs. This appeal for research was initially demonstrated by the work of Durant and Legge (2002) who explored citizen attitudes with respect to market reforms in France. Durant and Legge (2002) analyzed the calculus of consent for how French citizens evaluated such efforts, the basis upon which they differ in these evaluations, and how they arrived at these judgments. Their framework suggested that certain notions of utilitarianism, economic judgments, leadership/government support, ideology, and value orientations impacted respondents’ ability to evaluate market reforms in the French Republic. Utilizing their framework in an effort to inform future research on the calculus of consent for market reforms worldwide, this dissertation offered and tested similar notions that researchers can use to assess citizen attitudes toward the privatization of SOEs, and to anticipate and deal strategically with the consequences of these efforts among several developed and transition economies.

The probit statistics and marginal effects demonstrate that developed and transitional respondents have quite different perceptions on the subject of privatization. As DME respondents become more focused, they are more likely to support privatization except in the case of hospitals. On the other hand, transition respondents tend to support privatization, while their political interest seems to broaden response variability. The experience of DME and TE nations suggests that practitioners seeking to increase political support for privatization, especially when the public perceives any “democratic deficit,” can benefit in two ways from
citizen surveys using the framework in this dissertation. First, given the differences noted in the cross-tabulation and in the probit statistics, it seems unwise for practitioners and scholars to generalize about the public’s reaction to privatization efforts from the experience of nations other than their own. This is particularly true with respect to the differences between DME and TE respondents. As was originally speculated by Durant and Legge (2002), cross-national variation in support for privatization may stem from many sources, including differences in perceptions of the strength and durability of social safety nets. It is possible that greater commitment to providing social services in transition economies, and their politicians’ reputation for protecting the social safety net in the wake of socialism’s collapse, could have eased lower-income persons’ apprehensiveness about the impact of privatization. Examining the variance component and marginal effects for TE nations demonstrates that while TE respondents may be more ambivalent than their DME counterparts, as their political interest increases, their support for privatization more rapidly accelerates.

Second, citizen surveys employing this analytical framework also can give insight to practitioners and researchers about how best to deal with any negative externalities perceived as arising from privatization of SOEs (or other market-based reform efforts). In the case of DME nations, utilitarian differences such as age, gender, occupation, and unemployment were significant predictors, illustrating a more sophisticated and consistent opposition toward privatization than in the Durant and Legge (2002) analysis. In order to overcome such opposition, a clear and precise argument of what is to be privatized, and how privatization is to occur is necessary in order to overcome such antagonism. Thus, DME governments embarking on reform efforts will orchestrate campaigns which address self interest, trying to “sell” privatization to the public. In the case of TE nations, where utilitarian predictors were less
consistent, clearly there is a lack of sophistication among these respondents in understanding the “what” and “how” of privatization. Perhaps the inconsistency in utilitarian responses reflects an inability on the part of new governments to deliver the reform message. These differences among respondents may be due to the mass privatization of vast government services which delivered a greater shock to the system in TE countries, relative to the more piecemeal work in the developed world. Thus, a different perspective developed between the two sets of nations with respect to the extent of market reform to the system. The TE citizens may lose the “forest through the trees” in the market reform efforts underway since the fall of communism.

Thus, the complexity of discerning the impacts of privatization of SOEs results in voters reverting to their own ideological and value moorings. Additionally, so it appears, are citizens’ views of leaders. Notably, these feelings may stem from citizens’ party identification, their like or dislike of politicians and civil servants, or the way these leaders have implemented market-based administrative reforms in the past, all of which serve as examples of “information cues” (Bartels, 1996; Lupia, 1994). For practitioners and researchers, both sets of findings suggest that citizen evaluations of specific types of New Public Management reforms (especially of “hard issues”) may be inseparable from overall predispositions toward markets generally. They also may stem from citizen evaluations of all the market reforms that leaders pursue (rather than from discrete initiatives), the way(s) they carry these reforms out, and overall feelings toward their leaders. Nowhere is this more evident than in the coefficients for political support and efficacy in the choice models for TE and DME nations. In the case of political support, while DME respondents who supported the political establishment were opposed to privatization, the results for TE respondents were inconclusive.
Regarding political efficacy, DME citizens who deemed themselves politically efficacious were in favor of privatization, while their TE counterparts were opposed to the idea, demonstrating some cynicism toward government among transition respondents. This is consistent with the literature presented during the mid-1990s (Miller, Hesli, and Reisinger, 1995; Miller, Hesli, and Reisinger, 1997; Miller, Reisinger, and Hesli, 1996; Reisinger, Miller, and Hesli, 1995;), asserting citizen disenchantment with certain aspects of the market economy, and the absence of various institutions and arrangements that encourage consistent attitudes among elites in western democracies, such as functioning political parties, lobby groups, and an active media.

The conclusions reached here and by Durant and Legge (2002) suggest it is imperative for practitioners and scholars to develop a more robust appreciation for public opinion. This is especially true, given the ongoing market reforms in several of the nations included in this dissertation. Much like the fate of the Euro and regional integration in Europe, the ultimate scope of privatization in DME and TE nations alike may depend on the extent to which practitioners avoid charges of a “democratic deficit.” If these experiences prove typical, top-down and elite-driven models of decision making appear capable of eventually producing policy and implementation delays or even impasses as excluded citizens react negatively to these methods. This is obviously the case for DME citizens with respect to health care services.

The choice and variance model for the TE nations illustrate that there are clearly misgivings and inconsistencies among these respondents reflecting a certain amount of ambiguity with respect to top-down driven mass privatization efforts. While it is true that a certain amount of negativity toward privatization is evident in the DME model, these respondents appear to be more consistent and certain with respect to the reform efforts
underway. This is expected, given the long history of capitalism in DME nations, and their familiarity with past privatization attempts. With the removal of Soviet influence, TE citizen attitudes in 1996 may reflect continued unfamiliarity and inconsistency with early efforts at market reform. It may be that during this turbulent time of reform, TE citizens may lack confidence in capitalism and its predicted outcomes. A lack of self-assurance in understanding market reform may be what is driving the inconsistency in the choice model. The ambivalence picked up by the variance model may reflect the lack of confidence and lack of knowledge in the early market-based reform efforts. However, as these ambivalent citizens become more politically interested, the marginal effects analysis demonstrates that they are clearly tending to move toward a more positive stance with respect to privatization, than their counterparts in the developed nations, in fact even more so.

As demonstrated by Durant and Legge (2002) in their assessment of market reform in France, the “zone of indifference” that citizens exhibit for market-based reforms such as privatization is not infinitely elastic. Impatience may be a contributor to the unstructured negativity exhibited in the TE choice model, given their long histories without market economics. Indeed, limits also exist in DME nations with free-market traditions, especially when quasi-market failures, shirking, and moral hazards become pronounced (Lowery, 1998). This is certainly the case for DME respondents with respect to hospitals. Employing marginal effects with respect to the variance model illustrates the case quite well. While DME respondents are more willing to accept privatization in the cases of electricity and banking with the more political knowledge they exhibit, they appear to be less tolerant in the case of hospitals. Their impatience indeed does have limits, especially when it comes to health services for citizens.
The framework utilized in the analysis above provides a unique perspective for researchers and practitioners in understanding the normative and political consequences of citizens’ calculus of consent for privatization of SOEs. In drawing on the work of Durant and Legge (2002), this dissertation has advanced appreciation for global reforms through a cross-sectional analysis employing theoretically grounded and rigorous empirical analysis. In so doing, this research has illustrated the robustness, significance, and timeliness of research agendas oriented toward understanding market reforms worldwide, specifically privatization. The analysis demonstrates that the calculus of consent for market reforms is not universal. On the contrary, market reforms, specifically privatization, have proven to be a contentious issue, especially with respect to national and industrial contexts. While there is still more to be done in our understanding of market reforms, this dissertation has vigorously probed the bounds of citizen consent for privatization.

Limitations and Future Research

The results from the probit analysis in this dissertation, while notable, have some limitations which deserve mentioning. The data employed are limited to the nations in the survey that responded to the framework questions for analysis in this dissertation. These nations, while offering a good deal of diversity, still exclude some important nations that have undergone recent and extensive market reforms. Any future research should seek to extend the findings presented here by including more nations. For instance, there are many nations in Latin America and Asia that have implemented market reforms similar to the ones described in this dissertation. Including such nations in any analysis would offer constructive insight into general trends regarding market reforms, specifically privatization.
Furthermore, it would be prudent to investigate trends over time in any future research endeavors. The probit statistics offer results for a single period in time, 1996. Although this date is timely with respect to the degree of market reform activity, a longitudinal study would provide a wider perspective of attitude changes over time. Such a study would seek to identify any deviations in attitude from previous years, providing a more robust calculus of consent for market reforms, from the period of implementation to the eventual outcomes. Many of the market reforms in Central and Eastern Europe were initiated during this snapshot in time. It would be prudent to return to these nations to see if their calculus of consent has changed with the progress (or lack there of) in market reforms over the past several years. Panel surveys would be beneficial to furthering the results in this dissertation.

Finally, further statistical analysis dedicated to the study of privatization would prove constructive. The data utilized in the probit analysis, although robust, could be more domain specific. The ISSP data set is concerned with the role of government, and thus dedicates a significant amount of questions in the survey to understanding citizen involvement in the political process. Though the survey includes several significant questions related to market reform, the majority of the survey is concerned with the appreciation of the role of citizens in government through political opinions. Additional research, dedicated to analyzing market reforms, privatization specifically, would broaden scholars and practitioners appreciation for the impact of these reforms worldwide.
REFERENCES


APPENDIX

QUESTIONS AND VARIABLE CODING
Dependent Variables

Attitude toward Privatization

Do you think each of the following should mainly be run by private organizations or companies, or by government? (Electricity<USA: electric power>, Hospitals, Banks)

1=Mainly run by private organizations, 0=Mainly run by government

Choice Component

Utilitarianism

- *Capitalist Nations* accounted for through a dummy variable indicating Capitalist (DME) respondents = 1, and transition (TE) respondents = 0.
- *Income* consists of country specific categories with respect to respondent’s earnings and family income.
- *Education* consists of country specific categories with respect to “years in school” and “terminal educational level.”
- *Age* was age of respondent based on 8 categories coded as 1= Up to 17 years, 2=18-24 years, 3=25-34 years, 4=35-44 years, 5=45-54 years, 6= 55-64 years, 7=65-74 years, 8=75 years or more.
- *Sex* of Respondent was coded as 0=Male, 1=Female.
- *Employment* was coded as 0=employed, 1=unemployed.
- *Government Employee* and *Public Firm Employee* was coded as 1=government employee, 0=private sector/other; 1=public firm employee, 0=private sector/other; the reference category are private sector employees.
Leadership/Government Support

Index of two variables for “How much do you agree or disagree with each of the following statements?” and Satisfaction with democracy.

- **Politicians Keep Promises;** “People we elect as (MPs) try to keep the promises they have made during the election” coded as 1=Strongly agree, 2=Agree, 3=Neither agree nor disagree, 4=Disagree, 5=Strongly Disagree.

- **Trust in Civil Servants;** “Most government administrators (civil servants) can be trusted to do what is best for the country” codes as 1=Strongly agree, 2=Agree, 3=Neither agree nor disagree, 4=Disagree, 5=Strongly Disagree.

Party Preferences

- **Political Party Affiliation Left Right Placement,** derived from country specific questions, then coded as 1=Far left (communists, etc.), 2=Left, center left, 3=Center, liberal, 4=Right, conservative, 5=Far right (fascist, etc.), 6=Other, no specification, 7=No party; no preference. In order to measure the impact of respondent party preferences on privatization, one variable was created for Left placement, coded as 1 and 2 = 1(Left) and all others = 0; Right placement was coded as 4 and 5 = 1 (Right) and all others = 0. The center, liberal category was the reference variable.
Value Orientation

- **Importance of Environment/Social Welfare:**
  - More or less government spending for: *The environment*, coded as 1=Spend much more, 2=Spend more, 3=Spend the same as now, 4=Spend less, 5=Spend much less.
  - More or less government spending for: *Unemployment Benefits*, coded as 1=Spend much more, 2=Spend more, 3=Spend the same as now, 4=Spend less, 5=Spend much less.
  - More or less government spending for: *Health*, coded as 1=Spend much more, 2=Spend more, 3=Spend the same as now, 4=Spend less, 5=Spend much less.
  - More or less government spending for: *Education*, coded as 1=Spend much more, 2=Spend more, 3=Spend the same as now, 4=Spend less, 5=Spend much less.

- **Attitude toward Market/Profits:**
  - *Power of business and industry*, coded as 1=Far too much power, 2=Too much power, 3=About the right amount of power, 4=Too little power, 5=Far too little power.

- **Attitude toward Trade Unions:**
  - *Power of trade unions*, coded as 1=Far too much power, 2=Too much power, 3=About the right amount of power, 4=Too little power, 5=Far too little power.

- **Attitude toward Government:**
  - *Power of government*, coded as 1=Far too much power, 2=Too much power, 3=About the right amount of power, 4=Too little power, 5=Far too little power.
Economic Role of Government

The variable for “Economic Role of Government” is a factor analysis of the three variables below. All three variables loaded positively with an eigen value of 1.06. They were converted to factor scores and inserted into the probit equations.

- Government action for economy: Support for declining industries to protect jobs, coded as 1=Strongly Against, 2=Against, , 3=Neither in favor of nor against, 4=In favor of, 5=Strongly in favor of.
- Government action for economy: Control of wages by law, coded as 1=Strongly Against, 2=Against, 3=Neither in favor of nor against, 4=In favor of, 5=Strongly in favor of.
- Government action for economy: Control of prices by law, coded as 1=Strongly Against, 2=Against, 3=Neither in favor of nor against, 4=In favor of, 5=Strongly in favor of.

Political Efficacy

- People like me have no influence in government, coded as 1=Strongly Disagree, 2=Disagree, 3=Neither agree nor disagree, 4=Agree, 5=Strongly agree.

Variance Component

Political Interest

- How much interested in politics, coded as 1=Strongly Disagree, 2=Disagree, 3=Neither agree nor disagree, 4=Agree, 5=Strongly agree.

Education

- Coded as number of years in school.