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Privatisation around the world: evidence from panel data

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Abstract

Why do countries privatise? This paper presents new evidence from a panel of 34 countries over the 1977–1999 period. The empirical analysis shows that privatisation takes place typically in wealthy democracies, encumbered by high public debt, but endowed with deep and liquid stock markets. Budget and 'market' constraints matter, but legal institutions are also important. Indeed, the extent of privatisation in terms of revenues and stakes sold appears more limited in civil law countries, where shareholders are poorly protected, banks powerful, and capital markets less developed.

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1. Introduction

Privatisation, defined as the transfer of ownership rights of State-owned enterprise (SOE) to the private sector, is a major trend all over the world. The process began in the late 1970s, with the Thatcher government in Great Britain, and spread across countries and continents to become a distinguishing feature of *fin de siècle* capitalism. Privatisations are now common to most countries and occur across geographical regions and sectors. From

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1977 to 1999, 2459 deals in 121 countries worth approximately US$1110 bn were reported. Global SOE value added decreased on average from 9 to 6% of GDP in the 1978–1991 period (World Bank, 1995). Privatisation also had a tremendous impact on financial markets: by the middle of 2000 privatised SOEs boasted a market capitalisation worth US$3.31trn (Megginson and Netter, 2001).

The empirical literature has provided systematic evidence that privately-owned companies outperform SOEs, and that privatisation enhances the financial and operating performance of firms (Dewenter and Malatesta, 2001; D'Souza and Megginson, 2000). Despite the large welfare gains that could stem from privatisation, few governments have completely transferred ownership and control of SOEs to the private sector. In the reported public offerings between 1977 and 1999, the majority of stock was sold in only 30% of the 617 companies being considered, and it never happened in 11 out of 76 countries. This rough evidence indicates that control is still very much in State hands and that partial or incomplete sales are a common feature of privatisation processes.

Why do governments privatise? Why do some countries accomplish large scale privatisation programmes, and others never privatise at all? Moreover, how do governments privatise? Why do some governments privatise big stakes in SOEs, while others stick to partial privatisation?

This paper provides some answers to these important questions, implementing a two-stage empirical analysis on a panel of 34 developed and less developed economies over the 1977–1999 period. At the first stage, we try to explain why some governments privatise, and others do not. At the second stage, we estimate the extent of privatisation in terms of the economic value of the assets transferred to the private sector, and of the percentages of capital sold in SOEs.

Our main results can be summarised as follows. The first stage of the empirical analysis shows that, as theory predicts, privatisation is associated with high levels of public debt, a well-functioning domestic stock market, and a right-wing majority in office. First, fiscal imbalances trigger privatisation, as the windfall revenue can be used to square public finances. Second, incumbent governments take advantage of hot markets to float SOEs. Indeed, a liquid stock market allows divesting governments to obtain the full market value of the company sold, and to generate more revenue from the sales. Third, right-wing governments resort to privatisation in order to diffuse 'popular capitalism', achieving the political objective of increasing the support for market oriented platforms.

The first stage identifies possible reasons why some countries do *not* privatise. Less established democracies with weak political systems appear barely able to set SOE divestiture in motion. The soundness of political institutions is a key component of sovereign risk, which in turn is a priced factor. Therefore privatisation becomes less feasible in less democratic settings, as governments are forced to implement highly discounted fixed-price offerings. Furthermore, privatisation seems less likely to occur in German civil law countries, such as Austria, Germany, Japan, South Korea, Switzerland, and Taiwan. Interestingly, all these countries have bank-dominated financial systems. Banks may have a vested interest in financing SOE with soft budget constraints, and possibly may obstruct privatisation to preserve the status quo.

Privatising and non-privatising countries emerge as two sharply distinct groups, whose differences hinge upon the economic, political, and institutional environments where