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Partisan Politics and Privatization in OECD Countries

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Abstract

Many scholars have argued that partisan differences have disappeared since the 1980s due to ever increasing economic globalization and the deepening of European integration. Using a new primary data set on public ownership that contains detailed information on privatization in 20 countries between 1980 and 2007, we test these claims empirically in relation to state ownership. We pay special attention to the question of whether changes in the international political economy, notably globalization and different aspects of European integration, condition partisan politics. Our empirical findings suggest that political parties have continued to significantly shape national privatization trajectories in line with the classic partisan hypothesis. While partisan differences are somewhat reduced by the liberalizing and market-building efforts of the EU, globalization does not condition partisan effects. Moreover, the run-up to EMU even seems to have reinforced partisan differences. **(← p. 1294)**

Introduction

Recent research on the determinants of economic and social policies in advanced democracies has more often than not failed to identify systematic effects of government partisanship. While scholars have found robust partisan effects on numerous economic and social policy outcomes until the early 1990s, partisan effects seem to have disappeared since then according to analyses studying social expenditure (e.g. Huber & Stephens, 2001; Kittel & Obinger, 2003) as well as total government spending (Busemeyer, 2009) and various other aspects of government spending and regulation (cf. e.g. the contributions in Castles (2007)). Privatization is another case in point. A number of recent studies have argued that partisan differences that once existed have vanished under conditions of globalization and European integration.

Using a new primary data set on public ownership that contains detailed information on privatization in 20 countries between 1980 and 2007, we test these claims empirically. We pay special attention to the question of whether changes in the international political economy, notably globalization and different aspects of European integration, condition partisan politics. Our empirical findings suggest that political parties have continued to significantly shape national privatization trajectories in line with the classic partisan hypothesis. While partisan differences are somewhat reduced by the liberalizing and market-building efforts of the EU, globalization does not condition partisan effects. Moreover, the run-up to EMU even seems to have reinforced partisan differences.

The paper is organized as follows. The next section reviews empirical studies examining the impact of parties on privatization and sheds light on shortcomings in the pertinent literature. Next, we present our conceptualization and measurement of privatization and then provide a descriptive overview of privatization trajectories in 20 OECD countries since 1980. Section 3 is devoted to the theoretical nexus between parties and privatization and the way in which globalization and European integration might modify that relationship. Section 4 describes the method and the data employed for the empirical analysis, while section 5 presents the respective results. The final section sums up the main findings of the paper.

Political Parties and Privatization: A Brief Literature Review

There are a number of quantitative studies analyzing the determinants of privatization in advanced democracies. When it comes to partisan effects, **(← 1295)** however, there is hardly any agreement. In his pioneering study, Boix (1997) detects a significant effect of the partisan composition of government on privatization (measured essentially as privatization proceeds) and nationalization in the 1979-1992 era for 19 OECD democracies. Schneider and Häge (2008), looking at changes in state ownership in three infrastructure sectors between 1983 and 2000, and Belke et al. (2007), using privatization proceeds in 22 advanced democracies in the 1990s as the dependent variable, also find partisan differences. Bortolotti and co-authors present evidence that right-wing parties were more likely to privatize (Bortolotti et al., 2003) and started privatizing earlier than left-wing parties in the 1977-2002 period (Bortolotti & Pinotti, 2008).

In contrast, Schneider et al. (2005) who study changes in the shares held by the government of the dominant provider in three infrastructure sectors between 1970 and 2000, find partisan differences for the 1980s that disappear in the 1990s. Zohlnhöfer et al. (2008) analyze privatization proceeds in the 1990s and detect a weakening of partisan effects in that period, particularly in the member states of the European Union.

Finally, a number of studies fail to find partisan effects at all. This is true for studies analyzing privatization proceeds in the OECD (cf. Bortolotti et al., 2003; Roberts & Saeed, 2012), the amount of privatization (Roberts & Saeed, 2012), privatization events (Kogut & MacPherson, 2008), the first privatization initiatives in the telecommunications sector (Fink 2011) as well as a measure of privatization intensity in public utility sectors (Schmitt & Obinger, 2011).

One reason for these ambiguous findings might be the varying samples and periods of observation of these studies. Moreover, the existing literature is characterized by several further shortcomings. A major weakness is that the pertinent literature has mostly focused on privatization measured in financial terms. Most studies typically use privatization revenues raised by governments as a dependent variable (Boix, 1997; Bortolotti & Siniscalco, 2004; Belke et al., 2007; Zohlnhöfer et al., 2008; Roberts & Saeed, 2012). However, this indicator is problematic in at least three respects. First, formal privatization, i.e. the change in the legal status of a public company, is completely neglected even though this type of privatization is of eminent relevance in the public utility sectors. Second, these studies cannot properly measure the initial size of the state-owned enterprise (SOE) sector which very likely influences the revenues that can be accrued from privatization. Given the lack of adequate data, all studies relying on privatization proceeds have used crude proxies for mapping the initial stock of public enterprises. Third, the focus on privatization revenues inevitably neglects the nationalization of enterprises. **(← p. 1296)** However, recent decades were not only characterized by privatization of state-owned enterprises but also witnessed increased public control in particular business sectors. The nationalizations in France in the early 1980s, the socialization of banks in some Nordic countries during the financial crisis in the early 1990s, or the numerous bailouts during the current economic crisis are cases in point. Hence studies focusing on privatization revenues do not take into account the full range of policy options available to governments when it comes to the question of how to recalibrate the role of government in economic affairs.

While the majority of empirical studies used privatization revenues as a dependent variable, some studies examined the changes in the shares held by the government over time (Schneider & Tenbücken, 2004; Schneider et al., 2005; Schneider & Häge, 2008; Fink, 2011). Even though these studies provide an adequate measure of public control in particular business sectors, they only included infrastructure companies. In addition, these inquiries ignore formal privatization which, however, is of utmost importance in the network-based public utility sectors.

Moreover, and with the notable exception of the studies by Boix (1997) and Bortolotti and Pinotti (2008), the empirical research examining the impact of parties on privatization has focused on the strength of parties but has not properly considered the differences in their ideological orientation. Finally, none of the studies discussed above has adequately modelled the conditioning effects of the different changes in the international economy that have occurred in the past 30 years on partisan differences.

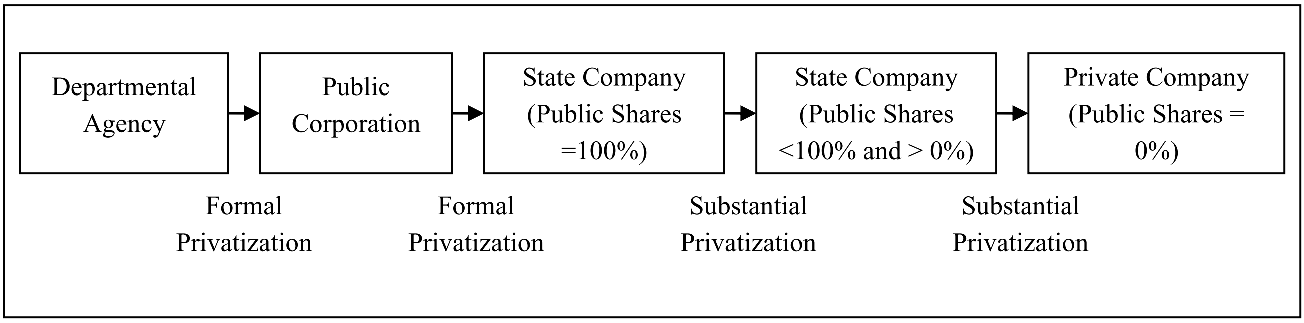
This paper attempts to overcome all these shortcomings and therefore makes a novel contribution to the pertinent literature in several respects. We have compiled a new data set on state-owned enterprises that takes into account the two major types of privatization, namely formal and substantial privatization. Moreover, our data also enables the tracking of nationalization and provides information about the extent of public intrusion in several business sectors, therefore providing an accurate measurement of the initial size of the public enterprise sector. Furthermore, we do not only measure the strength of parties expressed by their share in total cabinet seats, but also measure party positions on a left-right scale. Finally, we explicitly model for the first time the conditioning effects of globalization, European integration and EMU formation on partisan differences and show that the effects of liberalization and fiscal austerity differ markedly in the field of privatization. Taken together, this paper provides a much more comprehensive picture of the national developments of public entrepreneurship since 1980 than the existing literature and sheds new light on the role of political parties in managing the economy during the last thirty years. **(← p. 1297)**

Privatization in the OECD world

Concept of privatization

Before analyzing the effect of partisanship on privatization, a clear definition of privatization is necessary. When it comes to the privatization of public enterprises, two forms of privatization have to be distinguished: formal and substantial privatization. Formal privatization is of particular relevance in the public utility sectors. Despite national differences, two subtypes of formal privatization can be distinguished. The first type refers to the transformation of a departmental agency as part of a ministry (e.g. the Direction Générale des Télécommunication in France) into a public corporation (e.g. France Télécom) that is subject to special or public law. While a departmental agency does not have its own legal personality and is subordinated to a ministry, a public corporation is an autonomous public body with its own legal status and a partial commercial structure. Although a law or statute often defines the objectives of a public corporation, it has more autonomy in day-to-day operations than a departmental agency. The second type of formal privatization is the change of a public corporation into a state company subject to private law such as a joint stock company (e.g. British Telecom plc). A state company is subjected to the same rules and restrictions as private companies such as a hard budget constraint. In contrast to public corporations or departmental agencies, state companies are only responsible for the well-being of the enterprise itself. The state remains the unique stakeholder.[1] Before the public enterprises are formally privatized it is not possible to sell shares and therefore to start substantial privatization. Figure 1 illustrates the conceptualization of formal and substantial privatization.

Figure 1. Conceptualization of formal and substantial privatization



Measurement

One of the central drawbacks of the existing empirical literature is the neglect of formal privatization. Therefore, we have developed a new index that brings together the concept of formal and substantial privatization. This index **(← p. 1298)** relates the turnover of public enterprises to the Gross Domestic Product on an annual basis. Hence it measures the involvement of public entrepreneurship in the national economy and is calculated as follows:

$$I_{i,t} = \frac{\sum R_{j,i,t}^{DA} + \alpha * \sum R_{j,i,t}^{PC} + \beta * \sum R_{j,i,t}^{SC} * s_{j,i,t}^{SC}}{GDP_{i,t}}$$

DA: set of departmental agencies
PC: set of public corporations
SC: set of state companies
$R_{j,i,t}$: (Total) turnover of a company j in a country i at time t
$S_{j,i,t}$: Shares held by the state

[1] A departmental agency can also be directly transformed into a state company subject to private law.

The index captures the type of organisational form (*DA, PC, SC*) and the percentage of shares owned by the government (*s*) on an annual basis and combines this information with the companies' turnover of the given year (*R*). Formal and substantial privatization is weighted equally, whereas formal privatization is subdivided into two different types[2]. When the state transforms a departmental agency into a public corporation (PC), then R^{PC} is weighted with α (here R^{DA} and R^{SC} are 0). α has to be smaller than 1 to indicate the retreat of the state and the enterprise's greater autonomy from political actors. The weighting for a transformation into a joint stock company is β. Since the possibilities for influencing the operational decisions of a joint stock company decrease for political actors in comparison to a public corporation (even though the state remains the unique shareholder), β should be smaller than α. If the state additionally sells public shares (substantial privatization), the index value further decreases. When, for instance, 49 per cent of the public shares are divested, the weighting equals β x .51 as the state still holds 51 per cent of the shares. Once a firm becomes completely privately owned (s=0), it drops out of the index. If more than one publicly owned firm operates in the sector then the index sums the weighted outputs over all firms. The weighted outputs are finally set in reference to GDP. The compilation of the index is illustrated with the following hypothetical example. Suppose that there are four public enterprises operating in country i with a GDP of 70 Mio. US-Dollars. The first one is a departmental agency with a turnover of 3 Mio. Dollars, the second a public corporation (turnover: 2 Mio. Dollars) and the other two firms are state companies with 51 per cent public shares (turnover: 1 Mio. Dollars) and, respectively, 75 per cent of public involvement (turnover: 6 Mio. Dollars). The index in this case is calculated as follows:

[2]Since no theoretical justification for the selection of α and β exists, sensitivity analyses were applied using different weightings. The results do not differ substantially when using different weightings. Therefore formal and material privatization is weighted equally in this paper with formal privatization being subdivided into two different types. This means that α equals .75 and β .5. We additionally provide two alternative estimations in table A3 covering the broad range of possible weightings. The results do not change. This shows that our findings are not sensitive to different α's and β's.

$$\frac{3\,Mio\,USD + .75 * 2\,Mio\,USA + (.5 * .51 * 1\,Mio\,USD + .5 * .75 * 6\,Mio\,USD)}{70\,Mio\,USD} = \frac{7.005}{70} = .10$$

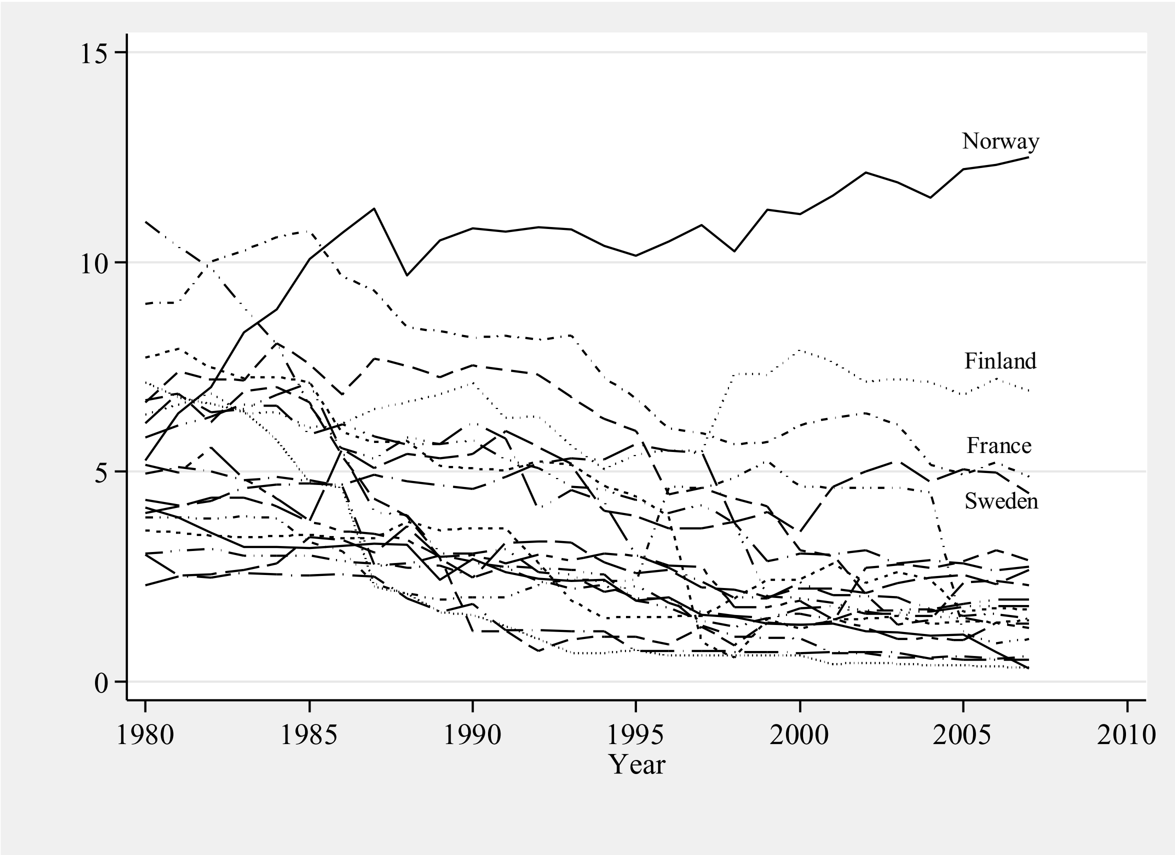
(← p. 1299)

The index takes the value .10 indicating that the turnover of public enterprises is equivalent to 10 per cent of GDP.

Based on this information a completely new database has been generated which contains data from all relevant public enterprises in 20 countries over the period between 1980 and 2007. To compile this database, information from national governments, regulatory agencies, national laws, and public enterprises was collected, compiled and analysed. Our analysis focuses on the national level. The database includes information on 1,544 (formerly) public enterprises (such as turnover, number of employees, publicly held shares, etc.) from 20 OECD countries for the time span 1980-2007 (28 years). We gathered full time series on the two largest quintiles (in terms of turnover). The enterprises covered in our data set contribute to at least 95 per cent of the turnover of all public enterprises. All monetary values are deflated to 2005 constant prices.[3]

Figure 2. Development of public entrepreneurship in 20 OECD countries, 1980-2007

[3] For the details cf. the codebook at http://www.XYZ



A descriptive overview of national privatization trajectories

Figure 2 and Table 1 illustrate the scope of privatization in the 20 OECD countries since 1980. It is clearly shown that the involvement of the state in **(← p. 1300)** entrepreneurial activities has declined in nearly all countries over the last 30 years. Moreover, Figure 2 is indicative of a general downward trend of public ownership in the OECD. Governments throughout the OECD-world launched comprehensive privatization programs and divested public enterprises to the private sector. While in 1980 about 5.5 per cent of the GDP was on average provided by public enterprises, this share dropped to 2.6 per cent in 2007. An extremely marked decline of public entrepreneurship can be observed in the United Kingdom. While the turnover of state owned enterprises was equivalent to 7 per cent of GDP in 1980, the respective share is today close to zero. The Southern European countries such as Spain and Portugal also strongly relied on privatization. However, not all countries divested public enterprises on a grand scale. In countries such as Switzerland and Denmark privatization was moderate, while in other countries still the state even plays a greater role than at the beginning of the observation period. Norway is an extreme case in this respect, as the value of the index increased from 5.3 per cent in 1980 to 12.4 per cent in 2007. This development is mainly driven by a few big oil companies which significantly raised their **(← p. 1301)** turnover during the 1990s. In companies such as Norsk Hydro the state is still the majority stakeholder. Sweden and Finland also show a higher level of public entrepreneurship, albeit to a much lesser extent. Overall, the state has almost completely withdrawn from public enterprises in Anglo-Saxon countries, whereas government remained highly involved in entrepreneurial activities or even expanded its role in Northern Europe.

Table 1. Index of Public Entrepreneurship

	Start Value 1980	*End Value* 2007	*Change* 1980-2007 (in per cent)	*Mean* 1980-2007	SD 1980-2007
Australia	4.15	0.31	-92.5	2.25	1.04
Austria	6.66	2.29	-65.6	5.37	2.28
Belgium	3.60	1.72	-52.3	2.70	0.83
Canada	2.29	0.52	-77.4	1.39	0.81
Denmark	3.02	2.66	-11.8	2.71	0.46
Finland	6.36	6.93	+8.9	6.58	0.71
France	9.01	4.89	-45.8	7.53	1.85
Germany	3.05	1.48	-51.3	2.27	0.66
Greece	5.17	1.27	-75.5	2.84	1.34
Italy	5.83	1.94	-66.7	4.06	1.90
Ireland	10.96	1.39	-87.3	4.78	2.86
Japan	3.92	1.01	-74.2	3.26	1.31
Netherlands	6.15	1.80	-70.7	3.31	2.00
New Zealand	6.70	2.88	-57.0	3.13	2.23
Norway	5.27	12.50	+137.3	10.36	1.76
Portugal	7.71	1.46	-81.1	4.12	2.50
Spain	4.95	0.60	-87.9	2.42	1.65
Sweden	4.02	4.48	+11.5	4.62	0.70
Switzerland	4.33	2.73	-36.9	4.20	1.01

UK	7.14	0.34	-95.3	2.14	2.38
Sample	5.51	2.66	-52.0	4.00	2.66
Source: REST Database					

(← **Table 1 p. 1301**

In the next section, we discuss whether and in what ways political parties may account for this development.

Partisanship and the privatization of public enterprises

There is a multiplicity of reasons for the emergence and expansion of a SOE sector in most advanced democracies in the first half of the 20th century (Clifton et al,. 2003; Toninelli, 2000). Nonetheless, the question of public ownership has always been at the center of the left-right-divide at least since the beginning of the 20th century. Socialist parties believed that the means of production should be nationalized in order to overcome capitalism while their bourgeois competitors wanted business to remain in private hands. Sassoon (1996: 166) argues that at least until the early post-war period "in the minds of many socialists, nationalizations were seen as the proverbial Good Thing, since they brought nearer the form of property relations which most closely approximated to socialism: public (state) ownership. For exactly the same reason, those on the 'free-market' and conservative side of the political spectrum opposed them."

Even when socialist parties started dropping Marxism as their leading ideology, public ownership remained important for them as, for a long time, they lacked confidence in the stability of the private sector. As a consequence, the nationalization of key industries continued to figure prominently in these parties' economic strategies. This can be seen from the nationalization policies of the French socialist government after 1981 and the difficulties the leadership of the British Labour Party encountered when amending the party program's notorious “Clause IV”. Thus, left-wing parties remained committed to the “existing public business sector as a way to ensure high levels of public spending in capital formation and to channel this investment to the less advantaged workers and regions” (Boix 1997: 480) even after the slow-down of growth in the 1970s. Additionally, they were far more intimately identified with nationalization policies (cf. Zahariadis, 1995). **(← p. 1302)**

Bourgeois parties had learnt to accept public ownership during the post-war settlement of the Keynesian consensus and rarely (re-)privatized SOEs prior to the 1980s.[4] It was only with the advent of the economic slowdown in the 1970s that the post-war settlement ended. Boix (1997: 479) explains that non-socialist parties responded to the slowdown in economic growth after 1973 by again favoring “an unimpeded market economy and a small public sector”, thus also opting for the privatization of SOEs. Nonetheless, it can be expected that not all bourgeois parties embraced privatization to the same extent. Christian democratic parties in particular can be expected to act less market-oriented than Liberals or Conservatives. Because their electorate comes from the middle-classes as well as the working class, Christian democrats have always looked for cross-class compromises and some kind of middle way between capitalism and socialism (cf. von Beyme 1985: 94; van Kersbergen 1994). Therefore, they can be expected to be less inclined to pursue privatizations than liberal or conservative parties.

Electoral politics may also drive partisan differences: The allocation of substantial parts of the shares of privatized enterprises among a large part of the electorate was sometimes expected to establish some kind of ’popular capitalism‘. As many voters might develop preferences for more market-friendly policies which might promise to maximize the value of their shares (Bortolotti et al., 2004: 308), this change could in turn benefit bourgeois parties which will most likely be seen as the parties delivering these kinds of policies (Boix,

[4] The (re-)privatization of British Steel under Churchill in the 1950s and the selling-off of some SOEs under the German Christian-liberal coalition in the early 1960s are exceptions from the overall pattern.

1998: 185ff.). In contrast, social democratic parties faced electoral incentives to oppose privatization because employees of SOEs belong to their core clientele and were most likely to lose some of their privileges in case of privatization (cf. the case study evidence in Zahariadis (1995)).[5] Furthermore, as left parties used to be identified more intimately with nationalization than their bourgeois competitors, it was more difficult for them to convincingly embrace privatization. Finally, it was argued that privatization can be strategically used by right-wing parties to weaken left- wing parties and unions as their most important ally outside parliament (Feigenbaum et al., 1998). Since SOEs are typically strongholds of unions, privatization might be a vehicle for right-wing parties to contain the power resources of the labor movement.

Overall, we should expect that partisan differences with regard to public ownership have increased from the mid-1970s onwards as bourgeois governments were moving back to a more liberal economic policy stance, implying a preference for privatization of SOEs, whereas social democratic parties remained committed to public ownership. Therefore, for our period of observation we can form the following hypothesis: **(← p. 1303)**

H1: Right-wing parties, particularly conservative and liberal parties, privatize more than left-wing parties.

At the same time, however, it is argued that changes in the international political economy since the 1990s, particularly the globalization of financial markets and European integration, circumscribe the nation states' economic policy autonomy, thus leading to

[5] One could argue that trade union opposition to privatization might spark distributional conflicts which in turn reduce economic growth, Under these circumstances right parties might not want to privatize in the first place. It is unlikely, however, that this line of reasoning could have kept right parties from privatizing. First, privatization – in contrast to welfare retrenchment – usually did not lead to prolonged periods of distributional conflicts, so the negative effects on growth of these conflicts are likely to be extremely small if they occurred at all. Second (and more importantly), as argued above, many right-wing parties (reproducing arguments of many economists) argued that privatization would create incentives for additional economic activity which in turn would result in stronger (rather than less) economic growth (cf. Boix 1997). Nonetheless, we control for this argument e.g. by including the level of strikes and GDP growth in the regressions below.

convergence in economic policies and the waning of partisan differences (for example Strange 1995: 291). According to this line of reasoning, the economic policies of nation states are increasingly monitored, and eventually punished, by international financial markets. Thus, governments of either partisan complexion may feel obliged to switch to orthodox economic policies which might include the selling of SOEs that above all improves a government's budgetary position. A country's budgetary position in turn is of central importance for actors on the international capital markets (Mosley, 2000).

Furthermore, increasing competition among countries to attract capital may put pressure on governments to dismantle inefficient structures and regulations (Schneider et al., 2005: 715). According to the efficiency hypothesis, a highly open economy should be associated with a reduction of public involvement in economic affairs (Busemeyer, 2009). Privatization may also play a key role in this respect since many economists have shown privately owned firms to be more efficient than SOEs (cf. Megginson & Netter, 2001; D'Souza et al., 2005) and thus the selling of SOE was assumed a necessary precondition for economic success in an ever increasing competitive international environment. This argument leads to hypothesis 2:

H2: Partisan differences only exist at low levels of economic globalization and disappear with rising economic integration.

European Integration can also yield an impact on privatization policies, rendering the partisan complexion of governments irrelevant. At least two spheres of influence can be distinguished: first privatization may have occurred as an "unintended consequence" of the single market program (Clifton et al., 2006: 752) which led to the liberalization of many sectors (cf. Clifton et al., 2003; S. Schmidt, 1998; Schneider & Häge, 2008). Many of the respective services were provided by SOEs prior to liberalization. Once liberalization had taken place, the legitimacy of state ownership vanished. Thus, privatization became the natural option, if it wasn't required for the success of the liberalization in the first place. Increasing competition on these markets provided another rationale for privatization: If **(← p. 1304)** the enterprises which had controlled or monopolized the national market prior to liberalization were to succeed under conditions of more intense competition on the home market or as a "global player" in world markets, they had to be freed from the restrictions which public enterprises more often than not are subject to for political or administrative reasons (Wright, 1994: 4).

Secondly, the Maastricht deficit criteria play an important role (Mayer, 2006; Organisation of Ecnomic Cooperation and Development [OECD], 2003: 22; Zohlnhöfer et al., 2008; Clifton et al., 2006; Höpner et al., 2011; Schneider & Häge, 2008), putting at least those governments under intense fiscal strain that ran the risk of failing[6]. These governments in turn seem likely to resort to privatization, given the political difficulties that tax increases and spending cuts can cause in the political arena.[7] Therefore, if the arguments concerning an effect of the EU are correct, at least one of the two following hypotheses should hold:

H3a: Given the strong emphasis on liberalization and market-building in the European Union, left-wing parties do not exert a significant effect on privatization in EU-countries (liberalization effect on partisan politics).

H3b: Against the backdrop of the fiscal constraints imposed by the Treaty of Maastricht, we expect no significant effect of left-wing parties on privatization in EU member countries during the run-up to EMU, i.e.in the period stretching form 1993 to 1997 (Maastricht effect on partisan politics).

[6] The current debt crisis shows that the EU also relies on coercion vis-à-vis Member States. Under the pressure of the troika the Greek government had to adopt a major privatization programs.

[7] Note that the Maastricht definition of the deficit does not allow privatization proceeds to reduce the current deficit. There is, however, an indirect effect: Privatization proceeds reduce public debt which in turn reduces interest payments.

Method and Data

Our sample includes all relevant public enterprises owned by national governments of 20 OECD countries in the period from 1980 to 2007. In line with Boix (1997), the units of observation are governments. This approach allows us to attribute privatization outcomes to parties in government much more accurately than the use of annualized data and thus ensures that the overall impact of party governments on privatization is captured as precisely as possible. We define a government as a "cabinet with the same party composition (even if there are new elections or the prime minister changes but is of the same party)" (Boix 1997: 483). Nonetheless, a cabinet formed by the same parties as the last one is still counted as a new cabinet if the cabinet shares held by the coalition partners change. To give an example: The German coalition of Christian democrats and liberals under Chancellor Helmut Kohl lasted from 1982 and 1998. As the cabinet shares held by the coalition partners changed after each election, however, we count four cabinets. **(← p. 1305)**

We have excluded all cabinets that have been in power less than one year since short-term cabinets such as caretaker governments are not normally able to quickly implement privatization programs. The starting and end point of each government is based on the years in which the cabinet has been in power after a period of six months. For example, if a cabinet took office in May 1985, the starting year is 1985. In case that a cabinet took power in September 1985, the starting year would be 1986. If the year in which the cabinet comes to power is equal to the year of cabinet change or government break-down, the case drops out of the sample. In total, we have 108 cabinets in our sample.

Our dependent variable in the regression analysis is the change of the index of public entrepreneurship and is measured by the difference between the index value in the first and the last year of a particular cabinet. Positive values therefore indicate *privatization*.

To capture *partisan effects* on privatization, we employ two different measures. First, we use the cabinet seats held by left (Social Democratic and communist parties), Christian Democratic and right-wing (secular conservative and liberal) parties. Second, we use data measuring the ideological position of the government on a left-right scale provided by Doering and Manow (2011). The left-right position of each party in government is weighted by the seats of that party in parliament in relation to the total number of parliament seats held by cabinet parties.[8]

As argued in the previous section, globalization and EU membership may reduce partisan differences. The openness of the economy as an indicator of global integration is measured by the economic dimension of the *KOF* Index of Globalization. The index captures trade, foreign direct investment, portfolio investments and income payments flows as well as import barriers, tariff rates and taxes on international trade (for details, see Dreher et al. 2008). *EU-membership* is captured with a dummy that takes the value one for EU-members and zero otherwise. For Austria, Finland, Greece, Portugal, Spain and Sweden the variable is coded 1 beginning with the year when these countries officially applied for EU-membership[9]. In addition, we created a variable that captures the effects of the EU's Maastricht convergence criteria. Governments of EU member countries that were in power sometime during the run-

[8] In principle, other measures of partisanship could be used. For example, Belke and Potrafke (2012: 1131) employ a 5-scale index that takes the value of 1 (5) if a right-wing (left-wing) party controls more than two thirds of cabinet seats and seats in parliament, the value of 2 (4) if a right wing (left-wing) party controls between one and two thirds of seats in government and parliament and the value of 3 if center parties control more than 50 percent of the respective seats or if left and right parties form a coalition is which neither dominates. We think that our measures are suitable for this paper for at least two reasons. First, in line with most of the relevant political science literature, we are more interested in government partisanship than in the relative power of parties in parliaments as it is governments and parliamentary *majorities* that decide in parliamentary systems like the ones under review here. So we think, a measure of government partisanship is much better suited to our research question than any measure that would take into account the parliamentary strength of parties which does not necessarily translate to control over policy. Moreover, in contrast to the Belke and Potrafke index the cabinet data are calculated on a daily basis and for various party families. This facilitates the assignment of the ideological position of cabinets and gives a much more accurate picture of government participation.

[9] Many countries began to adjust their national legislation to the *acquis communautaire* already during the pre-accession phase. Since EU membership often required the liberalization and deregulation of sheltered markets, privatization became more likely in the run-up to full membership. At the same time EU accession created opportunities for passing the buck connected to unpopular reforms to the EU level. On the Austrian case see Belke & Scheider (2006).

up to monetary union, i.e. between 1993 (ratification of the Treaty of Maastricht) and 1997 (reference year for EMU participation) were coded 1, governments of non-EU-members and governments that were terminated before 1993 or started after 1997 were coded 0.

Furthermore, a set of control variables is included in the models. The level and growth of *GDP* indicate a country's economic situation. High GDP growth **(← p. 1306)** should go hand in hand with fewer privatization initiatives due to the relatively low economic problem pressure. Furthermore, the pressure on governments to privatize might depend on the national financial situation. In times of fiscal austerity, the drive to maximize revenue should be especially dominant as privatization can be used to reduce *public debt* (Viani 2007). The divestment of public shares is often a fast way to raise revenue for governments facing severe financial constraints. Labor unions are typically among the strongest opponents of privatization because they fear layoffs in the wake of privatizations. Therefore, we assume that a high *union density* (net union membership in relation to the total number of employees) should be associated with low privatization intensity. In addition to the organizational power of unions, we also control for the militancy of labor unions. This is measured with the *strike intensity* measured by the working days lost due to strikes and lockouts. Furthermore, the capacity to privatize should vary with the extent of power dispersion in government. The transaction costs for a coalition government to implement privatization are higher compared to a single party government due to costly negotiations. The capacity to privatize is captured with an index measuring the *type of government* which distinguishes between single party governments (the lowest value), minimal winning coalition, surplus coalition, single party minority and multi-party minority government (the highest value). A government's room to maneuver is also conditioned by *institutional veto points* (Schmidt 1996). We use the index compiled by Henisz (2010) to control for institutional constraints which are assumed to impede major privatization initiatives. Since our units of observation are cabinets, we have to control for *cabinet duration*. Stable governments are expected to initiate privatization on a large scale. In contrast to previous studies we are able to measure the *initial stock of public entrepreneurship* more properly. A government can only privatize when public enterprises exist which can be privatized. A high initial stock at the beginning of the cabinet should ceteris paribus therefore be associated with a high potential for privatization. We use the value of our index of public entrepreneurship of the year when the government comes to power.

With the exception of party ideology, cabinet composition, cabinet duration and the initial size of the public business sector, all independent variables refer to the first half of the cabinet period in order to avoid endogeneity problems. For example, for a cabinet in office from 1990 to 1996, the values of the independent variables reflect averages of the years 1990 to 1993. A detailed description of the measurement of all independent variables is summarized in Table A1 in the appendix.

To test our hypotheses, we run OLS regressions. Our general model (model 1) is based on the following equation. **(← p. 1307)**

$$\begin{aligned}Privatization_{it_1} &= \alpha_0 + \beta_1 LeftCabinet_{it_1} + \beta_2 Maastricht_{it_2} + \beta_3 Strike_{it_2} + \beta_4 Debt_{it_2} + \beta_5 LogGDP_{it_2} + \\ &+ \beta_6 Globalization_{it_2} + \beta_7 UnionDensity_{it_2} + \beta_8 YearsinPower_{it_1} + \beta_9 InitialSize_{it_0} + \varepsilon_{it_1}\end{aligned}$$

Where i refers to cabinets, t_1 to the cabinet period, t_2 to the first half of the cabinet period and t_0 to the start of the cabinet.

We test for panel heteroscedasticity, endogeneity, autocorrelation and non-stationarity. Since the observations are not independent of each other, we use robust Eicker-Huber-White standard errors clustered by country.[10] The augmented Dickey Fuller test for stationarity and the Wooldridge test for first order autocorrelation indicate that our data is not serially

[10] We excluded Norway in the main regression analyses since the privatization index of Norway is mainly driven by a few companies in the oil industry. However, in the robustness analysis we re-estimated our models for the whole sample and show that the results for the partisan variables do not change significantly if Norway is included.

correlated and stationary for all variables. A Durbin Wu Hausman test does not reveal any endogeneity problems for our variables of interest. Furthermore, we check the robustness of our models by jack-knife analyses (i.e. by removing each country from the sample in turn and checking whether results remain stable) to ensure that our results are not driven by individual cases or countries without indication for influential cases. The results do not differ from those reported.

Empirical Findings

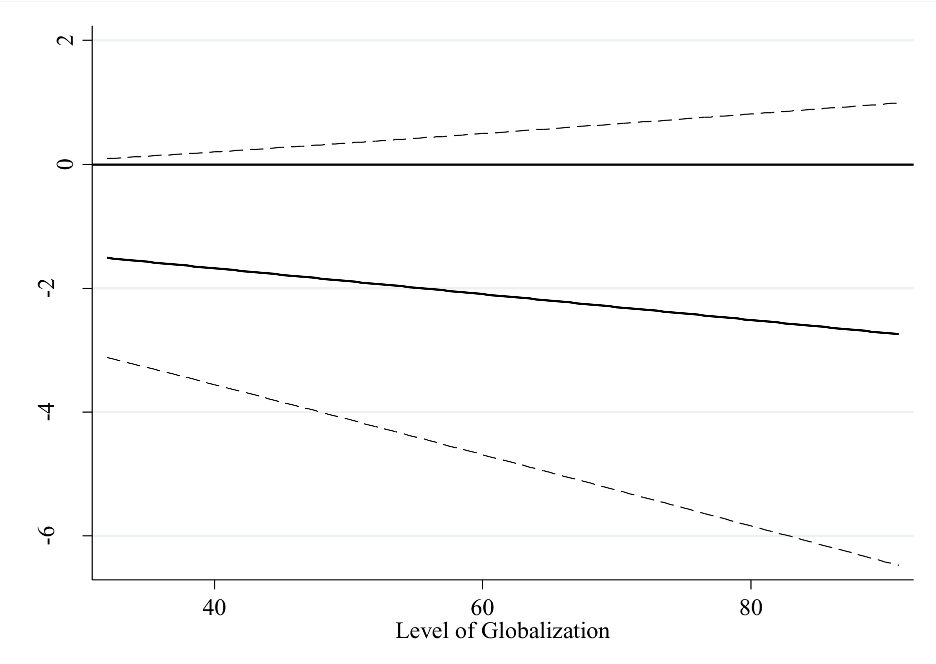
Table 2 reports our empirical findings. The estimated coefficients of the eight specifications summarized in this table are almost perfectly in line with the predictions of hypothesis 1. To begin with, we find a significant negative effect of left-wing cabinets on privatization (Model 1) which clearly supports the putative restraining effect of left-wing parties when it comes to privatization. This restraining effect becomes even stronger if the statistically insignificant EU-dummy is replaced by the Maastricht variable (Model 2). By contrast, privatization efforts were higher under cabinets controlled by secular-conservative and/or liberal parties. The estimated coefficient is positive and statistically significant at the 5 per cent level (Model 4). These findings are corroborated by Model 5 which examines the influence of the ideological position of the cabinet on a left-right scale and weighted by the cabinet shares of the

Table 2. Party Effects on Privatization **(← Table 2 p. 1309)**

Dependent variable: Privatization								
Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Left Leaning Cabinet	-.773*	-.799**				-.843**a	-1.52***	-.481*a
	(.373)	(.369)				(.390)	(.389)	(.251)
Christian Democratic			.065					
			(.320)					
Conservative Cabinet				.752**				
				(.335)				
Ideological Position					.244**			
					(.093)			
EU Member	.230						-.112	
	(.222)						(.240)	
Maastricht		.372**	.293**	.317**	.419**	.413**		.840**
		(.163)	.124	.140	.165	(.166)		(.334)
Left Cabinet x Globalisation						-.021 (.019)		
Left Cabinet x EU Member							.909** (.472)	
Left Cabinet x Maastricht								-1.19* (.588)
Debt	.006*	.005*	.007*	.006**	.005*	.006*	.005	.007**
	(.004)	(.003)	(.004)	(.003)	(.003)	(.003)	(.003)	(.003)
GDP per capita (log.)	-1.22***	-1.22***	-.975**	-.985**	-1.12***	-1.17***	-1.32***	-1.21***
	(.397)	(.389)	(.343)	(.411)	(.383)	(.401)	(.404)	(.392)
Globalization	.009	.015**	.011	.012**	.013**	.006a	.011**	.010*
	(.007)	(.007)	(.008)	(.005)	(.006)	(.006)	(.005)	(.006)
Union density	-.010	-.010*	-.010	-.010*	-.011*	-.009	-.008	-.010
	(.006)	(.006)	(.007)	(.006)	(.006)	(.006)	(.006)	(.007)
Strike (log.)	-.057*	-.049	-.036	-.048	-.046	-.054	-.071**	-.053
	(.029)	(.031)	(.039)	(.033)	(.029)	(.032)	(.031)	(.031)
Years in power	.192**	.170**	.163**	.146**	.167**	.171**	.191**	.177**
	(.073)	(.069)	(.077)	(.070)	(.064)	(.068)	(.074)	(.066)
Initial Size of Public Entrepreneurship	.105 (.063)	.104 (.064)	.104 (.073)	.118 (.074)	.128* (.067)	.094 (.062)	.113* (.074)	.093 (.059)
R^2/Root MSE	.37/.905	.38/.895	.31/.944	.36/.905	.41/.874	.39/.895	.38/.897	.41/.879
N	100	100	100	100	100	100	100	100

Note: clustered standard errors in parentheses; *** p<.01, ** p<0.05, * p<0.1; a: the standard error and significance level refer to the situation when the other part of the interaction effect equals its mean incumbent parties. Since high values of this variable indicate a right-wing government, the positive and statistically significant coefficient once again supports the pronounced pro-privatization orientation of right-wing governments. Christian Democratic parties are ideologically arrayed between these two poles, at least in social and economic affairs. Therefore, it is little surprising that there is no impact whatsoever of this party family on privatization (Model 3). The coefficient is positive but not different from zero at conventional levels of significance. **(← p. 1308)**

Figure 3. Conditioning effect of globalization on impact of left parties



Notes: The solid line illustrates the regression coefficient of left governments in dependence of the level of globalization. The dash lines represent the 95% confidence interval.

In a next step, we tested several conditioning effects. To begin with, we examined whether the impact of parties on privatization is shaped by economic globalization (hypothesis 2). Although globalization turns out to be a catalyst of privatization in the majority of models, Model 6 and Figure 3 clearly show that partisan differences do not disappear with increasing levels of globalization. Figure 3 depicts the marginal effect of left-wing government participation on privatization at different levels of globalization. As this effect remains virtually unchanged at different levels of economic openness, hypothesis 2 can be rejected. In contrast to many expectations in the literature, globalization apparently does not preclude partisan differences, at least with regard to public ownership.[11]

Moreover, we have estimated interaction effects between left incumbency and EU-membership (Model 7) and the Treaty of Maastricht (Model 8) to test our hypotheses 3a and 3b. Model 7 supports hypothesis 3a as left-wing governments in EU-member states show a greater commitment to privatization than left-wing cabinets beyond the European Union. Figure 4a illustrates this finding by plotting the predicted values of the extent of privatization dependent on left-wing government participation separately for EU- and non-EU-members. While the slope for non-EU members is negative, indicating that less **(🡐 p. 1310)** privatization occurs as left government participation increases, the slope of EU-members is essentially flat, i.e. the effect of left-wing government participation in EU countries is negligible. Thus, left-wing policy options are much more constrained in the European setting with its strong focus on liberalization and market-building. In contrast, we did not find evidence supporting hypothesis 3b. Although the run-up to European Monetary Union has clearly triggered privatization as the relevant coefficient is statistically significant in all models, it does not seem to have induced a vanishing of partisan differences – on the contrary, the Maastricht criteria seem to have reinforced partisan differences as can be seen from the statistically significant negative coefficient for the interaction term in Model 8. Figure 4b provides a graphical illustration, paralleling the one in figure 4a. One possible explanation for

[11] We additionally checked the conditioning effect of economic globalization within a fixed effect framework. Since a fixed effect estimation focuses on the within variation, the results inform about how different governments in a country react to changes in globalization over time (table A3, model 5 and 6). The interaction variables are statistically significant. Interestingly, increases in economic globalization within a country reinforce the reluctance of left governments against privatization and foster the privatization affinity of conservative parties. These findings strongly support our hypotheses and results and show that partisan differences remain stable even in times of economic globalization – not only across countries but also over time within countries.

this surprising finding comes from the public finance literature (cf. Wagschal 1998). This literature has argued that left-wing parties were willing to finance their higher spending by higher levels of taxation (which had to be born by their own voters only to a limited extent) while right-wing parties that favoured low levels of taxation found it very difficult to reduce spending accordingly, which meant that they ran higher deficits than their left-wing competitors. Given that running high deficits was not an option for governments aspiring to EMU membership and right-wing parties were keener than left-wing parties on avoiding tax increases, right-wing parties may have been inclined **(← p. 1311)** to sell off SOE significantly more than left-wing parties precisely during the run-up to EMU when the deficit option was closed.

The estimated coefficients of the control variables consistently show the theoretically expected signs and many of them turn out to be statistically significant. To begin with, public debt is an important driving factor of privatization. With one exception, the estimated coefficients are statistically significant at conventional levels. In conjunction with the catalysing effects of globalization and the Maastricht variable, this evidence suggests that a deteriorating fiscal position and mounting economic competition are driving factors behind privatization initiatives. Whether a large scale privatization program is feasible also depends on the size of the public enterprise sector. In fact, the initial size of the public enterprise sector is positively related to privatization and the effect is statistically significant in two specifications. Finally, cabinet incumbency is a statistically significant factor in all models. Apparently, long-lasting cabinets are better able to realize comprehensive privatization than cabinets in office for a shorter period of time. Economic wealth, by contrast, is negatively associated with privatization and the respective coefficients are highly significant in all models. In a similar vein, both union **(← p. 1312)** density and the militancy of unions impede privatization and this effect is statistically significant in several models.

Figure 4a. Impact of left parties in EU and non-EU countries (**← Figure 4a p. 1311)**

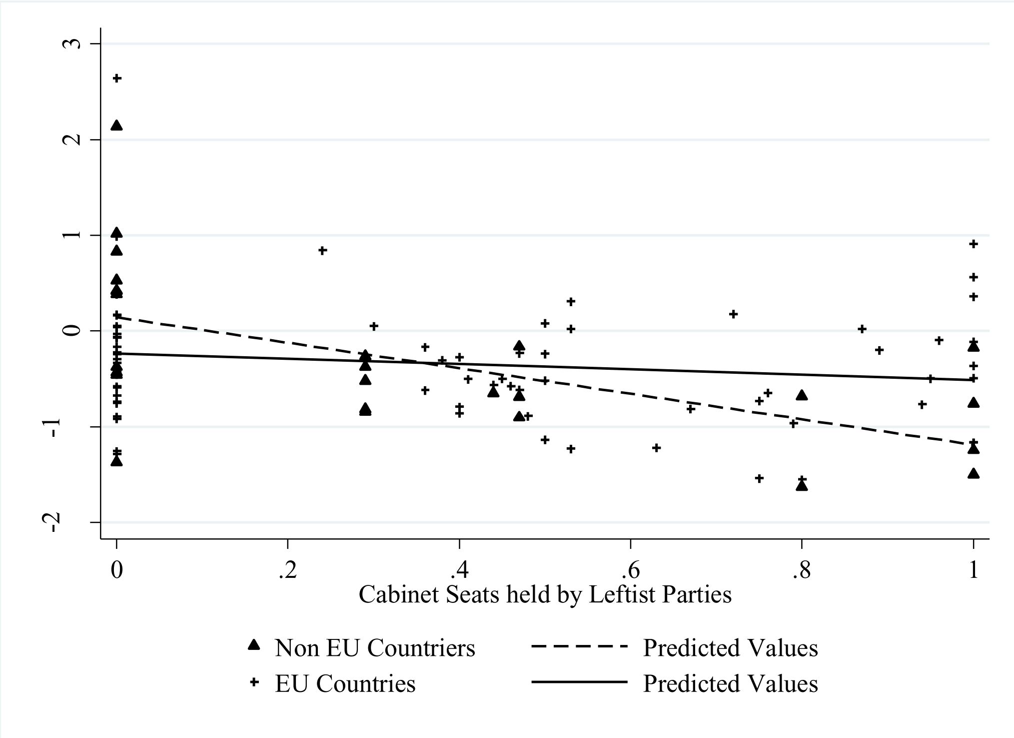
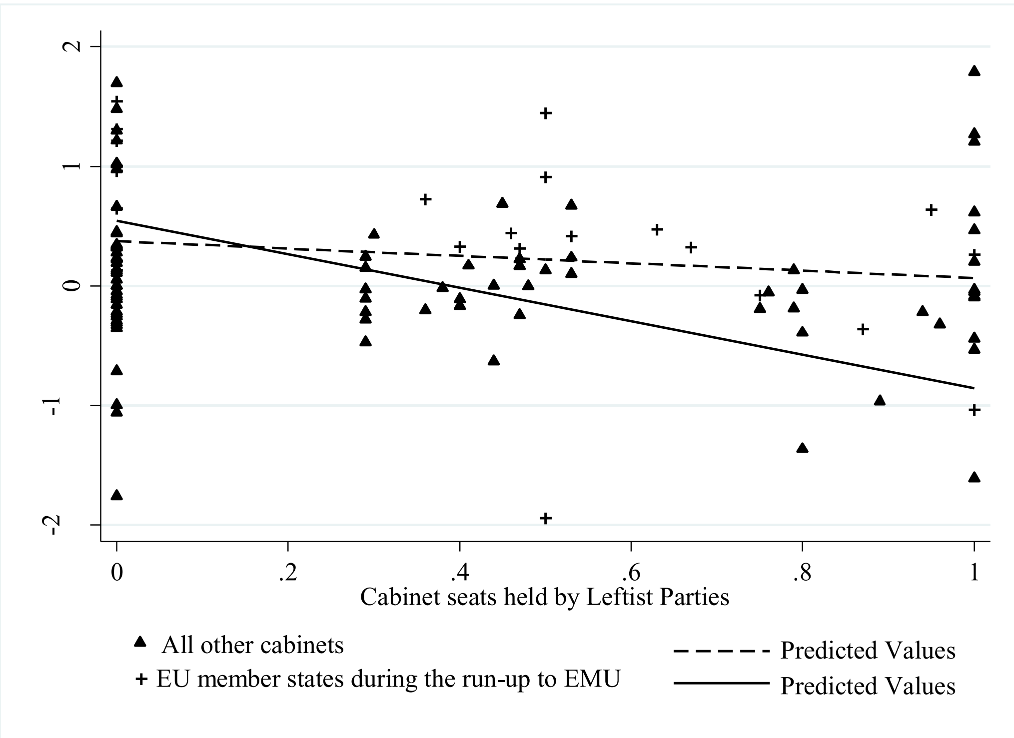


Figure 4b. Impact of left parties in EU member states in the run-up to EMU compared to all other cabinets (**← Figure 4b p. 1312)**



Note: The figure is based on Model 7 and 8 in Table 2.

In a final step we have tested the robustness of our findings. First, jack-knife analysis yields no noteworthy results, the level of significance for our central variable of interest remains the same. Furthermore, the correlation matrix as well as the variance inflation factor do not indicate severe multicollinearity problems. In all models, the VIF values are below 2. Only in Model 6 the highest VIF value equals 5.5 since it includes an interaction variable. However, even in Model 6, the VIF values are within the range of conventional thresholds.

Second, we have estimated a model with country fixed-effects (Model 1 in Table 3) and re-estimated the models including Norway (Model 2). In both specifications the effects of partisan ideology as well as the impact of the controls remain the same. Finally, we used three additional control variables which are discussed and at times controlled for in the relevant literature, namely the type of government, economic growth and institutional veto points. All coefficients of these additional controls are insignificant and in the case of institutional constraints even wrongly signed, while the impact of parties once again remains robust (Models 3-4).

Table 3. Robustness Checks: Party Effects on Privatization

Dependent variable: Privatization				
Independent variables	(1) FIXED EFFECTS	(2) NORWAY INCL	(3) INSTITUTIONS	(4) TYPE OF GOVERNMENT
Ideological Position	.143**	.196**	.226**	.228**
	(.056)	(.095)	(.098)	(.093)
Maastricht	.491**	.406**	.435**	.425**
	(.206)	.162	(.173)	(.171)
Strike (log)	-.051	-.044*	-.054	-.042
	(.074)	(.024)	(.033)	(.027)
Debt	.005	.006**	.006*	.006*
	(.007)	(.003)	(.003)	(.003)
GDP per capita (log.)	-.596	-1.19***	-1.20**	-1.12***
	(.893)	(.244)	(.374)	(.372)
Globalization	.025	.012**	.014**	.015**
	(.020)	(.006)	(.007)	(.007)
Union density	-.047*	-.011*	-.011*	-.011*
	(.025)	(.006)	(.006)	(.006)
Years in power	.100**	.190**	.184**	.190**
	(.047)	(.070)	(.074)	(.069)
Initial Size of Public Entrepreneurship	.393***	.109**	.128*	.125*
	(.085)	(.046)	(.068)	(.069)
GDP growth			-.046	-.045
			(.044)	(.039)

Political Institutions			.455 (.906)	
Type of Government				-.038 (.074)
F	3.90***	10.21**	3.22***	4.09***
R^2/Root MSE	.62/.778	.39/.877	.42/.892	.42/.878
N	100	108	97	100

Note: clustered standard errors in parentheses; *** p<.01, ** p<0.05, * p<0.1. Country fixed effects (Model 1) not shown.

(🡐 p. 1313)

Conclusion

The aim of this paper was to examine whether and to what extent political parties have influenced the privatization of state owned enterprises between 1980 and the advent of the current global economic crisis. This period was characterized by an ever increasing economic globalization and the deepening of European integration with the formation of EMU as arguably the most important step in this process. Against this backdrop many scholars have argued that the room to manoeuvre of national governments will decline and party differences, in consequence, disappear. Our results do not confirm these pessimistic expectations. Relying on a new data set and a broad conceptualization of privatization, which includes formal as well as substantial privatization and is also sensitive to possible nationalization of enterprises, we obtained consistent empirical evidence that the partisan complexion of government is an important variable for understanding cross-national differences in the privatization policies adopted by governments in 20 OECD democracies since 1980. This holds equally true for the strength of parties in government and their ideological orientation. Secular-conservative parties have pushed for privatization, while left-wing parties were more hesitant in selling off the “family silver”. Overall, these findings are in line with the classic partisan hypothesis in comparative public policy research. Derailing public debt and the related pressure to rein in fiscal deficits are important driving factors of privatization, especially in EU member states after the adoption of the Treaty of Maastricht. Even though the impact of parties is constrained by EU-Membership, partisan differences did not disappear and even increased during the run-up to EMU. In a similar vein, globalization turned out to be a pacemaker of privatization but did not squeeze political parties to adopt similar policies. The continuous relevance of partisan differences in a markedly changed international political economy is an important finding since several recent accounts in comparative political economy have emphasized a declining role of political parties in economic and social policy. Our inquiry nonetheless revealed a significant retreat of the state from entrepreneurial activities in the vast majority of OECD democracies which is triggered by the changes in the international political economy that are referred to as globalization and Europeanization. Globalization and the deficit criteria of the Maastricht treaty do matter a great deal for privatization policies since the 1980s and these developments help us understand why most OECD-countries adopted substantial privatization programmes in the last 30 years – but they did not lead to the disappearance of partisan differences as is often argued. Rather, the cross-national differences in the extent to which governments have privatized public enterprises suggest that the partisan control of **(← p. 1314)** government remains an important factor for understanding policy-making in a more adverse international environment.

Appendix

Table A1.

Variable	Description	Source
Left Leaning Cabinet	Cabinet seats of social democratic and communist parties as a percentage of total cabinet posts	Data kindly provided by Manfred G. Schmidt, University of Heidelberg
Christian Democratic	Cabinet seats of Christian Democratic parties as a percentage of total cabinet posts (weighted by days)	Data kindly provided by Manfred G. Schmidt, University of Heidelberg
Conservative Cabinet	Cabinet seats of Conservative parties as a percentage of total cabinet posts (weighted by days)	Data kindly provided by Manfred G. Schmidt, University of Heidelberg
Ideological Position	Ideological position of the government on a left-right scale. The ideological position of each party in government is weighted by the seats of that party in parliament in relation to the total number of parliament seats held by cabinet parties	Döring & Manow, 2011
EU Member	EU membership (1=yes; 0=no)	Own assessment
Maastricht	Governments of EU member countries in power sometime between 1993 (ratification of the Maastricht treaty) and 1997 (reference year for EMU participation) =1 and 0 otherwise	Own assessment
Debt	Gross government debt (financial liabilities) as a percentage of GDP	Armingeon et al., 2011
GDP per capita (log.)	Logarithm of real GDP per capita (Constant Prices: Chain series) (2005)	Heston et al., 2011
Globalization	Economic globalization including actual flows such as trade flows (&`% of GDP), Foreign Direct Investment (% of GDP), portfolio investment (% of GDP) and Income Payments to Foreign Nationals (% of GDP) as well as restrictions including hidden import barriers, mean tariff rate, taxes on international Trade (% of current revenue) and capital account restrictions	Dreher et al., 2008
Union density	Net union membership as a proportion of wage and salary earners in employment	Armingeon et al., 2011
Strike (log.)	Index of strike activity, logarithm of working days lost per 1000 workers; calculation: (wdlost/emp_civ)*1000.	Armingeon et al., 2011
Years in power	Cabinet duration in years	Own assessment
Initial Size of Public Entrepreneurship	Index of Public Entrepreneurship in the starting year of the cabinet	Own data source
GDP growth	Compound annual growth rate of real GDP per capita	Heston et al., 2011
Political Institutions	PolconIII: Index of political constraints that estimates the feasibility of policy change (for details see Henisz (2002)	Henisz, 2010
Type of Government	Index that is coded with 1 = Single Party Government, 2 = Minimal Winning Coalition, 3 = Surplus Coalition, 4 = Single Party Minority Government, 5 = Multi Party Minority Government, 6 = Caretaker Government	Data kindly provided by Manfred G. Schmidt, University of Heidelberg

(← p. 1315)

Table A2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
Privatization	119	.370	1.14	-1.94	6.522
Left Leaning Cabinet	119	.371	.382	0	100
Ideological Position	119	5.32	1.47	1.71	8.77
EU Member	119	.668	.471	0	1
Maastricht	119	.235	.426	0	1
Debt	111	63.85	28.99	13.99	165.52
GDP per capita (log.)	119	10.14	.275	9.29	10.81
Globalization	119	73.52	13.15	31.49	95.40
Union density	119	41.45	21.20	7.7	86.05
Strike (log.)	116	3.57	2.17	-2.50	8.28
Years in power	119	3.13	2.68	1	16
Initial Size of Public Entrepreneurship	119	4.50	2.75	.522	12.31

(← p. 1316)

Table A3. Robustness Checks II: Party Effects on Privatization

Dependent variable: Privatization						
Independent variables	(1) ALTER-NATIVE WEIGHTS I Alpha=.875 Beta=.75	(2) ALTER-NATIVE WEIGHTS II Alpha=1 Beta=1	(3) TRADE OPENNESS	(4) LAGGED DEPEND. VARIABLE	(5) FE & INTER-ACTION Ideological position	(6) FE & INTER-ACTION Left leaning cabinet
Ideological Position	.320** (.117)	.399** (.144)	.237** (.095)	.280** (.119)	.150*** (.05	-.514** (.221)
Left Cabinet x Globalisation					.011** (.005)	-.038** (.019)
Maastricht	.672** (.236)	.926** (.330)	.471** (.173)	.604** (.231)	.601*** (.214)	.542** (.213)
Strike (log)	-.051 (.038)	-.058 (.050)	-.041 (.028)	-.049 (.029)	.043 (.068)	.034 (.069)
Debt	.007* (.004)	.009* (.005)	.005** (.002)	.007 (.004)	.005 (.007)	.005 (.007)
GDP per capita (log.)	-1.08** (.509)	-1.08 (.656)	-1.01** (.436)	-1.80*** (.399)	-.678 (.852)	-.597 (.879)
Globalization	.012* (.007)	.012 (.008)	.004 (.003)	.012** (.006)	.027 (.020)	.028 (.020)
Union density	-.017** (.008)	-.022** (.010)	-.010 (.006)	-.009 (.006)	-.051** (.022)	-.050** (.023)
Years in power	.199** (.087)	.229** (.110)	.165** (.066)	.149* (.082)	.111** (.045)	.097** (.044)
Initial Size of Public Entrepreneurship	.145* (.085)	.162 (.104)	.114 (.067)	.111* (.063)	.438*** (.083)	.435*** (.083)
Previous Privatization				.035 (.111)		
F	4.86***	6.02***	5.58***	7.15***	8.03***	9.49***
R^2/Root MSE	.420/1.093	.407/1.3785	.395/.8841	.462/.881	.632/.766	.626/.773
N	100	100	100	80	108	108

Note: clustered standard errors in parentheses; *** p<.01, ** p<0.05, * p<0.1. Country fixed effects (Model 1) not shown.

(← p. 1317)

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