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Abstract

By international standards there has been considerable privatisation of state-owned enterprises in Italy during the last 10 years and it has radically changed the characteristics of the economy.

With the benefit of hindsight we can see that the privatisation process has three main aims: to raise revenue for the Treasury and therefore help with the necessary reversal of the upward trend in the debt to GDP ratio; to produce widespread shareholdings in large industrial and service companies in order to make national equity markets larger and more robust; to free company management from excessive political interference and subject it to the ordinary pressures of capital markets to produce greater efficiency.

We found that the three goals have been partially achieved.

Revenues have been high compared to other privatisation programmes and although small compared to the stock of public debt, they have been important to reversing the trend in public finances.

Large numbers of shares have been sold, but there has been less loss of state control over companies.

The new competitive environment has produced a drive for greater efficiency, but powerful companies, whether under state control or not, have often opposed competition policies and succeeded in weakening them.

JEL classification: L 33

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1. Introduction

Italy provides an interesting case study on privatisation. Up to the late 1980s Italy had one of the largest state-owned sectors among Western economies: then it performed the third largest privatisation in the world (after the UK and Japan). The Treasury minister who accomplished most of the privatisations has become Head of State. The author of the best recent book on privatisation world-wide became Minister of the Economy a few weeks ago. The story is not yet finished but it deserves a partial summing up, which is what we attempt to do here.

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One well known and largely underlined characteristic of the Italian economy in the 1980s was the numbers of state-owned enterprises (SOEs)[1]. The presence of SOEs in the Italian economy was abnormally widespread[2].

Public ownership had continued to expand throughout the 20th century, for various reasons.

A large number of rather small municipal utilities were the heritage of a broadly based movement at the end of the 19th century.

Public intervention was used to reduce overdependence on imports and to develop strategic sectors. The 1948 Italian Constitution designed a market economy in which nationalisation was seen as an instrument to be used if enterprise failed to perform in strategic sectors or if monopolies developed.

There had been only one large, deliberate nationalisation: that of electricity in 1961, very late in the European post-war nationalisation wave.

ENI, the oil and gas company, grew out of a small enterprise created by the fascist regime before World War II to reduce national dependence on imported fuels. It became a major player in energy, with important additions in chemicals and other sectors.

State-owned companies were utilised as a driving force for the industrialisation of the less developed southern regions.

[1] We consider "State" as including local government.
[2] Statement in the Italian Government framework document for privatisations (MINISTERO DEL TESORO, 1992)

The single most important origin of state ownership was a long series of operations to rescue private-owned companies: the railways at the turn of the century followed by the largest banks and manufacturing firms in the crisis in the 1930s; then the arms industry in the post-war years and traditional manufacturing hit by the competition from low-wage countries. Generally speaking large companies were not allowed to go bankrupt and were nationalised as politicians bowed to trade union demands and to pressure from parties with vested interests.

All these historical events, together with the existence in Italy, as elsewhere, of state-owned entities in postal, transport, health and other service sectors, contributed to the exceptionally large size of the Italian public sector.

At the end of the 1980s the three main state holding companies employed over half a million people. Twelve out of the 20 largest non financial companies were state-owned and 90 per cent of financial investment was provided by state controlled banks[3].

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A reverse trend developed during the second half of the 1980s, when privatisation took hold in the UK and became fashionable around the world, when State aid to ailing companies, in both private and public sectors, clashed with European legislation and when the state of public finances started to deteriorate quickly.

A few privatisations were performed in the late 1980s, mainly for reasons of industrial reorganisation. A brief inventory of state-owned enterprises and of the possible effects of privatising them was first prepared in 1990 by a commission set up by the Treasury[4]. It stressed the possibility of a much larger and quicker privatisation process, estimating the total value of companies that could be privatised at around 200 thousand billion lire (or 18% of GDP) and that up to about half of it could be disposed of in three years. It also observed that the Italian stock exchange was too small to absorb such a large sale, but that the financial wealth of Italian households was more than adequate. With Italian financial markets

[3] We draw from GOLDSTEIN (2003).
[4] A summary is given by SCOGNAMIGLIO (1991).

dominated by high yield government debt issued to finance a large public sector borrowing requirement, households invested a very small proportion of their financial assets in equity, so that the Italian equity market was undersized in relation to the size of the economy. Privatisation could provide an opportunity for the creation of a more balanced domestic financial market and for an influx of capital attracted more by prospects of industrial growth than by higher interest rates, as was the case at the time.

A powerful reason for selling some of these assets emerged as Italy's public debt continued to rise from 60% to more than 100% of GDP during the 1980s.

The turning point came in 1992 when a public finance and currency crisis materialised. The state was running an annual budget deficit of 12% of GDP; the ratio of public debt to GDP had exceeded 120%. Confidence in the Italian state as a debtor and in the Italian lira declined, bringing about a rise in real interest rates on the quickly rising stock of debt in a vicious spiral.

Privatisation was an important part of the plan of action drawn up by the Government.

The first step was corporatisation. The Government ignored legal and political objections and, with an emergency decree in July 1992, turned the three large state institutions operating in the economy or acting as holding bodies for a vast array of companies (including ENEL, IRI and ENI) into joint stock companies and declared that they would be privatised. The same decree set out the main lines of the policy programme; it was enacted by Parliament with Law No. 359 of August 8.

Heavy tax increases and some spending cuts were introduced, but Summer events added to the drama. The British pound left the European Monetary System and the Italian lira was forced to follow a few weeks later.

The fiscal action produced a sharp reduction in the public deficit; the ratio of debt to GDP kept rising, but at a decreasing speed; it peaked at 124% in 1994 and then decreased to 106% in 2003, after a new fiscal effort was made following the decision taken in 1996 to join the Euro zone with the first group of countries.

Privatisation was a main component of the turnaround, not because of the revenue it produced immediately, which was negligible, but as a clear expression of a new policy.

The programme set out in the legislation of July 1992 was then developed into a more detailed programme (MINISTERO DEL TESORO (1992)) and a "green book" (MINISTERO DEL TESORO – DG DEL TESORO (1992)), which we will refer to as "the 1992 framework documents".

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Debt reduction was by no means the only reason for privatisation. The state-owned enterprises themselves were suffering from inappropriate management, also due to distorted incentives, and from interference by political or private interests, so that their average level of efficiency and profitability was low. It has been observed that labour costs per unit of output were on average 30% higher than for private sector companies in the same industries[5]. Hence, privatisation could be a decisive instrument for increasing efficiency in the Italian economy.

In fact, this argument was clearly put in the 1992 framework documents. Privatisation represented a unique opportunity for modernisation and the promotion of greater competitiveness in the Italian economy; it would contribute to broadening and strengthening the national financial market. The reduction of public debt was presented as a secondary effect [6].

The framework documents also stated that the number and size of SOEs were hardly compatible with the constraints resulting from Italy's membership of the European Community and from being a signatory of the Maastricht Treaty. One can detect two reasons for such a lack of compatibility. One is that the expansion and indeed the survival of many SOEs had been and still was vitally linked to State aid and opposition to State aid by the European Commission had become increasingly strict and severe. The other is that the

[5] ZANETTI AND ALZONA (1998), p.72.

[6] In the 17-paragraph framework document, MINISTERO DEL TESORO (1992), the contribution of privatisations to the reduction of the public debt is only described in paragraph No.15. See also on this point GOLDSTEIN (2003), p. 4.

internal market legislation was being extended to sectors previously excluded and the liberalisation of industries such as the utilities and banking, where SOEs operated with either a legal monopoly or in a de facto oligopoly, was now compulsory. Liberalisation implied letting firms, either public or private, pursue profit goals and shifting responsibility for public service and public interest to regulatory bodies. In fact Law no. 474/1994 established the principle that utilities could only be privatised if regulatory authorities were established: an energy and a communications regulator were subsequently set up.

Finally, a wave of criminal investigations had hit the party system in the early 1990s: illegal behaviour appeared to be widespread in SOEs too and a number of senior managers were forced to resign. Although private business was by no means immune from accusations, the emergence of many cases of collusion between political parties and managers of SOEs in diverting public money, seriously damaged the image of government owned companies and helped increase support for privatisations.

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In the seven months to June 1994, three major banks and a large insurance company were sold off through stock market flotations. The non-core activities of the main SOEs were sold. ENI concentrated on energy. The third State-owned holding, EFIM, was immediately liquidated while the largest, IRI, was set for liquidation in the year 2000: some of their main assets, however, remained in the hands of the Treasury.

Total proceeds from privatisation in the period 1991-2003 have been estimated at € 107 billion.

Average annual proceeds jumped from € 1.3 bn. in 1990-1993 to 5.8 in 1994-1996, then to 19.1 in 1997-1999 (with a peak of 23.4 in 1999) and then fell to 6.1 in 2000-2003.

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When you measure privatisation by revenues, you have chosen a definition. The word “privatisation” can indicate: (a) corporatisation, i.e. turning a public body into a joint-stock company, (b) sale of minority stakes, either via a direct sale or via a public offer, (c) loss of control, possibly maintaining special rights in the hands of the state through a "golden share", or outright total loss of ownership[7].

Corporatisation does not appear in revenue statistics. Usually it is a first step and in the Italian case it was an important first step. Corporatisation can result in a profit making approach by management and therefore the payment of dividends, while reducing the responsibility of the firm towards "the public interest", which can raise serious issues in terms of national security for some services.

Italian privatisations have been performed mostly by corporatisation and the sale of minority stakes, while outright loss of control has been less frequent. The sale of minority stakes is perfect for a Government wishing to raise money without losing control. It does not eliminate political patronage in the appointment of managers and political interference in the conduct of the firm. It may, however, introduce some opposing forces with the appointment of independent directors onto the board and produce more transparent decision making and accounting. Minority shareholders constitute a permanent threat, because they can sell their shares and decrease the value of the company if they do not appreciate the way it is being managed.

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Privatisation of state-owned companies has been advocated and can be assessed on three grounds:

1. it helps in reducing the public debt;
2. it helps to broaden share ownership and consequently to make financial markets more robust and resilient;
3. it allows firms to be managed more professionally and to follow economic goals with less interference from other goals: this should benefit growth and competitiveness.

[7] According to BORTOLOTTI, FANTINI, AND SINISCALCO (2001) and RICERCHE E STUDI S.P.A. (2000) "privatisation could be defined as the transfer of ownership and control of State-owned enterprises" to private economic operators (either the financial market or individual shareholders).

With the benefit of hindsight, we can now assess the implications of Italian privatisations and try and evaluate the process with respect to each of the three goals mentioned above.

The rest of this paper examines the three objectives mentioned: reduction of public debt, a broader shareholder base and strengthening of financial markets, industrial growth and competitiveness.

2. Effects on public debt

The framework document set a revenue target of € 14 bn. in the three year period 1993-1995: despite the political instability (four governments in three years), 96% of this was nevertheless achieved.

Between 1990 and 2003, total revenue from Italian privatisations reached € 107 bn., i.e. about 8.5 % of the average level of the stock of public debt in the period. Variations in the stock of public debt in the same period were large in comparison: in the first four years it jumped 27 percentage points from 97% to 124%; in the following nine years it dropped 18 points to 106%. The direct contribution from privatisations appears to have been important, but limited. Italy would not have found a way out of its awful financial situation without strict fiscal discipline on current account.

The impact of privatisation on debt reduction was larger than is shown by the arithmetic of revenues. Other items, such as subsidies to and dividends from, SOEs must be taken into account. Moreover, payments made out of the government budget and revenues paid into it affect the stock of debt and hence the flow of interest payments.

An analysis of the relationship between public debt and SOEs is presented in Table 1. It refers only to the three largest SOEs, but it is highly indicative of the general trend.

In Table 1, three periods can be clearly distinguished. There is a historical past running from 1937 to 1979 when the three SOEs produced a moderate contribution to the build-up in public debt mainly as a result of the financial effort made to create the endowment funds. In 1980-1994 the contribution of SOEs to the increase in public debt exploded, reaching € 110 bn., not only because of the additional large subsidies required to support the expansion of public sector industry through internal growth and to rescue of private sector companies, but also because of the rapidly increasing cost of the public debt created, while the dividends produced were meagre. This was the unsustainable trend which had to be reversed.

And in fact between 1994 and 2000 the flows were reversed and a net contribution to debt reduction of € 85 bn. appeared, mainly due to the revenues from privatisation also helped significantly by a substantial increase in dividends, which can be ascribed, in turn, to the new government policy towards SOEs, consisting of corporatisation, setting profitability as a company objective with expected privatisation.

The privatisation period can be analysed further by looking at data for all SOEs. The dimensions of the variables in our story are given in Fig.1, where revenues from privatisation and change in the outstanding debt are plotted against the annual primary and net deficit/surplus in the public accounts. The spread between the two latter indicators reveals the cost of interest on the public debt: the cost of servicing public debt was progressively reduced as a consequence both of containing the stock of debt and reducing interest rates.

Privatisations have had a positive impact on interest charges. One should remember that, despite a primary surplus in the early 1990s, annual expenditure on interest led to constant annual net borrowing by Government of more than 10% of GDP.

Privatisations helped reduce interest costs, firstly by reducing the stock of outstanding debt, but also by helping to improve the rating of the debt (or to prevent it from worsening) which kept interest rates from rising.

One reason for this positive effect on the attitude and expectations of financial markets was that the privatisations clearly indicated the Italian government's intention to discontinue the well-established habit of rescuing private sector companies from bankruptcy and of using state-owned companies to achieve various general and local development goals and for social appeasement; a policy which meant that the government would not have to increase its borrowings to pay further debt contracted by SOEs and in general reduced the probability of new debt creation in the future.

Privatisation, together with some important reforms (such as the pension reforms in 1992 and in 1995), proved to be a useful means of solving public finance problems in so far as they constituted a commitment by government to pursue a consistent budget policy.

Figure 2 illustrates the long-term interest rates on government bonds. It shows how the declining trend of interest rates on Italian bonds accelerated significantly during the privatisation years, leading to an almost complete convergence with German bond rates, which are usually referred to by commentators as an efficient benchmark: the spread, indicating the risk premium, decreased from about 5 to less than 0.5 percentage points in 1998 and to 0.2/0.3% today.

Privatisations were helped by the general high level of Stock Exchange prices, as shown in Figure 3. The greater part of revenues, about € 57 bn., was raised in the period from 1997 to 1999, characterised by seemingly never-ending growth in share prices and solid confidence in the future of "dotcoms".

Sales of public stakes decreased after 1999, when a progressive deterioration in expectations eventually led to the explosion of the financial bubble in 2001 and to a sharp decline in stock prices and economic recession.

A few privatisations have taken place in recent years despite the persistently poor performance of financial markets. They were mainly performed to meet the 3% target of the Maastricht convergence criterion[8]. Some operations have been criticised as window - dressing, such as the sale of Treasury assets to Treasury-controlled bodies[9].

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[8] Privatisation revenues help reduce the stock of debt and not current deficits. They indirectly contribute to reducing annual net borrowing via the reduction of interest costs on the stock of debt. They also provide some contribution to the current budget when a Treasury-owned holding company (such as Eni or Enel) sells assets and uses the revenue to pay an extraordinary dividend to shareholders.

[9] This is the case, for example, of the recent Treasury sales of industrial shares to Cassa Depositi e Prestiti, and of shares of the same Cassa Depositi e Prestiti to such hybrid bodies as the Fondazioni Bancarie, which will be discussed in section 3.

Ideally, privatisation planners should aim at increasing public sector net worth rather than revenue. No systematic effort to perform proper accounting of state assets was made in Italy until quite recently[10].

A programme of accelerated privatisations, reaching approximately € 25 bn. on average each year, is included in the 2005-2007 financial planning document recently presented by the Minister of Economy and Finance. The figures relate to a broader meaning of the term privatisation, including securitisation and the sale of state-owned assets, so that it is impossible to evaluate the provision before a detailed programme is published. It is likely, however, that a large privatisation programme would imply loss of control over some major state holding companies such as ENI and ENEL.

Paradoxically, the very effects of privatisation have nowadays reversed the relative convenience of privatisation itself as compared with public ownership. While the opportunity cost of giving up dividends is higher (since more efficient and profit-oriented firms distribute higher dividends), the benefits from the reduction of public debt are lower, since lower long-term rates now make debt relatively cheaper. This fact sets a new challenge to the privatisation programme for the future.

To sum up, the effect of Italian privatisations on public finance has certainly been positive and large. Although revenues represent a limited portion of total consolidated public debt, privatisation proved very important in the most critical years when a strong signal of commitment to strict budgetary policy and a U-turn in the negative trends of public finance indicators were very much needed. Privatisation helped to reverse the expectations of international investors and to thus make public debt sustainable again. It was probably decisive in the crucial years.

[10] According to the 2005-2008 Dpef, State gross assets are estimated at around 137% of Gdp; 40% of these assets could be sold in the medium term.

3. Effects on mass shareholding and on the financial markets

The framework document stated that "the process must aim at creating the conditions for widespread shareholding, which is a prerequisite for the creation of an efficient and broad equity market in Italy"[11].

The presence of the state in the Italian banking sector was pervasive in the early 90s and it created a circular problem. A strong and healthy financial market was a necessary pre-condition for the success of privatisation; on the other hand, the development of such a financial market required the prior massive privatisation of public sector banks. The risk (which was otherwise quite realistic) of the state acting as both seller, through the Treasury, and purchaser at the same time, through public sector banks, had to be avoided.

The first step was Law No. 218/1990, which provided for the corporatisation of public banks and allowed the sale of up to 49% of the shares to private investors. Two years later, Law no.491/1992 liberalised the capital market and allowed the adoption of a "universal bank" model.

A vast reorganisation of the banking sector started with numerous mergers and acquisitions taking place under the strict control of the Banca d'Italia. Banks owned by the Treasury directly or indirectly through IRI were sold by public offerings.

Local savings banks, which had often originated in the private sector but in fact were subject to government appointment of their managers and consequently to political influence, were transformed by law into foundations (they are usually called "Fondazioni Bancarie"). Initially, each foundation had only one type of asset, i.e. its equity holding in the original bank. These foundations were invited (indeed forced, up to a certain extent) to divest bank shares and diversify their assets, concentrating in social grant-making: their mission was (is) to change from being bodies holding shares in banks into grant-making institutions. This has made it easier for the former banks to merge and operate like ordinary business banks.

The Fondazioni Bancarie have been recognised as being legally in the private sector, yet their boards of managers are greatly influenced (and in part directly appointed) by local governments. So the governance of these Foundations is in fact mixed: local governments appear to be the main stakeholders, yet local private cultural and other non-profit associations participate and have a say.

Widespread privatisation was carried out in various sectors ranging from insurance to manufacturing. All major operations were carried out in *tranches* rather than in a single step: this decision was justified on the basis of the small size of the existing financial market, but privatisation planners probably also considered that a number of partial sales achieve a higher total revenue than a single sale. In some cases, a gradual procedure was chosen because it allowed the loss of control by the state to be postponed.

A debate arose about the sales method with partisans of the French model based on *noyaux durs* opposed by supporters of the British public company model. In most cases, the latter option was adopted and the vast majority of sales (particularly in the 1993-2000 period) were carried out through public flotations rather than via private agreements (Fig. 4) with clear benefits for the development of the financial markets.

Broadening the spectrum of shareholders and increasing numbers of private individual shareholders constituted a priority for the same reason.

A series of legislative reforms were enacted to achieve this: Law No. 474/1994 established the rules for the sale of state owned enterprises. It set a 5% ceiling for the number of shares that could be owned by one shareholder and also allowed the Treasury, if desired, to create a *noyau dur*. Furthermore, several provisions increased the protection of minority shareholders, such as proportional representation (so called *voto di lista*), the requirement to introduce postal voting and a set of new rules for members of a concert party intentioned to launch a take-over bid.

In February 1998 the 'Consolidated Act on Financial Intermediation' (also known as the *Draghi Reform*) further weakened shareholders' syndicates and voting agreements, relaxed conditions for takeover bids and introduced several provisions designed to protect minority

[11] MINISTERO DEL TESORO (1992), par.4.

shareholders, such as: a derivative suit[12], a lower threshold for calling shareholders' meetings, representation on the statutory board of auditors (while avoiding changes in the structure of the board of directors) and stricter regulation of insider trading.

The combination of these provisions with the stock market boom (or bubble) in the second half of the nineties (which was mainly due to other causes) succeeded in persuading millions of private individuals, who had previously channelled their savings into government bonds, to become shareholders. Privatisations were made easier and at the same time they contributed strongly to the diffusion of mass shareholding in a virtuous circle which lasted for a few years.

Table 2 shows that former state-owned companies have a much larger number of shareholders than companies that have always been in the private sector. The difference between the two groups is approximately of one order of magnitude, with ENEL and ENI alone outperforming all the main private undertakings. The percentage of household savings invested in shares (directly or through mutual funds) increased from 19.4% in 1996 to 44.4% in 1999; it fell to 29.4% in 2002 due to the negative performance of international stock prices[13].

It seems fair to say that privatisation had a strong positive impact on the absolute growth of the Italian financial market, although other factors were at work in the same period. Privatisation attracted new investors since by increasing the number and variety of financial instruments available on the market it eased risk sharing and by disseminating valuable information for potential and existing shareholders, it favoured their willingness to invest in risk capital.

Apart from the growth in the size of the market, for which the total capitalization of the domestic stock market gives an approximate measure, as shown in Figure 5 below, there was also an increase in share liquidity as measured by turnover on the national Stock Exchange. Both indicators moved upwards during the privatisation years: market capitalisation increased five times in the period 1990-2003 from about 10% of GDP to around 45% (after peaking at 80% in 2000), while turnover increased one hundred fold in the same period (see Figure 6).

[12] The possibility for a minority of a certain size to sue the management.

According to the policies declared and to the preference shown for public offerings as the best instrument for creating "public companies", privatisations and legal reforms should have had the combined effect of creating a market for corporate control and radically changing the rules of corporate governance. They should have broken the established status quo in Italian capitalism, based on control by a small number of families. They should have strengthened the role of institutional investors, such as pension funds, and encouraged foreign and emerging domestic groups to invest on the Italian capital market.

This has only happened to a limited extent.

Control of banks has moved to the Fondazioni Bancarie, together with private shareholders. Transparency in corporate control and in financial operations has increased somewhat, but a high concentration of control and market power has remained both in financial and in industrial spheres, leading to the creation of stable groups of core shareholders in most privatisation cases. A typical story is that of Telecom Italia, the largest privatised company, which was first turned into a sort of "public limited company" (although the Treasury still retained special powers with a golden share) and then, after two successive takeovers, has ended up being controlled by a financial holding company which is, in turn, controlled by the same family group that controls both Pirelli and Olivetti.

While domestic mutual funds and pension funds are slow in taking off, Italian privatisations failed to attract foreign institutional investors, until quite recently when some of them bought non marginal stakes in the capital of former state-owned enterprises and started to play an active role in the control of firms.

On the whole, privatisations have contributed to mass shareholding and to the development of Italian financial markets, but the expected results have not been achieved. Italian financial markets have increased but they are still small with respect to the economy. Direct shareholding by private individuals has increased, but control of companies has remained in a few hands. Consequently, public offerings of state-controlled companies are still debated on

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[13] GOVERNO ITALIANO (2003), p.32.

the grounds of their likely outcome in terms of corporate control, since a “public company” solution is considered unlikely given the present state of Italian financial markets.

4. Effects on industrial growth and competitiveness

As already mentioned, the idea that state intervention through SOEs could be instrumental to regional and sectoral development had a long and strong tradition in Italy. Even rescue operations had often been presented as ways to preserve potentially economic activities and industrial know-how. Competition on the other hand was not considered important: it was not even mentioned in the 1947 Constitution and a competition authority wasn’t established until 1990.

The framework documents argue that it was necessary, after the Maastricht Treaty, to re-organise the state’s activity in the economy. The key word now was competition. Ailing companies could no longer be supported, except in ways and under conditions acceptable to the European Commission. State aid was similarly banned or strictly limited. The traditional justification for intervention, that state action should replace private sector activity when it failed to fulfil given goals or needs, was no longer viable. Past state intervention was both recognised as important and constructive for development and at the same time accused of being a source of inefficiency and finally of creating obstacles to further development.

Privatisations, on the other hand, could be decisive in eliminating weaknesses which made the Italian economy uncompetitive: lack of a national market for risk capital, firms too small and undercapitalised, little market culture[14].

The privatisation programme was therefore put forward with a mix of contrasting feelings: resignation to harsh but inevitable European discipline and a determination to grasp a historical opportunity for development and competitiveness. The ambiguity has not been overcome even today.

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[14] MINISTERO DEL TESORO (1992), par.2.

The same ambiguity was and in fact still is widespread in Europe. Protection of national companies from foreign competition and defence of national ownership of companies from foreign takeovers are typical attitudes taken by most governments in a continent where economic nationalism has played a historic role and the concept of the "national champion" is deeply rooted in political and general cultures. It is difficult for any Italian government to follow policies that are opposite to those prevailing in France and Germany.

A fear of foreign takeover has been one reason for keeping control of partially privatised companies, together with a fear of allowing the accumulation of too much economic power in too few private hands. Such "reluctance"[15] to privatise is widespread in many countries. In Italy it has often limited privatisation to the sale of minority stakes and only in a few cases (such as Telecom Italia) has it led to the introduction of golden shares.

Table 3 shows that privatisation in Italy produced the second highest revenues in Europe after the UK, but when it comes to the transfer of corporate control to private shareholders, Italy lags behind Spain and even behind France if one considers the Fondazioni Bancarie as still belonging to the public sector (which is debatable) [16].

Not only the policy documents but also the economic literature on privatisation states that privatisation should result in better management of the companies involved, that the managements of privatised companies should be more able to pursue efficiency and profitability and be less vulnerable to interference by political power, if not completely free of it and that this should make companies and indeed the whole of industry more dynamic and competitive.

A positive change in efficiency and profitability can be seen clearly in a number of cases of individual companies in Italy. Econometric proof is very weak and inconclusive, however, and for good reasons: it is difficult to find homogeneous data for long periods, given the number of mergers and spin-offs and reorganisations of the companies and groups concerned;

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[15] BORTOLOTTI and FACCIO (2004) introduced the expression, and measured the effect of government's reluctance to give up control on the value of the firm

[16] The values in the table differs slightly from those used in the previous analysis, because of the different criteria employed by the different sources of the data. They are not substantial, however, and do not give rise to a loss of generality in the reasoning.

and there again shorter periods do not provide clear results, given the positive impact on profits of expected privatisation, which stimulates efforts to improve profitability in the years before privatisation. This effect is clearly present in Italy, where SOEs selected for privatisation were first corporatised: for the very first time their managers were given (by government) the task of "increasing the value of the company".

One important aspect of the reorganisation was the liberalisation of the utility sectors. European directives issued in the 1990s laid down the rules for a common liberalised market in telecommunications, electricity, gas, rail and other transport sectors and this is where the majority of state-owned company capital lay, apart from in banks.

Privatisation of utilities (together with privatisation of banks) has provided the largest contribution to revenue and to mass shareholding. Yet there is still a dominant firm in all sectors and the dominant firm is still state-owned in all sectors except for telecommunications. Municipal utilities are still controlled by municipalities in most cases. One could easily conclude that there has been no significant introduction of competition in the Italian market and no significant contribution to the international competitiveness of Italian industry.

This would be a rather extreme conclusion. Italy's liberalisation of the utility sectors is remarkable by European standards[17]. Some competitive pressure is being felt, new firms have entered the markets and independent regulation is putting pressure on profit margins and preventing abuses. On the other hand, monopoly control of local networks and sometimes also of the long-distance networks and bottlenecks in the electricity and gas interconnections still provide significant protection. The transition to competitive conditions takes time in any country and liberalisation is a gradual process.

Government attitudes have not always been pro-competition. Liberalisation laws specify long (30-year) concessions for motorways and for electricity distribution and compensation to ENEL for "stranded costs"; unbundling of "natural monopoly" activities such as electricity and gas transportation has been set short of effective ownership separation (but the terms of this

[17] OECD (2001).

unbundling are far stronger in Italy than in most European countries); access to the telecoms network has remained favourable to Telecom Italia; government pressure on the regulatory authorities has constantly been applied in the direction of support for the former monopolists, as is discreetly reported in the various annual reports and messages to Parliament by the authorities themselves.

Looking across a wide sample of countries and over a long period of time, Bortolotti and Siniscalco[18] put forward the thesis that vertical disintegration and regulation favour privatisation. In actual and generally short-sighted, policy-making, however, it is widely believed that revenues can be increased by maintaining long concessions and relatively high tariffs. Moreover, the national champion syndrome works to maintain vertically integrated companies by defending a certain degree of protection in favour of the former monopolists and weakening regulation.

5. Concluding Remarks

A massive privatisation effort has been made in Italy since 1992. It has significantly contributed both to reversing the negative trends in public finance (and hence to making a timely adoption of the Euro possible) and to creating broader mass shareholding and a stronger equity market. On both accounts, though, privatisation has been only one component of a broader policy effort and the ultimate goals have been only partially achieved.

Privatisations have slowed in the last three years and their character has changed, with a much smaller recourse to public offerings and an increased frequency of direct sales to private or even to non-Treasury public sector buyers such as the Cassa Depositi e Prestiti and the Fondazioni Bancarie.

Similar considerations can be applied to the new design of industrial policy, based on competition and liberalisation rather than on state intervention. Here again privatisations have played a role together with the (rather new for Italy) competition policy by the *Autorità Garante della Concorrenza e del Mercato* (antitrust Authority) and by sectoral regulators.

The new setting has not eliminated the important restrictions imposed on competition by powerful vested interests. However, it has forced them to be more explicit and visible, with some positive results.

In the utilities area the residual government ownership of former monopolists has proved an obstacle to liberalisation. It is agreed that in general the correct sequence is to liberalise first and to privatise later in order to avoid conflict between liberalisation and the rights of shareholders who would otherwise own a company with monopoly privileges which they could claim to have paid for. The Italian experience, however, illustrates some of the difficulties that can arise when the two processes of liberalisation and privatisation both drag on for a long time. The various steps in the liberalisation process are constantly distorted and sometimes opposed by a powerful incumbent who is as profit-oriented as any completely private company, but is also still capable of influencing government because of the government's vested interest in the value of its shares in the company. This influence is in addition to the general influence exerted by all national champions on national government.

Further substantial privatisation is planned in recent government documents. Whether it will mark a significant revival of the original thrust towards greater confidence in the working of the market will depend on the quality as well as on the quantity of future sales (quantity has an impact on public finance parameters, whichever way they are adapted by future European agreements).

There are two qualifying conditions.

One is the government's courage to give up control of companies. This implies strengthening the various instruments put in place in different sectors to pursue the general interest, such as regulation for public services (much needed in transport) and supporting science and industrial R&D in hi-tech sectors. If the government succeeds in providing protection for consumers and promoting innovation and the growth of the firms by providing a favourable environment, there will be little justification left for public sector ownership.

[18] BORTOLOTTI AND SINISCALCO (2004), Ch. 6.

The other condition is public offerings must be developed to further broaden share ownership, strengthen the capital market and create new independent players in the Italian economy. Pension funds and other institutional investors are also much needed.

A change in the traditional approach to economic and industrial policy is a necessary condition for achieving such targets; success in achieving them will in turn facilitate the process of cultural change.

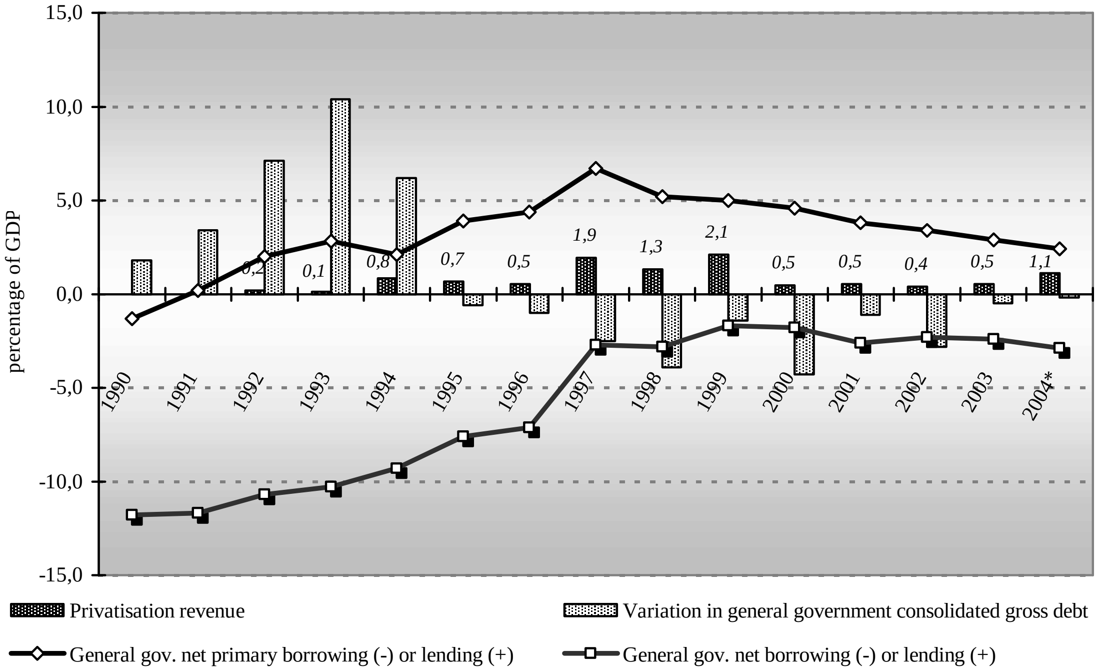
Figures and tables

Table 1. Public debt induced by State-owned enterprises (1937-2000)

	By public body				**By period**		
	IRI	**ENI**	**ENEL**	**Total**	**1937 to 1979**	**1980 to 1994**	**1995 to 2000**
a) Public transfers (endowment)	37,872	9,137	13,309	60,318	7,713	49,981	2,624
b) Dividends	14,702	6,759	12,429	33,890	56	-	33,834
c) Privatisation Revenues	-688	40,078	31,423	70,813	-	-	70,813
d) Interest on consolidated debt	48,323	11,093	19,949	79,364	2,745	60,296	16,323
Balance (a-b-c+d)	72,181	-26,607	-10,594	**34,980**	10,402	110,277	-85,700

Source: processing of data from RICERCHE E STUDI SPA (2000)

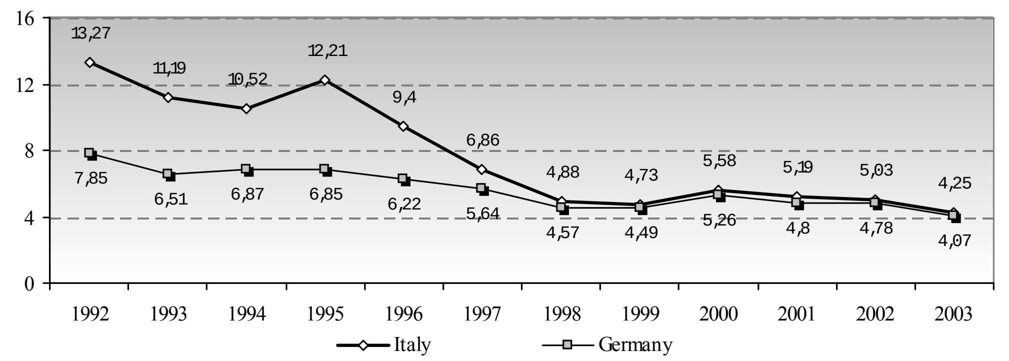
Figure 1. The contribution of privatisation to healing Italian public finance



Values expressed as a percentage of gross domestic product at current market prices (* = forecasts)

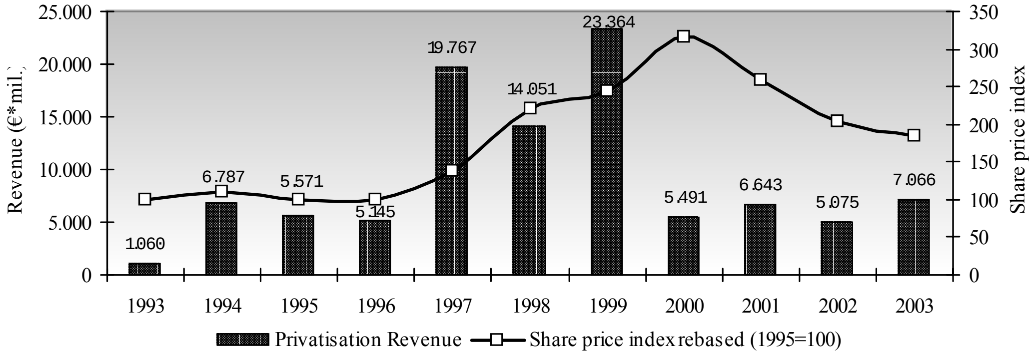
Source: processing of data from BANCA D'ITALIA, ITALIAN TREASURY and www.privatizationbarometer.net

Figure 2. Long-term interest rates: 10-year government bond yields, secondary market (annual average)



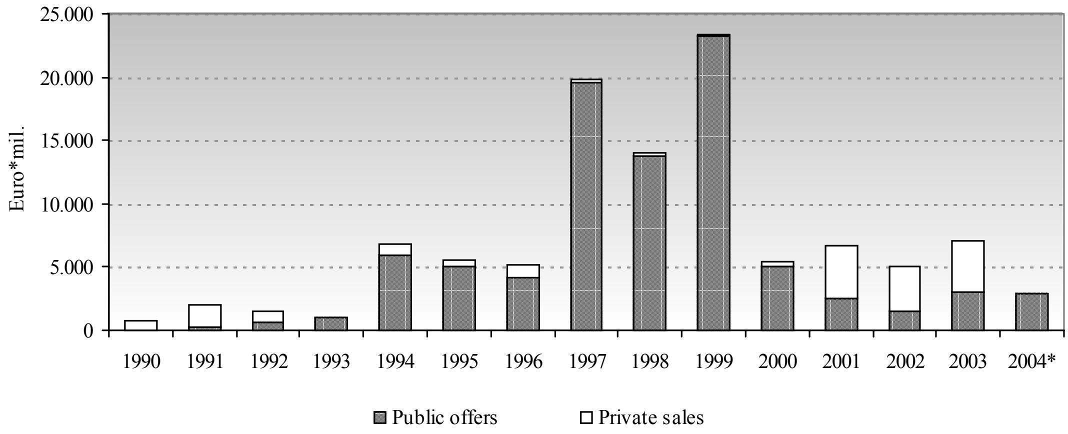
Source: processing of EUROSTAT data

Figure 3. Revenue from privatisation and share price index of Italian Stock Exchange



Source: elaborations on data www.privatizationbarometer.net and EUROSTAT (share price index)

Figure 4. Sale methods employed in Italian privatisation



*2004: first half

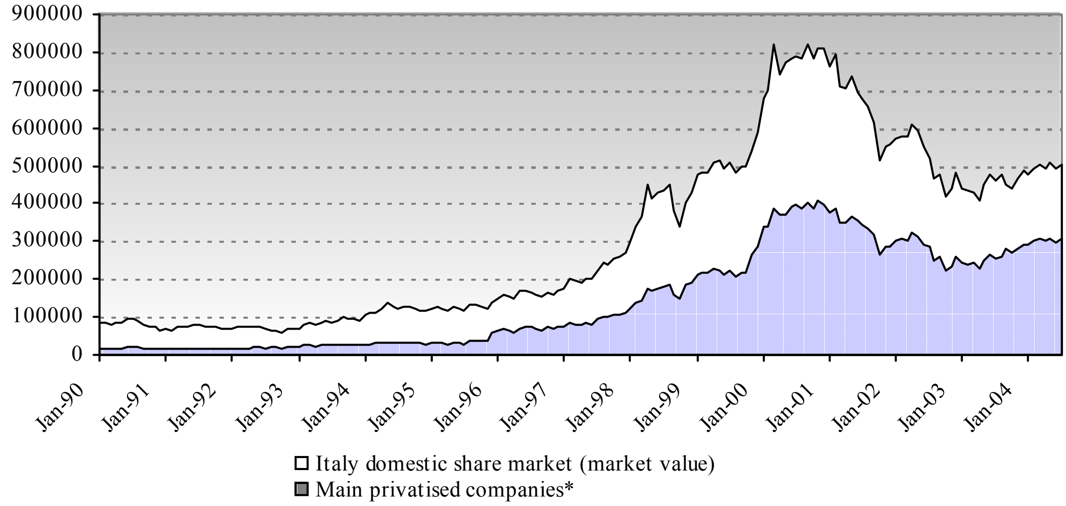
Source: processing of data from www.privatizationbarometer.net

Table 2. Shareholders of the main joint-stock companies on the Italian Stock Exchange (June 2000) – Number of shareholders / 1,000

Former state-owned enterprises		*Private sector firms*	
ENEL	3,800	FIAT	260
ENI	1,600	Mediaset	233
Autostrade	900	Generali	208
BNL	300	Banca Intesa	150
Telecom Italia	286	Montedison	142
Banca MPS	229	E-Biscom	113
Unicredito Italiano	208	Mediobanca	104
ACEA	186	RAS	100
TIM	174	Olivetti	88
Banca di Roma	155	HdP	76
COMIT	101	Pirelli	71
AEM	95	BIPOP-CARIRE	60
San Paolo IMI	81	Parmalat	58
AdR	36	Benetton Group	25
Finmeccanica	24	CIR	15
SEAT	22	SMI	11

Source: RICERCHE E STUDI SpA (2000)

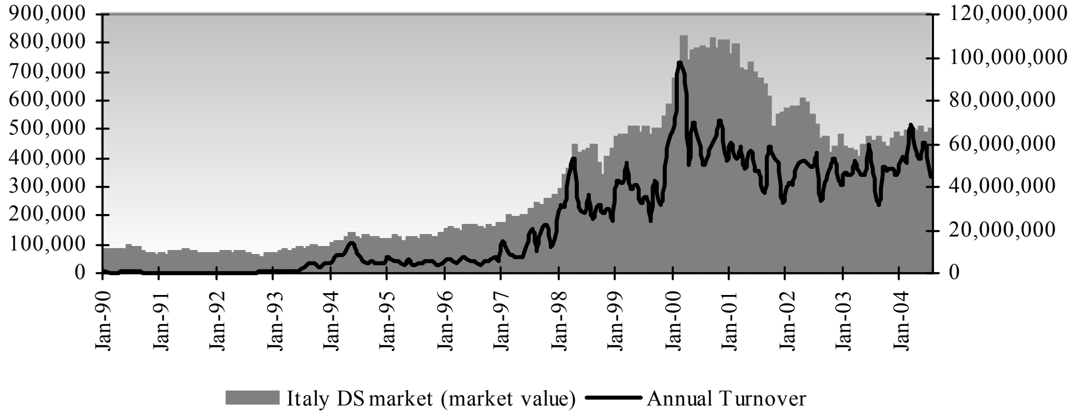
Figure 5. Total capitalisation of the Italian Stock Exchange and capitalisation of former state-owned enterprises* (Euro Millions)



* The category "Main privatised companies" includes: Autostrade, BNL, Banca Intesa (merger of five banks including COMIT), Banca Monte dei Paschi, Capitalia, ENEL, ENI, Finmeccanica, Generali (INA), Saipem (controlled by ENI), San Paolo IMI (which includes IMI and Banco di Napoli), Banca Fideuram (controlled by San Paolo IMI), Seat Pagine Gialle, Snam Rete Gas (controlled by ENI), TIM, Telecom Italia and Unicredito

Source: processing of DATASTREAM data

Figure 6. Total capitalisation (left axis) and annual turnover (right axis) of the Italian Stock Exchange (Euro Millions)



Source: processing of DATASTREAM data

Table 3. Privatisation and transfer of control in Europe (percentages of GDP)*

	Fra	Ger	Spa	UK	Ita
Equivalent value of privatisation	7,8	5,4	8,3	13,4	12,3
Debt transferred	0,0	0,0	0,0	1,5	1,3
Net revenue	7,8	5,4	8,3	11,9	11,0
Non-controlling sales	2,4	4,0	0,1	0,0	5,7
Sales to Fondazioni	0,0	0,0	0,0	0,0	1,4
Privatisation with loss of control	5,2	1,3	8,1	11,9	3,9

* Percentage obtained by summing the various ratios between privatisation revenues and GDP in the years of privatisation, namely: 1986-1988 and 1993-2003 for France, 1991-2002 for Germany, 1992-2003 for Spain, 1984-1996 for the UK and 1992-2003 for Italy.

Source: CENTRO STUDI CONFINDUSTRIA (2004)

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