Seeking the Best Master

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CHAPTER 1
Crisis Management in Europe: Nationalizations and Privatizations

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In the years following the 2008 crisis, the developed countries of Europe experienced a massive wave of nationalization. At the same time, a wave of privatization began, but on a smaller scale than in the preceding decades. This paper analyzes the drivers and movements of this complex process. It reveals how quiet and hidden privatization techniques became increasingly important, while nationalizations also took place discreetly, without attracting much publicity or even without statistical review. As part of this process, along with the fortification and foreign expansion of state-owned entities and funds, a new type of public ownership emerged, which, by disregarding the intentions of governments in destination countries, may significantly differ from its traditional form in terms of its operation, objectives, and impact. All of this plays a role in blurring the boundaries between public and private ownership and nationalization and privatization. The dichotomous approach is, therefore, worthy of replacement by new analytical methods.

In spite of the long wave of privatization in the past decades, state ownership has remained significant both in the developed countries of Europe and globally. In 2008–9, the scope of state ownership broadened spectacularly before the sale of some smaller and larger entities, which took place in the years that followed. However, this was just a milestone on a long and twisting path, “one of endless adventures” (Lewis 1965). How

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1 An earlier version of this paper analyzing the case of the U.S. and also some economic policy issues appeared in *Annals of Public and Cooperative Economics* (Voszka 2017).
should we interpret the changes of this period and the opposite processes of privatization and nationalization occurring simultaneously?

This paper, focusing on developed regions of Europe, puts the developments of the post-crisis management into historico-institutional context. It also draws attention to some new and unusual characteristics of ownership changes. It argues that although privatization as well as nationalization seems to be useful tools to address crisis-related restructuring needs, many decades of experience have shown the disadvantages of both of them. That is why both the expansion and contraction of state ownership became unpopular, and forced politicians to strike the right balance between short-term constraints and once generally accepted principles.

The first part of the essay presents the size of state ownership in developed European countries, and provides a short summary of major developments leading to the current situation. After this, the essay turns to an investigation of the crisis-related nationalizations and privatizations. All along, we must keep in mind that, beyond basic European trends, each country has its own distinct pattern.

The Function of State Ownership and Its Historical Changes

In Europe, public ownership had been growing steadily since the nineteenth century, especially in the years immediately after 1914. This process, covering several countries in more or less harmonized waves, intensified during the two World Wars, the Great Depression, post-1945 reconstruction, and the oil crisis of the 1970s.²

In its early days, the rise of public ownership in Europe was linked with the concept of the developmental state, the most important objectives of which were to supplement scarce private capital, build infrastructure as well as markets, and, in several cases—most spectacularly in Germany and Italy—create a unified nation state (Millward 2011). As a general rule, state ownership became widespread in public services, transportation, and—in order to finance all of this, especially in the continent’s less developed countries—financial institutions.

Later, in peacetime, the state appeared as an alternative to the market, able to correct market failures. The target system became more complex,

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comprising efforts that sought to: mitigate unfavorable effects related to private ownership and monopolies; reduce negative externalities; help under-developed regions; improve employment; and drive down prices. During years of economic crises, sustaining the economy, saving banks and companies from bankruptcy, and reducing unemployment had been turned into justification for even more state ownership, which was expanding across economic sectors considered to be strategic, as well as part of the manufacturing industry.3

Hence, state ownership was destined to meet a multitude of often-conflicting objectives. According to contemporary and ex-post facto analyses, governments considered it to be a panacea, a remedy for all of the evils of capitalism (Ward 1946; Aharoni 1986). In times of wars and crises, as well as during the emergence of welfare states, one could assist with the expansion of public property, which went hand-in-hand with the state’s growing role and the strengthening of market regulation.

At the turn of the 1970s and 1980s, when state ownership probably reached its apex, the public sector accounted for an average of 12 percent of GDP in developed countries of Europe by Shirley’s estimate (1983).4 Data, however, are—as also observed in her paper—incomplete and far from reliable, as the definition and registration of, and accounting system for public property differ from country to country. Hence, the table below only provides a rough estimate of the importance of the public sector in the economy.

| Table 1 |
| Share of non-financial SOEs (state-owned enterprises) in the economy of some European countries, at the turn of the 1970s and 1980s (percent) |

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>GFCF</th>
<th>Employment (excl. agric.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>25.0</td>
<td>52.0</td>
<td>12.0</td>
</tr>
<tr>
<td>France</td>
<td>17.0</td>
<td>12.1</td>
<td>–</td>
</tr>
<tr>
<td>Austria</td>
<td>14.5</td>
<td>19.2</td>
<td>–</td>
</tr>
<tr>
<td>Sweden</td>
<td>14.4</td>
<td>11.4</td>
<td>3.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10.9</td>
<td>17.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Germany</td>
<td>10.2</td>
<td>10.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

3 A fine summary of objectives can be found in, e.g., Aharoni (1986), Vickers and Wright (1989a), Megginson and Netter (2003).

4 Financial enterprises are excluded.
<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>GFCF</th>
<th>Employment (excl. agric.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>8.0</td>
<td>11.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Italy</td>
<td>7.4</td>
<td>15.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.3</td>
<td>–</td>
<td>2.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>6.0</td>
<td>13.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Spain</td>
<td>4.1</td>
<td>15.6</td>
<td>–</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>3.6</td>
<td>12.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Average of developed countries of Europe</td>
<td>12</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

*Note: Most data relate to the period of 1978–81*

1 1982 data, only referring to central state level (Carlsson 1988)

** Financial enterprises included. By the account of Parris (1985), it does not contain non-corporate entities (e.g., of local public services), or those having the same legal status as private companies.

*** Data corrected on the basis on Pontusson (1989) referring to IMF data.

xxxx 1961 data, not comprising local governments’ interests (Langer 1966)

*Source: own composition based on Shirley (1983); data for Portugal comes from The Library of Congress (1993)*

In spite of uncertainties, we can ascertain that there was a wide range of state-owned enterprises’ (SOE) share of GDP in individual countries: between 4 and 25 percent of GDP; 10 and 52 percent of gross fixed capital formation (GFCF), and 1 and 12 percent of employment. State ownership was most significant in Portugal for all examined indicators, with France, Austria, Sweden, the United Kingdom, and Germany also claiming top positions. At the other end of the spectrum are Spain and the Netherlands. Differences may be explained partly by socio-cultural heritage or specific factors.

In France, the state has intervened in the economy for centuries. The relationship between government and business, which was also based on the common cultural background of public and corporate elites, has always been strong. The first state owned manufactures were developed in the seventeenth century through the initiative of Louis XIV’s powerful finance minister, Jean-Baptiste Colbert. Later, public ownership increased in waves following the Great Depression, both World Wars, and—as a deviation from trends in Europe—at the beginning of the 1980s. In this

5 Finland was not included in the survey and comparable statistics were not available. According to Willner’s data (2003), before the big wave of privatization, SOEs represented an 18–22 percent share in industrial value added, and 12–15 percent in industrial employment, which leads us to the assumption that Finland occupied a prominent place in the ranking at the time.
latter moment, it embraced approximately 3000 companies producing almost one-fourth of French GDP (Somai 2017). In Austria, public companies (of which three big banks) produced one-fifth of the national economic output even before the Anschluss. After 1945, both firms founded by the Germans and Austrian businesses they had previously acquired were made public. The goal was to prevent Soviet ownership (Kőrösi 2016). In nineteenth-century Germany, greater state involvement in the economy had been regarded as a key factor in the catching up process; public ownership (i.e., the creation of a common infrastructure) also enabled the creation of the unified nation-state. Public arms companies established during World War One, were joined by new ones following the Great Depression. Although in Germany no extensive nationalization took place after World War Two, a significant proportion of industrial production came from the six huge groups of companies that were mainly involved in heavy industry and operated with the government as the majority shareholder. Besides central state ownership, the role of federal states remained substantial (Naszádos 2017). In contrast, the U.K. initially had relatively few public properties due to their free market traditions. Following some large-scale nationalizations in the oil and electricity industries at the beginning of the twentieth century, public ownership became significant only after 1945, and covered all strategic sectors (Aharoni 1986; Millward 2000).

In the shadow of consecutive waves of nationalization, privatization also appeared, but remained sporadic for a long time. The change of direction occurred as a consequence of the failure in crisis management at the turn of the 1970s and 1980s. At that time, in order to save companies and preserve jobs, a majority of European states resorted to further nationalizations. Nevertheless, this led to a sharp rise in both losses and subsidies and, therefore, a deterioration of macroeconomic balances, while the state remained unable to cope either with the rising prices or recession. This is why the big wave of privatization was launched—first in England where expanded public ownership was the furthest from the traditionally free market conception of the economy—and lasted, with varying intensity, as late as 2008.

The goals of the process were still multifaceted and controversial. Some of them related to political ideology, like strengthening market orientation at the expense of state intervention, depoliticizing the economy, boosting private ownership (democratizing ownership), and expanding electorate for the parties in power. Other goals related to the economy, such as remedying government failures, enhancing economic restructura-
tion and modernization, improving corporate governance and companies’ competitiveness, reducing budget subsidies and risk, and restoring financial equilibrium. All this means that governments’ deemed privatizations accompanied by the opening of market and deregulation to be a comprehensive solution for all difficulties, just as in the case of earlier nationalizations.

During the big wave of privatization that took place between 1977 and 2004, Western Europe emerged as a leader in sales, and it was responsible for nearly half of global revenues and almost one-third of all transactions (Bortolotti and Milella 2006). However, differences between the individual countries remained significant.

### Table 2

Privatization performance in Western Europe, 1977–2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Total number of privatizations</th>
<th>Revenues (USD Bn)</th>
<th>Revenues/GDP (%)</th>
<th>SOE/GDP (%)</th>
<th>Revenues/SOE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>78</td>
<td>25.4</td>
<td>19</td>
<td>15</td>
<td>1.87</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>183</td>
<td>145.5</td>
<td>11</td>
<td>11</td>
<td>1.40</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>29</td>
<td>19.2</td>
<td>4</td>
<td>6</td>
<td>1.15</td>
</tr>
<tr>
<td>Spain</td>
<td>74</td>
<td>46.6</td>
<td>6</td>
<td>9</td>
<td>1.01</td>
</tr>
<tr>
<td>Italy</td>
<td>103</td>
<td>96.4</td>
<td>8</td>
<td>9</td>
<td>0.86</td>
</tr>
<tr>
<td>Germany</td>
<td>150</td>
<td>73.3</td>
<td>3</td>
<td>10</td>
<td>0.79</td>
</tr>
<tr>
<td>Sweden</td>
<td>56</td>
<td>18.6</td>
<td>6</td>
<td>10</td>
<td>0.73</td>
</tr>
<tr>
<td>Belgium</td>
<td>10</td>
<td>5.7</td>
<td>2</td>
<td>4</td>
<td>0.69</td>
</tr>
<tr>
<td>Austria</td>
<td>51</td>
<td>11.5</td>
<td>4</td>
<td>14</td>
<td>0.52</td>
</tr>
<tr>
<td>France</td>
<td>97</td>
<td>59.9</td>
<td>3</td>
<td>11</td>
<td>0.48</td>
</tr>
<tr>
<td>Finland</td>
<td>56</td>
<td>16.3</td>
<td>10</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Average</td>
<td>81</td>
<td>47.1</td>
<td>7</td>
<td>9</td>
<td>0.95</td>
</tr>
</tbody>
</table>

**Notes:**

In USD 1995 values.

Revenues: total revenues cumulated within the investigated period.

Revenues/GDP: the ratio of total revenues cumulated in the period up to 2002 GDP.

SOE/GDP is the ratio of SOEs’ value added to GDP reported the year before the first privatization.

As for the uncertainty of data, the authors themselves draw attention to it.

Source: own calculation based on Bortolotti-Milella (2006)

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6 For a good overview of the objectives of privatization, see e.g., Aharoni (1986), Yarrow (1986), Vickers and Wright (1989a), Toninelli (2000), Megginson and Netter (2003), and Parker (2003).
The study cited in Table 2 deserves special attention as—unlike the usual approach—it also includes the initial size of public assets. On this basis, countries can be grouped into categories according to the size and accomplishment of privatization.

Table 3
Relationship between the magnitude of public assets and that of privatization

<table>
<thead>
<tr>
<th>Initial size of state assets</th>
<th>big (greater than or equal to 10% of GDP)</th>
<th>small (less than 10% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The magnitude of privatization</td>
<td>big (revenues greater than 1% of public assets)</td>
<td>“big privatizers”: Portugal United Kingdom</td>
</tr>
<tr>
<td></td>
<td>small (revenues smaller than 0.8% of public assets)</td>
<td>“reluctant countries”: France Austria Germany Sweden</td>
</tr>
</tbody>
</table>

Source: Calculated on the basis of Bortolotti-Milella (2006)

In Table 3, “big privatizers” emerge as one of the main types, represented here by the United Kingdom and Portugal, which considerably reduced their huge state assets. The group of “reluctant countries” consists of France and Austria, and, less justifiably, Germany and Sweden, which sold relatively few of their large shares. As for the two other groups, the Netherlands and Spain sold out the majority of their relatively small assets, while Belgium, the “moderate privatizer,” generated small revenues from the sale of its shares in small public sector.8

7 Although the economic incorrectness of the “assets-to-GDP ratio” had been pointed out by several studies, this remains, for the simple reason of data accessibility, one of the most commonly used indicators. (To measure SOEs, value added or revenues from privatization or costs of nationalizations to GDP are all less problematic.) One the one hand, indices calibrated to GDP can only mitigate, rather than eliminate the effects of changes in assets’ value. On the other hand, their advantage is to make comparisons in space and time more robust by negating both size differences between countries and the impact of inflation. Therefore, wherever possible, we will disclose this (asset-to-GDP) indicator in addition to those in absolute terms at current prices.

8 The rest of the countries cannot, either for lack of data or overpassing the thresholds, be put in any of these categories displaying extreme cases.
Cross-country differences are influenced by institutional and historical conditions (i.e., state system, political structure, constitutional characteristics, closeness of relations between cabinet and companies, attitudes of voters towards central government and public ownership), and by prevailing economic and political circumstances: the degree of imbalance or growth, the need for restructuring, the strength of the central executive, and the balance of forces between stakeholders supporting and opposing the administration (e.g., opposition parties, trade unions, SOEs’ CEOs, public opinion). The more the government perceives that there are strong short-term economic constraints and pressure coming from supporters, the more they feel urged to make firm decisions. Obviously, these decisions are simpler to adopt and consistently execute if governments may rely on a comfortable majority and do not have to bargain with their coalition partners (see, e.g., the position of the British cabinet, which was also bolstered by the successful outcome of the Falklands War, versus that of the Belgian one). It is easier to proceed when the political structure is built on cooperation rather than a sharp rivalry between parties (e.g., in Austria and the Netherlands versus Germany), or when everything is in the central governments’ hands rather than dispersed among different levels of administration, creating a situation in which the cabinet has to reach agreement with regional or local authorities (e.g., in France versus Germany). Privatization is easier if you can sell state assets without having to dismantle constitutional safeguards (e.g., as in Spain, Portugal, France or Germany), and if public companies are not as narrowly interwoven with political parties as, for instance, in Italy or Austria. It is also helpful if both constituents and businessmen keep distance from the state as in Britain, rather than cultivating close ties with it (as in France or Austria). Possibilities are also dependent upon the composition of the state’s property portfolio: it is easier to privatize companies in the manufacturing sector than monopolies in public services. The same holds true for profitable, market-oriented subsidiaries of some huge corporations versus large entities working under the direct control of a Ministry.

Despite the long-standing process of privatization, the state has remained an important player globally in the field of corporate ownership. According to 2014 data (OECD 2016), 326 out of the 2000 biggest companies in the world had the government as a majority or minority

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shareholder. Although only twenty-six of them were of European (French, German, Italian and British) origin, while one-third of them were Chinese. But as we will see, the size of other regions’ public property, as well as the “hows” and “whys” of its rapid expansion, are not irrelevant for the EU. In 2012, public assets represented over 10 percent of GDP and the sector made up 3.5 percent of the labor force, in developed countries of Europe (Table 4).

Table 4
SOEs’ weight in EU’s old member states in 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of companies</th>
<th>Employees/total employees (%)</th>
<th>Asset value/GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>53</td>
<td>9.7</td>
<td>67.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>52</td>
<td>4.7</td>
<td>35.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>12</td>
<td>3.2</td>
<td>34.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>25</td>
<td>2.4</td>
<td>19.4</td>
</tr>
<tr>
<td>France</td>
<td>68</td>
<td>10.0</td>
<td>14.2</td>
</tr>
<tr>
<td>Italy</td>
<td>17</td>
<td>2.4</td>
<td>14.1</td>
</tr>
<tr>
<td>Austria</td>
<td>11</td>
<td>3.0</td>
<td>10.9</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>26</td>
<td>1.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>19</td>
<td>1.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Greece</td>
<td>56</td>
<td>5.0</td>
<td>6.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18</td>
<td>1.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Germany</td>
<td>75</td>
<td>2.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>84</td>
<td>4.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Spain</td>
<td>55</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Average of old EU Members</td>
<td>41</td>
<td>3.5</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Source: For SOEs: OECD (2012); For employment: Eurostat http://appsso.eurostat.ec.europa.eu/nui/show.do
For GDP: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do, and
https://data.oecd.org/gdp/gdp-long-term-forecast.htm#indicator-chart

In the list of Fortune’s Global 500, during the period between 2003–2014, the share of publicly owned companies has increased from 9 to 23 percent, which was due mainly to China (PWC 2015).
Data contained in Table 4, even if more detailed than other sources’, are only a snapshot of the situation, and, to our knowledge, there are no long-term data series comparable to them. If we take a look at earlier data (Table 1), the regional average ratio of public property to GDP appears to have risen back to its prevailing level at the turn of the 1970s and 1980s. At that time, it was 12 percent, and in 2012, it was 10.5 percent. The comparison is, however, distorted by uncertainties in both data collection and data management methods, which is also a problem for more recent figures.

OECD data are of a smaller magnitude than those cited in the country case studies of our volume. Somai (2017), referring to the French statistical office, claims that 1632 French firms were under state control at the end of 2014, while the OECD only reported on 68 companies. In Austria, according to Kőrösi’s sources, state, provinces, and municipalities have shares in approximately 3,500 firms, versus the 11 that appear in the international survey. For the last twenty years, the state has constantly maintained around 40 percent of shareholdings in Austrian economy either directly or indirectly through the banking system (Kőrösi 2016, 15). Naszádos (2017), referring to another OECD paper (2011), writes that in Germany, there were 15,127 public companies (most of them in the hands of the municipalities), 111 of which had majority or minority state ownership, versus 75 in Table 4. According to Biedermann, Orosz, and Szijártó (2017), there are 70 public companies in Italy (as opposed to the 17 indicated by OECD) representing 27 percent in total sales, and 19 percent of employment. The above differences may arise from differences in definitions and data records. We mention here just two examples. The first one is about the giant companies that provide French postal and telecommunication services. They only appeared in the register of SOEs transformation from administrative entities into independent public companies. This increased the number of public employees by more than 400,000 and their share of total employment to 8 percent (Somai 2017). Likewise, the Austrian state railways were reported to be part of the public sector until 1993, after which they were transformed into a holding company, and then fully privatized (Kőrösi 2016). Assuming national statistics to be close to reality, the weight of the public sector as reported in international sources is still significantly underestimated. Those sources can, at most and only with reservations, provide some clues for cross-country comparisons.

Longer-term data sets are further biased, in that statistics and commonly used indices cannot separate the impact of an increase in state ownership from that of stock price fluctuations. Finally, indicators for 2012
reflect not only the effects of nationalizations, but also those of post-2008 asset sales, which were significant in many countries.

Crisis Management by Nationalizations

According to global data, there was a jump in nationalizations in 2008 and 2009, amounting to a value of $270 and $325 billion in these two years respectively, as compared with the average of $53 billion in the previous two decades. Beyond absolute figures, in order to obtain a better comparison, it is worth looking at indices expressed in terms of GDP. Calculated by either method, the majority of global growth came from Europe and the United States.

Table 5
Growth in state ownership from 2008 to 2012

<table>
<thead>
<tr>
<th>Nationalizations (in USD bn)</th>
<th>In percentage points of GDP 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Globally</td>
<td>1010</td>
</tr>
<tr>
<td>of which in USA</td>
<td>356</td>
</tr>
<tr>
<td>of which in EU</td>
<td>390</td>
</tr>
</tbody>
</table>


In Europe as well as overseas, the bulk of nationalizations took place in the financial sector.12

Saving the banks

Fearing a total meltdown of the financial system and a decline in the economy to a level unprecedented for decades, and also referring to lessons learned from the Great Depression, banks that got into trouble were systematically saved in developed countries. As a combined effect of the

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11 Calculation based on Megginson (2013).
12 Hereafter, for the sake of brevity, the term “banks” is often used. But it always relates to the whole financial sector.
subprime mortgage crisis—spreading quickly in the globalized system—the liquidity shortfall, and recession, even those financial institutions that could not to be blamed for having purchased a massive amount of "toxic assets" were shaken. Thus, it became important to stop the contagion and avoid the domino effect.

In 2007, at the beginning of the crisis, several financial institutions in Europe—like those of the United States—tried to solve their problems by raising private capital. Then governments attempted to enhance mergers, which resulted in ever higher subsidies and ultimately nationalizations rather than success stories.\(^\text{13}\) It quickly became obvious that, at a time of market turmoil, capital shortage could only be overcome and market confidence could only be restored with public funds.

Decisions on grants were taken by national governments, but these also had to be approved by the EU’s competition authority on the basis of European rules of procedure. By upholding the fundamental principles of EU competition law, the Commission stated that the assistance should, in general, be exceptional and of temporary nature; that the institutions in question, as well as their owners, should contribute to bearing the costs; furthermore, that it is important to limit competition distortions through, for example, restraining expansion or setting up strict requirements for reorganization (European Commission 2009a). The framework for state aid measures to support bailouts was set at €5.763 trillion, 44 percent of the EU’s 2013 GDP. Just over one quarter of these funds were used as guarantees, liquidity measures, impaired assets measures and recapitalizations (European Commission Directorate-General for Competition 2014).

From the perspective of nationalizations, recapitalizations are of special interest, for nationalization had not originally been listed as an approved method for rescuing banks. This option was only tolerated by the Commission starting in early 2009, after several precedents had occurred in member states (European Commission 2009b).\(^\text{14}\) However, no particular rules of procedure or criteria for decision making were prescribed. In practice nationalizations had been interlinked with other forms of state assistance.

This “hidden nationalization” involved an increase in capital and the purchase of impaired assets. It often took the form of acquiring preferential, non-voting shares with extra rights, or other securities which could

\(^{13}\) See details in Voszka (2017).

\(^{14}\) Besides, the Union generally upholds the principle of neutrality in the ownership of companies. Hence, the power of determining and changing the ownership structure is reserved to the nation-states.
then become convertible into freely negotiable shares, that is, shares that would be available also for the banks themselves to buy back.\footnote{A similar method was in use in the United States as well. See it in detail in Voszka (2017).} Due to the manifest reticence in using this method, the Union has never even published any summary statistics on the size of nationalizations, hence the need for estimation.

One of our methods of estimation consists of approximating the upper limit through capital injection, and the lower one through a sum of individual decisions. When determining the maximum value, our point of departure was the supposition that, although recapitalization was not necessarily followed by ownership changes, public property usually emerged through recapitalization after 2008. From the €821 billion originally approved for this aid scheme, €448 billion was used (Table 6), which thus indicates the maximum extent of bank nationalization. Table 6 shows high regional concentration: half of the recapitalization came from three member states and over 90 percent from ten. Country differences might be explained by the size of the economy and the banking system, along with the depth of involvement in the turbulence and some other special features.\footnote{In the EU’s new member states for example, banks had only sporadically been bailed out by governments, owing to the low level of contamination by toxic assets in their portfolios and the peculiarities of their ownership structure. Here it was the foreign parent banks that helped out their subsidiaries located outside the Eurozone—the notable exception being Slovenia, where financial institutions had primarily been in domestic hands.}

### Table 6

<table>
<thead>
<tr>
<th>Countries</th>
<th>Capital injection (€ bn)</th>
<th>As a percentage of 2013 GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>100.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Germany</td>
<td>64.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>62.8</td>
<td>38.3</td>
</tr>
<tr>
<td>Spain</td>
<td>61.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Greece</td>
<td>40.9</td>
<td>22.4</td>
</tr>
<tr>
<td>France</td>
<td>25.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>23.3</td>
<td>6.1</td>
</tr>
</tbody>
</table>
Nominal amounts are highest in the U.K. and Germany, the countries with the largest financial sectors, and those that are also the most tightly connected to U.S. security markets. A special feature in Germany is the federal states’ (Bundesländer) extensive ownership, which reached 40 percent of pre-crisis banking assets (Hüfner 2010). Most banks owned by these states (Landesbanken) hoarded toxic assets and were badly in need of government assistance. Other German financial institutions were also nationalized. Ireland—a country highly ranked by the GDP-related index—saw its financial institutions, saddled with toxic assets, in urgent need of state aid immediately after the escalation of the crisis; four of the country’s six largest banks had to be nationalized. State ownership in the banking sector is significant also in Greece, which holds the second position in the above-mentioned index, and, even if to a lesser extent, in Spain, although these countries had barely been hit by the mortgage crisis. For them, this was the second wave of the crisis, which came as a shock. Meanwhile, stress tests, the reassessment of capital adequacy on a regular basis, also stimulated recapitalization, which under the prevailing market conditions could only mostly be financed from public sources.

At the end of 2008, Greek banks were stabilized with a package of emergency state aid worth €28 billion, while there was no nationalization until 2011 (Visvizi 2012). But when financial institutions, which already had to suffer the effects of resource shortages and deep recession, also had to agree to a more than 50 percent cut of Greek government bonds in their portfolios, nationalization became inevitable. In 2012, the second bailout scheme for Greece included a bank recapitalization package worth €48 billion, 27.5 billion of which was earmarked to support the four biggest banks (European Commission Directorate-General for Economic and Financial Affairs 2013). Three of them—the National Bank of Greece, Alpha and Piraeus—were able to raise 10 percentage of new equity from private
investors, thus avoiding falling under majority state control. The Euro-
bank failed to do so, and the state, thanks to a capital injection of €5.8 bil-
ion, gained almost full ownership of it (Hellenic Financial Stability Fund
2014). The prudent operation of traditionally well-capitalized Spanish
banks had been loosened during the real estate boom, but problems were
swept under the rug, first by concealing the losses and then via mergers
and budgetary subsidies (The EU 2012). By 2012, public assistance for
the recapitalization of Spanish financial institutions became imperative,
a project to which the European Union had given €100 billion. Four major
loss-producing banks, accounting for one-quarter of the Spanish banking
sector and having lost most of their equity, were nationalized.17

As a contrast, in France, thanks above all to structural and regula-
tory peculiarities, only a little money had to be spent on rescuing financial
institutions. Here, a concentrated banking system emerged from the con-
text of large-scaled privatizations in the 1990s. Apart from relatively strict
public control, the common cultural (i.e., educational and civil service)
backgrounds of the banks’ top executives has also played a role in those
companies’ involvement in relatively few risky businesses and, cautiousness
about derivatives. (Somai 2017).

Our estimations of the lower limit of nationalizations were based on
individual decisions of the Union’s competition authority regarding the
recapitalization of nearly one hundred financial institutions. This was facil-
itated by the fact that the concentration of recapitalization was high not
only regionally, but also on the level of individual banks. More than half of
the €448 billion was allocated to just 17 beneficiaries.

To give a couple of examples: more than one member state took part in
rescuing Fortis and Dexia. The financial situation of the latter, established
by a merger of Belgian and French banks in 1996, became aggravated by its
American subsidiary FSA and a multi-billion loan to the troubled German-
Irish bank Depfa. Later in 2011, Dexia had to post a loss of €4 billion after
writing down the value of its Greek debt. The bank was split up, with the
Belgian state taking over the part of the business operating on its territory
for €4 billion, while French banks purchasing smaller parts. The remaining
troubled assets were placed in a “bad bank,” covered by a guarantee of €90
billion by the states concerned (Second 2008; Dalton and Gauthier-Villars
2011). As for Fortis, its liquidity position was weakened following the acqui-

20141223Presentaci%C3%B3n%20FROB%20prot.pdf.
sition of Dutch ABN AMRO in 2007, bloated—as it became obvious later on—with toxic assets. This was a take-over mounted, after fierce price competition, by a member of a consortium together with Spanish Santander and the Royal Bank of Scotland (RBS), which also got into trouble because of this deal (RBS 2007). Valued at more than a hundred billion Euros, this was the world’s biggest bank takeover at the time. A year later, the governments of Belgium, the Netherlands, and Luxemburg had to save the bank, but this time it had to disburse only €11 billion altogether, in exchange for a 49 percent stake each in the three different subsidiaries of Fortis that were in their respective jurisdictions. For a further €13 billion, the Dutch government became the 100 percent owner of the Dutch business of Fortis, including its ABN AMRO business (Netherlands 2008).

The abovementioned cases of bank bailouts were not the most complicated ones. The bailout process of Hypo Real Estate (HRE) holding entailed seven rounds of approval of the Commission’s competition authority from autumn 2008 to 2011 (Buder et al. 2011). The problems of HRE also got worse due to a 2007 acquisition of the originally Prussian Depfa Bank, which had been relocated into Ireland in the 1990s. HRE—just like RBS and Dexia—finally received more support than the whole Spanish banking sector. Keeping these big entities afloat proved to be more expensive than the controversial first Greek rescue package.

When looking closely at this narrower group, we found that for institutions receiving the highest support, capital injection meant effective nationalization.18 Adding the cost of nationalization of the relatively smaller Greek and Spanish banks to the sum of €253 billion injected into the 17 big banks, we can price European bank nationalizations at a minimum of €296 billion.

As another method of estimation, we used the Eurostat dataset about the impact of government interventions to support financial institutions on budget deficits and public debt (European Commission Eurostat 2016). From the expenditure lines of the statistical tables derived from member states’ reports, we summarized those concerning capital investments (e.g., capital increases), other capital transfers (e.g., purchases of shares), and other expenditures (including special government bodies like “bad banks”) for the period between 2007 and 2015. In this case, we can only give approximate estimates, because the data are not about the increase of public ownership, and furthermore, the content of the cells, as it is also clear from the member states’ notes, is often ambiguous.

### Table 7
State capital investment in EU member states from 2007 to 2013
(€ billion)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>53.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>53.1*</td>
</tr>
<tr>
<td>Germany</td>
<td>3.7</td>
<td>4.0</td>
<td>34.4</td>
<td>2.5</td>
<td>4.6</td>
<td>1.9</td>
<td>51.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>0</td>
<td>4.0</td>
<td>35.4</td>
<td>7.3</td>
<td>0.6</td>
<td>0.5</td>
<td>47.8</td>
</tr>
<tr>
<td>Spain</td>
<td>0</td>
<td>0</td>
<td>0.4</td>
<td>5.1</td>
<td>39.1</td>
<td>3.0</td>
<td>47.6</td>
</tr>
<tr>
<td>Greece</td>
<td>0</td>
<td>0</td>
<td>0.4</td>
<td>0.4</td>
<td>9.4</td>
<td>21</td>
<td>30.8</td>
</tr>
<tr>
<td>Austria</td>
<td>0</td>
<td>2.7</td>
<td>0.7</td>
<td>1.7</td>
<td>1.6</td>
<td>2.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.8</td>
<td>2.9</td>
<td>5.0</td>
<td>8.7</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>0</td>
<td>2.2</td>
<td>1.0</td>
<td>0.04</td>
<td>0.03</td>
<td>1.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>0</td>
<td>0</td>
<td>1.8</td>
<td>0.6</td>
<td>0.9</td>
<td>0.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.2</td>
<td>0.06</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.5</td>
<td>0.3</td>
<td>0.2</td>
<td>3.0</td>
</tr>
<tr>
<td>France</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.6</td>
<td>0</td>
<td>2.6</td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>0</td>
<td>0.2</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0</td>
<td>0.8</td>
</tr>
<tr>
<td>Cyprus</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0</td>
<td>0</td>
<td>0.03</td>
<td>0</td>
<td>0</td>
<td>0.09</td>
<td>0.1</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total of 17 countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>267.8</strong></td>
</tr>
</tbody>
</table>

* until 2015

**Note:** In ten member states, there was no such expenditure in the scrutinized period. For countries outside the Eurozone, whose data were available in national currencies, we only displayed a total amount using the average exchange rate of the year with the highest expenditure.

**Source:** author’s calculation based on European Commission Eurostat data (2016)

The figure in the “Total of 17 countries” line of Table 7 only slightly differs from the one we arrived at by our first minimum estimation method. This confirms that our calculations are, by and large, correct: bank nationalizations in Europe roughly cost somewhere between €300 and €400 billion.

Nationalization as an ultimate solution was, unlike in previous times, unpopular in many European countries. People did not consider it to be a matter of public interest. They rather interpreted it as a way of rescuing the financial elites and socializing their losses. The process was no triumph for other affected parties either. Management was generally removed, their bonuses limited, and high remunerations dropped throughout the sector. Governments acquired non-voting preference shares in some cases, but in
others, they received the right to veto, and their representatives appeared on boards. Shareholders and creditors had to write off a certain proportion of their claims. States acquired banks’ assets mainly at low prices, devalued to a fraction of their pre-crisis worth. Or it was the nationalization itself, which caused falling share prices. Therefore original owners often debated the methods and compensation levels applied.

Rules for restructuring were strict and required the banks to repay state aid (with all premiums and accumulated interest) by predetermined deadlines, and, partly in order to do so, to sell branches and subsidiaries, close offices, terminate hundreds and thousands of employees, reduce costs, assets, and balance sheets, and forbid acquisitions. For example, the Union’s competition authority prescribed the breaking up of three big banks out of the 17 top beneficiaries. Several giant banks had to sell their subsidiaries; six of them were forced to cut back their balance sheet by 40 to 60 percent; and one of them by 85 percent. The fulfillment of these obligations was strictly controlled by authorities (Voszka 2017).

New ways of nationalization?

In Europe, nationalizations had not been restrained to the financial sector but also covered other activities, especially public services and energy industries. This was only indirectly linked to the crisis through the increased need for security and disruption in the once unambiguous direction of privatization policy. At times, the process started with the tightening of regulations and price caps, also called the nationalization of incomes or “creeping nationalization” (De Clercq 2014).

One of the methods used was re-municipalization, that is, restoring the role of local governments as owners or direct service providers in order to reduce subsidies, cut steeply rising private profits, and lower prices. Another method was the state repurchase of companies especially in sectors considered to be strategic, such as electricity, gas, or petroleum. However, governments also used stealthy ways of nationalization by increasing state ownership in partially privatized companies, setting up subsidiaries for large state-owned companies or launching new public investment programs.19

These methods, stealthy ones included, are not new in themselves. As for the order of magnitude of such nationalizations, it cannot even be

estimated, but several sources suggest that the expansion of SOEs gained momentum again in the years of the global financial crisis. According to Somai (2017), the number of public companies in France, majority owned by the state, increased by around one third between 2009 and 2014, pushing up the number of those employed in such concerns by 400,000, or 2 percentage points. This was mainly due to the expansion of the large companies associated with the electricity industry (EdF) and the national railways (SNCF).

A similar trend can be observed in the case of mergers and acquisitions (M&A). While this type of activity for exclusively state-owned enterprises accounted for less than one percent of all transactions in 1996, it jumped close to 20 percent in 2009, and then fell to half of this proportion later on (OECD 2016). Although SOEs made most of their investments in domestic markets—part of which certainly fell under the so-called stealthy nationalization—their international expansion had been quite noteworthy. The latter grew 14 times between 2003 and 2009, rising to a peak never ever reached prior to the crisis. This is obviously linked to the fact that public firms depend much less on financial markets for their funding than do their private counterparts. Hence, because the crisis had less of an effect on them, they could take advantage of their rivals’ weaknesses. The latter statement holds true not only for companies, but also for countries. If investor countries are divided into those that are developed (consisting mostly of EU members) and those in the process of developing, we can find very similar transformation curves, but it must be noted that developing countries are responsible for two-thirds of transactions.

Sovereign Wealth Funds (SWF) are often found in the background of acquisitions by governments and state-owned entities in the international arena. The investment of these major institutions tripled between 2008

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20 The other data cited here are from this very same study. If we took into account not only one hundred percent ownership, this proportion would probably be much higher.

21 China’s role here is significant but, contrary to public opinion, not as important as in the case of global companies, at least according to OECD (2016). (While one-third of the two thousand largest SOEs are Chinese, as for M&A, they were responsible for only 14 percent of the transactions in the peak year of 2009—and for one half of them in 2014, when the global trend was already falling.) The Asian country announced their “Go Global Strategy” in 2000. The strategy urged, among other recommendations, SOEs to invest in foreign companies in order to boost their own competitiveness (OECD 2010).
and 2013, through acquisitions that included well-known North American and European companies.\textsuperscript{22}

The treatment of SWFs in statistics on international changes in corporate ownership is far from consistent.\textsuperscript{23} But the relationship between mergers and acquisitions on one hand, and privatizations and nationalizations on the other, is not clear either. As for the latter, the picture has been further blurred by the emergence of state-owned firms and other governmental bodies as buyers.

For example, \textit{Privatization Barometer Report} listed when the state-owned Electricité de France (EdF) sold its minority package in EnBW Energie to the German Federal State of Baden-Württemberg as privatization, because the buyer expressed his intention to let the company enter into private hands in the long-run (Megginson 2011, 9–10). Similarly, the sale of part of the French postal service (La Poste), which was originally owned by the French Ministry of Finance, to the sovereign wealth fund of the French national government was also listed as privatization, arguing that the buyer acted as a commercially oriented investor rather than a politically motivated actor (Megginson and Bortolotti 2011, 11.). Surely these were not small transactions: the former accounted for 14 percent of the total annual income from privatization in the EU, and for the latter it was 10 percent.

SOEs’ domestic and international expansion together with statistical uncertainties deserve special attention because two important conclusions can be drawn from them in our analysis. First, the involvement of public companies and funds in ownership changes points to the interconnection of nationalization and privatization, and also the blurring of their boundaries in the same transaction. For example, when a government sells stock market shares, it may start as a privatization, but if the buyer happens to be another state, a public company, or a SWF, the size of state property will not really change, only the identity of the public owner does. Second, in the case of cross-border transactions, nationalization may arise independently

\textsuperscript{22} For example, Abu Dhabi Investment Authority (ADIA) acquired 4.9 percent of Citigroup after 2008, and then Chrysler HQ in New York. And as Singapore Wealth Fund acquired 10.7 percent of Merrill Lynch, Qatar SWF did likewise with 15 percent of Volkswagen and the entire Manchester United Football Club (Guedhami 2013; \textit{The Rise} 2012).

\textsuperscript{23} \textit{Privatization Barometer} first considered foreign purchases of funds (and other public finance organizations) as privatization (but it did not do the same with the domestic purchase). In the following year, all SWF investments were listed as nationalization (Megginson and Bortolotti 2012, 11; Megginson 2013, 20).
from the intentions of the government of the destination country. Public ownership expands, but under the influence of another state, its goals, mode of operations, and effects may fundamentally differ from those of traditional nationalization, one purpose of which is to keep out foreign investors. This already happened earlier, but investors at the time would come (e.g., to the regions of Central and Eastern Europe in transition) largely from developed countries. Nevertheless, the expansion of the developing world in Europe’s core countries has been considered a genuine novelty.

This obviously raises concerns in developed host countries.\textsuperscript{24} Also, many fear that the level playing field in international trade competition (or at least the status quo) is endangered by SOEs’ large and growing role in foreign investments, as it is assumed that publicly-owned companies have easier access to resources and subsidies than private ones. No wonder that in recent years, this issue has been kept on the agenda by large international organizations and advisers. As the process is difficult to control because of respect for the sovereignty of nation-states and the framework of liberal principles, multilateral agreements and the strengthening of rules came to the forefront. Instead of pushing for privatization, the focus is shifting towards taking these big and expanding SOEs for granted. Several studies published by OECD, the World Bank, or PricewaterhouseCoopers recently admit that there are legitimate economic and other reasons related to social-value creation for the establishment and maintenance of public companies. According to them,\textsuperscript{25} it is important, however, to undertake thorough reform of the management of these SOEs in order to make their operations transparent and compliant with market principles.

The institutions of corporate governance have been transformed in many European countries in recent years, with market-based operations as the main objective everywhere. The French SWF (named Agence des participations de l’Etat, or APE) was established in 2004 with the aim of separating the state’s functions as shareholder from its other functions, transforming the firms in its portfolio into joint-stock companies (i.e., bringing them into conformity with private law and opening them to outside investors), and ensuring that their operations are effective. In 2014, APE, managing nearly €110 billion in shareholdings, paid €4.1 billion in dividends into the state budget. In the years of the Great Recession the government

\textsuperscript{24} As, e.g., in Greek privatization.
\textsuperscript{25} See e.g., OECD (2016); World Bank (2006); Kowalski et al. (2013); PWC (2015).
considered public companies viable and crisis-resistant. Thus in spite of some privatization following the crisis, the diminution of the public sector came to a halt, and an opposite process even began (Somai 2017). In Italy in the 2000s, under the treasury’s trusteeship, Cassa Depositi e Prestiti was set up under the control of the Ministry of Economy and Finance (Biederman, Orosz, and Szijártó 2017). In Germany after 2008, several new regulations were introduced and codified in the so-called Public Corporate Governance Codex (Naszádos 2017). Austria expects to improve the efficiency of control (and companies’ operation) by centralizing decision-making. In 2015, Austria’s public property fund, operating as a joint-stock company, was replaced by a limited company, Österreichische Bundes- und Industriebeteiligungen, or ÖBIB, which was formally obliged to follow the instructions of the Finance Minister, who exercised property rights (Kőrösi 2016).

Several international analyses suggest that governments may also have a strong influence on private companies (generally in the form of regulation, including subsidies). This has been and continues to be true for all European countries.

Austria appears as a good example of traditional symbiosis between state and market. This is reflected in the complicated ownership and part-ownership schemes, profit-sharing, and investments. In a broad range of infrastructure projects, public and private investments are so completely interwoven in practice that there is virtually no exclusively private ownership in this sector. The Austrian “close-to-the-state” category includes all private companies regularly supplying at least one public actor. Their number exceeds two thousand (Kőrösi 2016). The close relationship between state and companies has always been characteristic of France too, not least because of the interconnecting elites. Here the creation of national champions by giving direct subsidies and supporting their acquisitions abroad has been fairly widespread in manufacturing, energy and the financial sector (Somai 2017).

Meanwhile, state-owned companies do not form a homogeneous group, not only because of their sectoral affiliation or profitability, but also because of the ratio of public ownership, and the ways in which ownership rights are exercised. According to PWC, there is a continuum of models spanning the public–private interface: at one end, there are executive agencies (as part of the administration), while at the other end, we can find private companies; in between, there are eight versions that differ partly according to the right of disposal (PWC 2015, 15).

In light of the new approach to the role of public companies, privatization ceased to be as unambiguous and exclusive solution proposed by
experts as it used to be in the 1980s and 1990s. Great Recession produced arguments in favor of this option, too, but the measures have been more moderate than twenty years ago.

*Crisis Management by Privatization*

The post-2008 privatizations can be divided into two groups: privatization of banks nationalized during the crisis—hereafter referred to as re-privatization—and privatization in other parts of the economy. The analytical separation of the two categories is justified by the motives behind these policies rather than by sectoral differences.

**PRIVATIZATION OF BANKS**

With the easing of the crisis, the withdrawal of the extraordinary measures was soon placed on the agenda. The consensus around a Keynesian approach based on state intervention quickly disappeared (Farrell and Quiggin 2017), and debates began over whether it would be possible to return to free market policies, or if the global financial crisis marked the end of liberal capitalism, therefore brand new approaches became necessary.

In principle, there was general agreement about the need for both re-privatizing the banks and tightening their regulation. Politicians had to look at nationalizations as a temporary measure not least because of the EU’s own principles, and could not ignore the aforementioned unpopularity of bank nationalizations. Also, financial institutions wanted to get out from government tutelage as quickly as possible. They tried to repurchase their preferred stocks, and involve private capital (by selling a percentage of the equity on the stock market or issuing new shares) in order to restore their business reputations, reduce interest and fees related to (state) capital injections, and loosen restrictions on executive pay.

International statistics show that bank privatizations got off to a quick start. In 2009, two-thirds of global privatization revenue (the latter amounting to $265 billion) came from selling preference shares, acquired previously by governments in return for their re-capitalization support to banks (based on Megginson 2010). A decisive part (more than 80 percent) of this revenue, however, resulted from the re-privatization of a small but systematically important group of American banks. For them the whole process was terminated by 2011. In Europe, this process took much longer. In 2009, the share of revenues from bank re-privatization among all priva-
tizations was higher than in the following three years, but the process gained momentum in the period between 2013 and 2015, only to start falling again (as did other privatizations) after 2016 under the shadow of Brexit and terrorist attacks.°26

Table 8
(€ billion and percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenues from priv.</th>
<th>Priv. revenues/ GDP</th>
<th>Revenues from re-priv.</th>
<th>Share of revenues from re-priv.</th>
<th>Revenues from non re-priv.</th>
<th>Non-re-priv./ GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>38.8</td>
<td>0.32</td>
<td>20.4</td>
<td>0.52</td>
<td>18.4</td>
<td>0.15</td>
</tr>
<tr>
<td>2010</td>
<td>33.1</td>
<td>0.26</td>
<td>2.3</td>
<td>0.07</td>
<td>30.8</td>
<td>0.24</td>
</tr>
<tr>
<td>2011</td>
<td>19.5</td>
<td>0.15</td>
<td>4.2</td>
<td>0.21</td>
<td>15.3</td>
<td>0.16</td>
</tr>
<tr>
<td>2012</td>
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<td>0.21</td>
<td>7.0</td>
<td>0.24</td>
<td>21.5</td>
<td>0.16</td>
</tr>
<tr>
<td>2013</td>
<td>50.7</td>
<td>0.37</td>
<td>22.1</td>
<td>0.44</td>
<td>28.6</td>
<td>0.21</td>
</tr>
<tr>
<td>2014</td>
<td>58.3</td>
<td>0.42</td>
<td>26.0</td>
<td>0.44</td>
<td>32.3</td>
<td>0.23</td>
</tr>
<tr>
<td>2015</td>
<td>80.0</td>
<td>0.54</td>
<td>33.1</td>
<td>0.41</td>
<td>46.9</td>
<td>0.32</td>
</tr>
<tr>
<td>2016</td>
<td>34.0</td>
<td>0.23</td>
<td>2.6</td>
<td>0.07</td>
<td>31.4</td>
<td>0.21</td>
</tr>
<tr>
<td>Total EU 2009–2016</td>
<td>342.9</td>
<td>0.30</td>
<td>117.7</td>
<td>0.34</td>
<td>225.2</td>
<td>0.21</td>
</tr>
<tr>
<td>Total EU 1996–2008</td>
<td>633.8</td>
<td>0.48</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Re-privatization: sale of banks nationalized after 2007
Note: The magnitude of both nationalizations and privatizations remained below one percent of GDP per year in all countries or regions (except for the extreme cases of transition countries).
Source: revenues computed on the basis of Privatization Barometer Reports.
GDP: http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&code=tec00001&

Privatization revenues during this period amounted to €343 billion, roughly equalvalent to the costs of bank nationalizations. However, only one-third of the sum came from the re-privatization of the banks nationalized during the crisis (see Table 8).27 The fifty-two transactions registered during the

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°26 The U.K. government announced a pause in ongoing sales of many companies and assets, e.g., in case of the Royal Bank of Scotland or Lloyds (Meggingson 2017).
°27 This data may be slightly underestimated as they do not include the revenues from the sale of overseas (especially American and Asian) divisions of European banks. Global lists of our sources (the annual issues of Privatization Barometer) only contain transactions above $500 million. As a result, sales of subsidiaries most likely were overlooked without, however, much affecting magnitudes.
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eight years (2009–2016), involved twenty-nine banks, out of the ninety-two had been affected by previous nationalizations. The resulting revenues amount to less than 40 percent of the (minimum) €296 billion government spending (previous capital injections), while the U.S.’s largest banks have repaid their bailouts, with interest.28

The prolongation of the re-privatization process in Europe might be explained by the fact that nationalization took place in several steps: after 2008–9, there was a second wave of both the crisis and nationalizations in 2011–12. Moreover, public ownership in this sector has always been well known in most countries. Here, only six banks (BNP Paribas, BPCE/Natixis, Société General, Lloyds, Alpha Bank, ING) were able to repurchase (partly or entirely) their preference shares in 2009. However, for the majority of the banks the chances for repurchase were greatly reduced in Europe as opposed to the United States. Reorganization, required as a condition of state support, has often meant breaking up large financial institutions, or the forced sale of branches and subsidiaries.

Among major beneficiaries, the Anglo Irish Bank came off the worst: after liquidation its assets were transferred to the portfolio of the National Asset Management Agency (Watson 2013). ING has gradually divested its overseas insurance division, regrouped its similar European activities into Nationale-Nederlanden Group, and sold all of its NN-shares on the stock market between 2014 and 2016 (ING 2016). Lloyds, Royal Bank of Scotland and Bayerische Landesbank also sold some of their branches (Williams-Grut 2015).

In other cases it were the states who sold certain parts or shares of financial institutions, thus revenues flowed into the treasury rather than to the banks themselves. Half of Fortis was privatized, not for cash but by way of changing shares.29 It was after dismemberment that Bradford & Bingley was sold to Spanish Santander, and the marketable part of

28 Taking into account only the nationalization-related investments made through TARP in banks and the automotive industry, net profit rate resulting from re-privatization and other (e.g., fees, interests, dividend) revenues to the U.S. federal treasury amounted to 6.6 percent by August 2016 (computed on the basis of TARP 2016). According to Eurostat’s survey, government interventions to support financial institutions has, in every year from 2008 to 2015, affected member states’ budgets negatively, causing a peak deficit of close to €70 billion in 2010, and still a €17 billion in 2015. (European Commission 2016).

29 While remaining minority shareholders, the governments of Belgium and Luxembourg sold 75 percent of the bailed-out Fortis local businesses to BNP Paribas. In return, they obtained 12 percent in Paribas, in which they became the largest
Northern Rock to Virgin Money, the latter having been unsuccessful in its attempt to take control of the former in 2007 (BBC News 2012, UK Financial Investments Ltd. 2012). In 2015, American Cerberus Group bought mortgages issued by Northern Rock—once seen as highly toxic—for €18.4 billion (Parker and Dunkley 2015), which was the largest deal of that year and the largest ever sale of financial assets in the history of English privatization.

Lloyds is the stock market champion, having issued several packages of shares (for a total value of €13.4 billion), but in this field Greeks were also on top. In 2013, the biggest transaction in Europe was the privatization of Piraeus Bank at a price of €7.1 billion, completed by the sale of its further stakes of €2.4 and €1.3 billion during the following two years. Almost €7 billion of privatization revenue was raised by the sale of assets of the National Bank of Greece, Eurobank, and Alpha combined. They were closely followed, with items ranging from €1 to €3 billion by Spanish Bankia and Novaglicia, Commerzbank, the English branch of Ally Financial, and the Bank of Cyprus. Sales of entire banks in their original form proved to be rare, confined to small institutions like the German IKB, the Spanish Valencia, or Irish Life.

As Table 8 indicates, most of the privatization revenue was generated in other sectors, that is, the focus of the process in Europe was not re-privatization of financial institutions.

The expansion of privatization

A crisis can be mitigated not only by nationalizing but also by privatizing. The argument that privatization might reduce public deficits and debt, which had skyrocketed in relation to banks bailouts in the first years of the crisis, became central now (Megginson 2010; Bartsch and Ng 2010). Selling assets can also be considered a good supplement to spending cuts or tax increases, as it stimulates growth and foreign investment rather than deepening the downturn.

In Europe, privatization in the post-crisis years has remained less intense than it was in the previous period. Revenues stemming from the sale of state assets were of €43 billion per year on average between 2009 shareholders (Webb 2013). Privatization resulted in replacing full public control with minority state ownership in two financial institutions.
and 2016, as compared to €49 billion between 1996 and 2008 (see Table 8). The significant distortion of data reported at current prices for as long as two decades can be reduced by computing GDP-related indices. This shows an even bigger difference: privatization revenues of the earlier period amounted to 0.48 percent of GDP, compared to only 0.3 percent since 2009. Although in absolute terms 2005 was the peak year of the last two decades, the corresponding index (of 0.54 percent measured in GDP) was smaller than that of 2005 or the years from 1996 to 2000.

If looking only at sales other than bank re-privatization, post-crisis yearly average revenues amount to 0.21 percent of GDP, less than half of what they were in the pre-2009 period. This modest rate, however, represents almost two-thirds of the 2009–2016 revenues (Table 8). Hence, the more dynamic part of the privatization process has been found outside the financial sector.

The European Union has played an important role in promoting privatization just as in the early 1990s. Although the EU does not prescribe how to shape ownership structure, it influences the process indirectly. In Europe, neoliberal-inspired austerity measures have widely been introduced to address the surge in government deficits and the threat of sovereign debt crises. In 2011, new and more stringent requirements and sanctions regarding macroeconomic balances came into force (European Commission 2012), encouraging governments to increase revenues by continuing privatization beyond the banking sector. The EU has sometimes called attention to specific sectors, the privatization of which it strongly supported, including rail transport and public services, especially water supply. Those suggestions were, however, not met with enthusiasm everywhere.

In the field of transport, almost all member states concerned—Ireland, Bulgaria, Estonia, and Luxemburg—proved to be reluctant to take this step (Artner 2015). Further, plans for privatization of water supply have provoked a public outcry in Ireland, Greece, Portugal, and Italy. In 2011, the Italians rejected such a plan in a referendum, and yet a few months later, the liberalization and comprehensive privatization of all local public services were prescribed by the European Commission as key points of the reform. However, the Constitutional Court declared unconstitutional the prescription regarding the privatization of local public services in Italy (Zacune 2013). In 2013, a semi-public water supply company was established in Ireland, with the parallel introduction of a water-charge, which did not exist before. The general tax revenues financing consumption thus far. The measure, widely seen as the anteroom of austerity policy and
“pushing up prices even further” privatization, provoked civil disobedience in which more than half of the population refused to pay their water bill in the summer of 2015 (Artner 2015).

These examples already show that the EU’s influence on state ownership issues has not been strong everywhere during the last eight years. In nearly half of member states, including most new members, no or very few public assets have been privatized.

Table 9
Revenues from privatization in EU member states, 2009–2016
(above €5 billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenues (€ bn)</th>
<th>Revenues/ GDP 2016 (%)</th>
<th>Revenues from non-banking privatization (€ bn)</th>
<th>Non-banking priv. revenues /GDP 2016 (%)</th>
<th>Difference of costs of re-capitalization and priv. revenues (€ bn)x/</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>69.5</td>
<td>2.9</td>
<td>17.1</td>
<td>0.7</td>
<td>−30.6x</td>
</tr>
<tr>
<td>France</td>
<td>43.7</td>
<td>1.96</td>
<td>29.7</td>
<td>1.3</td>
<td>18.6</td>
</tr>
<tr>
<td>Italy</td>
<td>27.5</td>
<td>1.6</td>
<td>25.5</td>
<td>1.5</td>
<td>+xx</td>
</tr>
<tr>
<td>Greece</td>
<td>25.2</td>
<td>14.3</td>
<td>5.3</td>
<td>3.0</td>
<td>−15.7</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>24.7</td>
<td>3.5</td>
<td>13.4</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Ireland</td>
<td>18.6</td>
<td>7.3xxx</td>
<td>11.2</td>
<td>4.4</td>
<td>−58.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>18.3</td>
<td>3.96</td>
<td>18.3</td>
<td>3.96</td>
<td>+</td>
</tr>
<tr>
<td>Portugal</td>
<td>17.4</td>
<td>12.4</td>
<td>11.9</td>
<td>6.4</td>
<td>+</td>
</tr>
<tr>
<td>Poland</td>
<td>16.7</td>
<td>4.3</td>
<td>16.7</td>
<td>3.9</td>
<td>+</td>
</tr>
<tr>
<td>Spain</td>
<td>15.0</td>
<td>1.3</td>
<td>11.0</td>
<td>1.0</td>
<td>−46.9</td>
</tr>
<tr>
<td>Germany</td>
<td>12.3</td>
<td>0.4</td>
<td>7.2</td>
<td>0.2</td>
<td>−51.9</td>
</tr>
<tr>
<td>Total of 11 countries</td>
<td>288.9</td>
<td>4.0</td>
<td>167.3</td>
<td>2.3</td>
<td>−</td>
</tr>
</tbody>
</table>

* The negative sign (−) means that costs of re-capitalization exceeded revenues from privatization (see Table 6)
xx Recapitalization remained under €10 billion, so the balance is surely positive.
xxx Computation based on 2015 GDP

In absolute terms, the rankings are led by two big countries: the United Kingdom and France. But if we set aside banks’ reprivatization, Italy, Sweden and Poland also hold leading positions, covering a wide spectrum of sectors: they have sold companies in sectors like energy, public services, civil aviation, and manufacturing. In Poland, a country that experienced no recession since well before 2008, a decisive role was played by liberals, who came to power not much earlier, and held the conviction that priva-
tization revenues were needed both to reduce the deficit and boost the economy (Kozarzewski and Baltowski 2016). Between 2013 and 2015, the U.K. was a European leader in selling public assets, primarily aimed at reducing public deficits and debt (Parker and Dunkley 2015). Italy announced a major privatization program as part of its structural reforms in 2014, including the launch of privatization for ENAV (aviation services) and Poste Italiane, and the continuation of the privatization program for several other big companies (ENI, ENEL, Fincantieri) (Biederman, Orosz, and Szijártó 2017). Part of this program was successfully completed in the following years, which placed Italy second in the European rankings of privatization revenues in 2015 and fourth in 2016 (Megginson 2017).

Most of these countries made their own decision on privatization. In other member states, however, the impact of external pressure can be assumed. This is demonstrated in lists considering the size of the countries. Compared to the total national product, besides Poland three countries have earned significant income from privatization: Greece, Ireland, and Portugal. Since all these countries were in need of international financial assistance, it is clear that the European Commission, together with the European Central Bank and the International Monetary Fund, was able to exert strong influence on them. Apart from fiscal austerity, a key requirement of the rescue packages was that governments continued privatizing, which was considered to be a useful reform element and a stimulus for growth (Visvizi 2012; Borrman et al. 2014).

Post-crisis situation has an ambivalent effect on privatization. On the one hand, the lasting recession and the subsequent economic and social uncertainties may discourage investors, while on the other hand, the artificially inflated supply of low-cost assets offers great opportunities for buyers from rich countries and well-capitalized companies. Greece deserves special attention also because of the variability of its story.

Initially, plans for privatization in Greece were to produce revenues of €1 billion per annum, but under pressure from international creditors the target was raised to €50 billion. The implementation of the plans, however, has—just as in many other countries—been postponed due to the falling prices on stock markets (Megginson and Bortolotti 2012). Later on, these plans, considered unrealistic due to long-lasting economic decline and lack of investors’ confidence, had to be scaled back to €20 billion.

Nevertheless, in the first two countries, revenues from privatization did not cover the cost of nationalizations, as the last column in Table 9 indicates.
There were loud protests not only by workers in the companies concerned but also by powerful labor unions organizing extensive strikes against most of the sales.

The political costs of privatization are high—says Visvizi (2012)—not least because public opinion links them immediately to neoliberal economic policy and austerity measures accompanying the rescue packages. According to public opinion polls, the majority of the population fears a sell-off of public assets and the growing role played by foreign investors (Poggioli 2013).

By 2012, actual sales revenues were far behind schedule, in spite of some major deals. Apart from bank re-privatization, the majority share of a gas pipeline was taken by the Azerbaijani public company, a 33 percent stake of the national lottery was sold to domestic investors, and Deutsche Telekom increased its stake in Greek telecoms by 10 percentage points. International organizations have been participating in the work of Athens’s privatization agency. What is more, when they considered the process to be too slow, they have threatened to take over management. But when well-capitalized buyers from outside the group of the most developed countries made their bids—like Gazprom for the gas utility company, or Chinese firms on ports and railways—European governments as well as Washington expressed their concerns over the issue and the privatization agency had to delay the decision (Poggioli 2013). The privatization of real estate, fields, islands, and monuments has also been impeded by the inadequacies of different registries (Bräuninger 2013).

In 2013–14, the Greek government made significant steps towards generating more revenues from privatization primarily by selling consolidated and unified banks; in 2014, the country became the third largest privatizer in Europe (Megginson 2017). Following the general elections of early 2015, the new left-wing cabinet announced the suspension of the privatization program. But in July, Eurozone prime ministers imposed even more stringent demands on the Syriza government. A new privatization and asset management agency has been set up into which Athens transferred companies with asset value 50 billion euros that were either being sold or run profitably. Apart from paying debt, revenues would be used for bank recapitalization and public investments (Cosgrave 2015). According to the agreement, the management is Greek but works under EU tute-

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A French expert has been named as the fund’s executive chairman (Hope 2016). The quantitative target for revenues from privatization was restored to its original (2011) level of €50 billion. It was a relief, however, that Greece now has ten years to achieve it. As first steps, Piraeus port and its supervisory authority, as well as that of regional airports has been successfully privatized, even if only for a few billion euros (Megginson 2017).

As an important feature of privatizations in this period, the bulk of the transactions meant partial privatizations, not only for banks but also in other sectors of the economy. According to my calculations based on the lists of the Privatization Barometer, sales of entire companies (including banks) represented one-tenth to one-third of all transactions in Europe in the period of between 2009 and 2016. In Poland for example, in transactions generating three-quarters of privatization revenues, the sale of assets left ownership control unchanged (Kozarzewski and Báltowski 2016). In France, the system of double-voting-rights shares was generalized in 2014, rewarding all long-term investors (including the government) for holding their shares for at least two years. The declared goal here was to protect firms against speculative attacks, but obviously the state’s long-term ownership also doubled its influence. (Somai 2017).

Partial privatizations give the opportunity to governments to sell shares without losing their control over the company. This method was not exceptional even in the past decades. Large firms are never and nowhere being sold in one fell swoop but in stages, taking into account the absorption capacity of capital markets and aspects of price optimization as well. In times of crisis or strong fiscal pressure, however, it might be especially important for governments to achieve two goals at once: raising incomes without relinquishing control. The consequence is hybridization, based on mixing public and private ownership. This phenomenon had already been strengthened by the earlier big wave of privatization (Bortolotti-Faccio 2004), but it remained typical in the years after 2008.

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32 The data might be underestimated, considering that the lists often only include transactions over €10 or €100 million, while full privatization may be typical for smaller firms. Moreover, the lists do not show the initial share of the state. Therefore it is possible that the sale of a relatively small package represents the final phase of the privatization of an entire company.

33 According to the estimates of the authors for the year 2012, if formal ownership data were corrected with actual control position, public sector’s weight in GDP would amount to 15–20 percent instead of the official 10 percent, and 16 percent in employment instead of 13 percent.
It is also well-known, that revenues from privatization on their own can never solve macroeconomic imbalances (see their share in relation to GDP in Table 9). This is demonstrated by recent calculations: when assessing the “privatization potential,” it became clear that revenues would cover only a fraction of the public debt, even in the least probable case of selling all state assets.

One of the first comprehensive analyses on the issue estimated the potential revenue for the EU15 to be around 2.5 percent of GDP, and ten percent for Finland (Bartsch and Ng 2009). The International Monetary Fund estimated the value of privatizable assets for 32 countries to reach 4 to 7 percent of GDP (Bova et al. 2013), while gross government debts were typically higher than 50 or even 100 percent of it. The Economica Institute in Vienna assessed all marketable (public) assets in the largest 10 Eurozone member states and 4 non-Eurozone ones, putting it at a total of €511 billion. The sale of this wealth could yield more than €100 billion for France, €76 billion for Germany, and €59 billion for both Italy and the Netherlands. Expected proceeds could, however, cover only 4.4 percent of the debt burden on average – Finland ranked first with 14.5 percent. (Bormann et al. 2014).

Therefore, in most European countries, a new wave of privatization could only temper government deficits in the short term, and might potentially have a positive effect by improving the income generating capacity of national economies.

**Summary: Boundaries and Directions are Getting Blurred**

As presented in our analysis, there has been a significant wave of nationalization in developed countries of Europe in the post-crisis period of 2008. In a couple of years, governments spent an amount equivalent to 2 to 3 percent of GDP on expanding public assets in the financial sector without considering the growth in municipal, central or federal, and also foreign public assets. For comparison, the earlier wave of privatization had funneled to the treasuries roughly 7 percent of GDP over twenty-five years. The average for the public property share of GDP in Europe seems to turn towards the peak of the late 1970s (12 and 10.5 percent respectively).34

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34 These figures are subject to caution because of uncertainties about definitions and methodology.
which because of uncertainties about definitions and methodology must be viewed with reservations.

Parallel with nationalizations, a wave of privatization has also started. Its order of magnitude reached 3 percent of GDP for the period between 2009 and 2016 equaled that of recent nationalizations. However, only one-third of the revenues stemmed from bank re-privatization, the rest was generated in other sectors of the economy.

Although both policies aimed at addressing the crisis, the motives behind them were different. The purpose of nationalization was, as it had been decades ago, to save companies from bankruptcy, avoid domino effects, minimize social losses, and restore trust, which was considered a prerequisite for recovery. As before, privatization focused on improving macroeconomic imbalances in the short run, and on promoting strong and healthy growth by strengthening the role of both market and private ownership in the longer run.

Thus, the aims of post-2008 ownership changes were similar to the earlier waves. Different national patterns regarding the methods and scales are not unusual either. Some EU members (Portugal, Poland, Sweden) excelled in only privatization, while others (Spain, Belgium) in nationalization; certain countries (Greece, Ireland) were at the forefront of both policies, while others were not significantly involved in either process (Italy, France, Germany).

The recent wave of ownership changes, however, is characterized also by unusual features. The most striking one was the almost parallel emergence and strengthening of nationalization and privatization in Europe and even within single countries. This phenomenon is closely related to several other new features. First, the rapid change and parallel existence of the two processes prove that today, neither nationalization nor privatization is deemed to be a panacea. Disadvantages and side effects of both policies have already been widely discussed in the political arena and in scientific papers; the belief that either of them could be a long-term solution to economic difficulties has been shaken. The nationalization of banks had originally been considered a temporary move, and most of the governments have only reluctantly undertaken privatization in other sectors.

Second, the nationalization of banks, a policy directly contradicting the highly praised free market principles and privatization, has been executed in a hidden, stealthy way, concealed by other methods like bank bailouts (re-capitalization, the purchase of impaired assets), which could be evidenced by the complete lack of relevant statistical records. The non-financial public sector has also often expanded due to such “silent
methods”: capital increases by the government, large public investment projects, or the expansion of—partly foreign—state-owned companies and funds through the acquisition of private companies. Privatization itself has often meant the sale of minority holdings without the transfer of control.

Third, these procedures resulted in a further blurring of borders between public and private property, as well as between nationalization and privatization. The former process manifests itself not only through the expansion of mixed-ownership in joint-stock companies, but also through the ongoing tightening of financial regulation, the limitation of price increases, and the increase in tax burdens, all of which pointing towards a limitation of private property rights. Small wonder that companies concerned called these steps the “expropriation of incomes.” As for privatization, the clear identification of the direction of changes in ownership has been made difficult by the fact that the buyer of a public company often—regardless of the seller’s intention—is another public corporation, or investment fund.

Growing uncertainties among politicians and in expert’s evaluations indicates that, in the last few years, the evergreen debate about “nationalization or privatization” seems to have been replaced by a push to steer a middle course: improve governance in public companies and create conditions for their market-based activities. This keeps the old debate alive about whether or not ownership is more important than regulation. Moreover, there is the recognition that dichotomous approaches may be simplified: both public and private ownership involves a variety of companies and operation models.

If this approach becomes dominant, the dividing lines between the two sectors will be even more blurred.

REFERENCES

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