

THE PRIVATIZATION PROCESS IN SPAIN (1985-2001)

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ABSTRACT

In the last decades there has been a change of tendency in the orientation of the economic theory and the political thinking, not only on the role of public companies but, in general, on the conception of the role of the State. The huge public deficits accumulated after the impact of the crisis of the seventies and also as a consequence of the making of the welfare state, together with the high losses and the need for high subsidies by some large public companies, are some of the reasons which have contributed to the State's reputation of being a spendthrift and a resource squanderer. The result has been a widespread distrust on the role of the State as a manager. The questioning of the State's managerial activity in the last few years has come from different ideological positions and from countries with different levels of economic development, becoming the privatization a global phenomenon.

In this paper we analyze the various stages privatizations in Spain have gone through, the reasons that justified them, weighing up the companies which have been privatized up to the present time, the method of privatization carried out and the new privatizations in prospect in order to leave the future of public companies in Spain open to debate.

1 INTRODUCTION

One of the guidelines of the economic policies applied in Europe in the last two decades has been to reduce State intervention on economy. The privatization policy has been the flagship of this reduction of the public sector after more than a quarter of a century of increasing public intervention. The starting point for such tendency as a significant phenomenon must be located in Britain, where it has been the emblematic piece since Margaret Thatcher acceded the post of Prime Minister in 1979.

Not all privatization processes have been carried out by conservative governments as those of Thatcher in Britain or Chirac in France but there have been important privatizations in Italy with a coalition government, in Mexico with the Partido Revolucionario Institucional or, as in the Spanish case, in the last decade of the Partido Socialista Obrero

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Español. The privatization phenomenon has spread over national, ideologic and economic frontiers. It has been present both in Western countries like Germany, The Netherlands, Portugal, The United States, Canada, Greece or Ireland as in developing countries like Brazil, Venezuela, Mexico, Turkey, The Philippines, Pakistan or India. Among the leading factors which have contributed to strengthen this liberalizing current of the world economy we can point out the need of a more liberalized economic background in accordance with international competition challenge, the growing financial needs of some economies weighed down by budget imbalances and, besides these, the idea that private management is more efficient than public management and that it is therefore convenient to reduce the economic weight of the public sector.

Since 1985 a modest privatization process starts in Spain. However, it will not be until 1994 when privatizations are started to be considered an instrument of industrial policy, with the elaboration of a Plan para la Racionalización y Modernización del Sector Público Empresarial [Plan for the Rationalization and Modernization of the Business Public Sector], thus joining in the liberal trend of privatizations which spreads from Britain all over the world since the beginning of the eighties, following principles of searching for efficiency and improving competition. After the Partido Popular wins the elections in March 1996, the Programa de Modernización del Sector Público Empresarial del Estado [Program for the Modernization of the State's Business Public Sector] is approved by the cabinet on June 28, 1996, being one of its central lines of actuation the implementation of a privatization process with a global character. The process of privatizations has intensified in the last few years, being the business public sector notably reduced. In our paper we will try to analyze the various stages privatizations in Spain have gone through, the reasons that justified them, weighing up the companies which have been privatized up to the present time, the method of privatization carried out and the new privatizations in prospect, in order to leave the future of public companies in Spain open to debate.

2 THE ISSUE OF PRIVATIZATIONS IN SPAIN BETWEEN 1985 AND 1996

The privatizations carried out in Spain began to become outstanding from 1985 on. The Socialist government avoided using the term "privatisation", replaced by "disinvesting process" of the State in public companies and which many authors named "silent privatisation", although it can be stated that this was more a restructuring of public companies than an isolated plan of privatizations.

The decisions to disinvest did not follow considerations of a political or ideological kind but criteria of industrial and financial rationality. Prior to 1985, a public company

management policy according to market principles and a search for efficiency and rationalization of the business public sector had started.

The Instituto Nacional de Industria's (INI) loss cut, a holding which included the public companies with a clear industrial vocation, was the main goal, and in order to do that three kind of actions were taken:

- reconversion and gradual reduction of companies with chronic losses and which were not considered to be viable, as in the case of coal mining, naval construction and defense industries;
- selling or privatization of companies which were not considered to be viable within the INI's framework but which were so out of it (for example, SEAT in the automobile sector);
- creation of business projects in order to place them later in the market, as in the case of Endesa, Inespal, Iberia, etc.

The actions carried out as regards to privatization from 1985 to the beginning of the nineties decade were of two kinds: a) direct selling of public companies to private companies and b) placing of minority blocks of shares in the stock market without the public sector losing control over management. The aim of the latter was to diversify financing sources and to discipline management through the control that the capital market can exert (see Chart 1).

The direct selling or the selling of most of the capital is the system most used both for companies which lacked strategic importance due to their small size or little activity (Viajes Marsans, SKF, Textil Tarazona, etc.) as for large companies where privatization is meaningful when the new shareholder can create a higher value for the business than the public sector can due to technological and commercial reasons and to taking advantage of scale economies and synergies derived from a higher industrial cooperation among various companies. This is for example the case of SEAT, Enasa or Maquinista Terrestre y Marítima (MTM).

In the case of larger companies, a significant part of the sales were done to foreign groups, as in the case of SEAT to Volkswagen², Enasa to Fiat, Telesincro to Bull, MTM and Ateinsa to Alstom, Secoinsa to Fujitsu, Intelhorce to Orefici, etc. while in the case of smaller companies, those were sold to domestic investors (Viajes Marsans, Gossypium, Hytasa, Macosa, Impiel, Alumasa, etc.). Most of them correspond to companies in crisis

² The selling in 1986 of Seat (the only public automobile factory in Spain until then) to Volkswagen was perhaps the first large scale privatization in Spain or, as some have called it, a 'multinationalization' process of a Spanish industry developed under the tariff protection and in the midst of the process of integration into the EEC, see García Fernández (1990, pg. 237). The INI had taken Seat's major share in 1980 as a salvation operation.

incorporated to the public sector due to the withdrawal of the private initiative in the 1970-1982 period.

In those privatizations a systematic plan was not followed but a casuistic actuation responding to specific problems. Those were another measure among the ones taken in order to rationalize and restructure the business public sector instead an objective in itself.

Chart 1 - Public companies privatized in Spain in the 1985-1996 period (1)

YEAR	COMPANY	SECTOR (and PARENT COMPANY)	% SOLD	BUYER
1985	Textil Tarazona	Textile	69.6	Entrecanales/Cima
	Ingenasa	Inmun./genetics (Enisa)	67.6	ERT
			(51 in 1985)	
			14.2 in 1986	
			2.4 in 1989)	
	Igfisa	Food (Endiasa)	100	Pleamar
Cesquisa	Chemical (Enisa)	45.4	Cepsa	
Secoinsa	Electronics	69.1	Fujitsu*/CTNE	
SKF Española	Bearings	98.8	Aktiebogalet SKF*	
Marsans	Turism	100	Trapsatur	
1986	Entursa	Turism	100	Ciga/Hoteles lujo españ.
	Frigsa	Food (Endiasa)	100	Saprogal*
	Gypisa	Food (Endiasa)	100	Fri.g. Santana
	La Luz	Food (Carcesa)	100	Prevert
	Insisa	Capital goods (BWE)	60	Acctas. Privados Insisa
	Remetal	Aluminum (Inespal)	66.6	Socios Fundadores Remetal
			(66.1 in 1986)	
			0.5 in 1990)	
	Issa	Aluminum (Inespal)	100	Aluperfil
	Aluflet	Aluminum (Alúmina Esp.)	40	Acctas.privados Aluflet
	Motores MBD	Naval construction (Motores Barreras/Sodiga)	60	Klockner Humboldt Deutz AG*
			(38.4 in 1986)	
			21.6 in 1989)	
	Pamesa	Paper (Ence)	100	Torras Hostench
	Fovisa (3)	Iron and steel (Made)	100	Gekanor (GKN*/Acenor)
Indugasa	Automotive (Seat)	50	GKN*	
Seat	Automotive	100	Wolkswagen AG*	
		(75 in 1986)		
		25 in 1990)		
Telesincro	Electronics (Inisel)	100	Bull*	
		(40 in 1986)		
		33.9 in 1988		
		26.1 in 1994)		
Gesa	Gas/Electricity (Endesa)	39	(PIS)	
1987	Dessa	Naval c. (Bazan/Astano)	80	Forestal del Atlántico
	Evatsa	Aluminum (Inespal/Sodiga)	100	Cebal
	Litofan	Aluminum (Inespal)	100	Baumgartner Ibérica*
	Alumalsa	Aluminum (Inespal)	44	Montupet*
	Purolator	Autom.(INI/CASA (4))	97.4	Knecht Filterwerke*
	Victorio Luzuriaga	Automotive	33.3	Eisenwert Bruhl*
	Diasa	Food (Endiasa)	50	Saudisa (Promodes*)/BBV
	Miel Española	Food (Endiasa)	51	Sugemesa (Agrolimen)
	Miraflores	Food (Lc. Castellana)		Queserías Miraflores

Public companies privatized in Spain in the 1985-1996 period (1) (cont.)

YEAR	COMPANY	SECTOR (and PARENT COMPANY)	% SOLD	BUYER
1988	Endesa	Electricity	29.2 (20.4 in 1988 8.7 in 1994)	(PIS)
	Ence	Paper (INI; Teneo/ Cofivacasa)	53.8 (39.3 in 1988 14.5 in 1995 (5))	(PIS)
1989	Astican MTM	Naval construction Capital goods	90.72 100 (85 in 1989 15 in 1992)	Italmar GEC Alsthom*
	Ateinsa	Capital goods	100 (85 in 1989 15 in 1992)	GEC Alsthom*
	Enfersa	Fertilizers	100 (80 in 1989 20 in 1991)	Ercros
	Oesa Pesa Ancoial	Food (Endiasa) Electronics (Inisel) Aluminum (Enisa)	100 97.4 75.2	Ferruzzi* Amper Omnium Industrie*
1990	Adaro Indonesia	Engineering (Enadimsa)	80	Indonesia Coal*/Asmincco Bara, Utama/Tirtamas Majutamas*
1991	Enasa	Automotive	100 (60 in 1991 40 in 1993)	Iveco/Fiat*
	Gr.Empr.Alvrız	Industrial craftsmanship	100 (90 in 1991 10 in 1992)	Pickman (Estudesa)
	TSD	Electronics (Enosa)	100	Telepublicaciones
1992	Icuatro	Iniexport	90	Grupo Alegre
1993	Automoci3n 2000 Fbrica S.Carlos	Automotive (Teneo) Capital goods (Teneo)	100 100	Inversores Reo Grupo Navacel/Total Technical, Trade/Luis Tellera Usabiaga
	Palco	Aluminum (Inespal)	100 (50 in 1993 50 in 1994)	Alcan Detsschland
1994	C. Trasatlntica Artespaa	Maritime transp. (Teneo) Craftmanship (Teneo)	100 100	Naviera Odier/Marit.Valenc Medino S.L.
	ASDL	Aeronautics (Ceselsa)	87.7	Quadrant Group*
	Sodiga	Indust. Develop. Society	51.2	Xunta de Galicia
1995	Refinalsa	Aluminum (Inespal)	50	Remetal
	Sidenor	Iron and steel (AIE)	50 (6)	Digeco-Roda

The first massive partial privatization in Spain was 20.3 per cent of Endesa's capital, whose owner was the INI. When it was carried out in May 1988, it was the largest issue of securities³ ever carried out in Spain and the largest placement of shares in Europe since the collapse of the stock market in October 1987. The fact that the company started to quote in the New York Stock Exchange must be added to the increase of the stockholding

³ 53 million shares were placed among over 73,700 new domestic and foreign shareholders.

base. Another partial privatization that same year was the selling of 39.8 per cent of ENCE, 3.6 million shares been placed among 26,153 stockholders.

Public companies privatized in Spain in the 1985-1996 period (1) (cont.)

YEAR	COMPANY	SECTOR (and PARENT COMPANY)	% SOLD	BUYER
INH				
1989	Repsol	Petrol/Gas	79 (26.4 in 1989 4.2 in 1989 2.9 in 1990 2.1 in 1992 9.8 in 1992 14.1 in 1993 19.5 in 1995 11 in 1996)	(PIS) BBV Pemex* Pemex* (Bonds exchange) Institutional PIS (PIS) (PIS)
1994	Enagás Caivsa	Gas Gas (INH/c. Madrileña alum. y calef. por Gas)	91 100	Gas Natural Gas Natural
D.G. Patrimonio del Estado				
1985	Gossypium Intelhorce	Textile (DGPE/intelhorce) Textile	100 100	Textil Guadiana Oreficj*
1990	Hytasa Imepiel Dirsa Seb de la Fuente Salinas Torrevieja Coifer	Textile Footwear Distrib. Tabacalera Distrib. Dirsa Salt Food (Tabacalera)	100 100 75.06 100 38.5 50	Textil Guadiana DFG Grupo Cusi Diasa Cofidisa (BBV) Solvay* Alim. Natural. BBV
1991	Fridarago Coisa	Food (Tabacalera) Food (Tabacalera)	100 100	Rústicas Rústicas
1993	Argentaria	Banking	49.99 24.99 in V-1993 25 in IX-1993 25 in 1996	(PIS) (PIS) (PIS)
1994	RJR Alimentación	Food (Tabacalera)	50	RJR Nabisco*
1995	Telefónica Lesa	Telecommunications Food (Tabacalera)	10.7 100	(PIS) Leyma/lparlat

(1) Classified according to their functional dependence and date of their (first) privatization. Not included selling of shares which did not meant a State loss of control (except PISs), nor asset sellings. Foreign buyers are marked with an asterisk.

(2) Percentage sold means the total of the previous public share, unless otherwise stated.

(3) Fovisa returned temporarily to the public sector through buying Acenor (100% ICO) its share to the English group GNK in 1991. Acenor integrated in Sidenor in 1993 and this was privatized in 1995.

(4) INI 94.7%, CASA 2.7%.

(5) In 1994 Teneo had a direct share of 55.9% and another 9.7% through Cofivacasa (Infinvest, Teneo). Cofivacasa's share was totally sold and Teneo was reduced by a 4.9%.

(6) Sidenor is the result of the fusion in 1993 of Foarsa (100% INI) and Acenor (100% ICO), being shared by 50% by both groups until its total privatization in 1995.

(7) Companies from the Rumasa Group not included.

Source: Villalonga Morenés, B. *Expansión*, 24 July, 1996.

Already in 1986, Gas y Electricidad, S.A. (Gesa) placed 38 per cent of its capital in the stock market. Another massive partial privatization which was also a great success was the selling in 1989 of 30 per cent of Repsol, which has been selling blocks of shares until its total privatization and which will be discussed later on.

The process cannot always be considered a privatization as there were sectors where fusions and absorptions took place within the public sector itself -as was the case of the petrol-gas, aluminum, food, telecommunications, computing and electronics sectors- or companies which were liquidated – as Potasas de Navarra or Soler Almirall.

Until late in the nineties there has not been a global policy of privatizations despite the operations carried out during the eighties and beginning of the nineties. Sections of the great public industrial groups were transferred to the private sector for reorganization reasons or viability needs. But those actions were the result of individual decisions and not of a definite and coherent privatization strategy. The severe budget crisis and the Convergence Programme brought about a global decision of the Ministerio de Economía y Hacienda about the privatization process.

It is from 1994 on when privatizations begin to be thought of as an instrument of industrial policy with the elaboration of a Plan para la Racionalización y Modernización del Sector Público Empresarial, which outlines some orientations in order to lead national and international industrial and financial groups into the public sector. Spain thus joins the liberal current of privatizations which spreads throughout the world attending to principles of searching for efficiency and improving competition.

The globalization and liberalization of markets, the commercial and financial exchanges, the deregularization of economic sectors and the need of continuous technological improvements justify the implementation of a privatization programme. Besides, it is a time specially complicated for public finance, with a public deficit in 1995 over 6 per cent of the GDP and a public debt level getting near 65 per cent of the GDP, circumstances which favour resorting to privatization as a revenue-generator or expenditure-limitator mechanism for the public sector.

In April 1995, 15 per cent of Repsol's capital was sold and the new programme of actions prepared by the Ministerio de Economía included among others: Transmediterránea, Ence, Sidenor, Tabacalera, Aldeasa, Paradores Nacionales, Corporación Siderúrgica Industrial, Aviaco, Casa, etc. and several subsidiary companies shared by the large groups like Telefónica Móviles and Santa Bárbara Blindados for example.

The revenues obtained from privatizations in Spain between 1985 and March 1994 amounted to one billion pesetas. However, between 1984 and 1993 the accumulated cost

of loss-bearing public companies under the State amounted to 22.9 billion pesetas,⁴ what meant a yearly cost for the State equivalent to 4.5 per cent of the GDP.

One of the main worries about the privatization debate was the sufficient protection of public interest in the privatization of those companies where the State intervention was necessary, either to maintain the national security (basic goods and services sectors), to avoid market failures and natural monopolies by justifying regulation and public property and thus assuring service coverage to all customers, or to keep key industries to the development of the country, in order to keep the employment and income rates of certain population sectors and centres. With this aim, besides developing methods like the “golden share”⁵ or the creation of “hard cores”, the Government, by means of the Ley 5/1995, March 23rd, established the Régimen Jurídico de Enajenación de Participaciones Públicas en Determinadas Empresas [Legal Regulations on Alienation of Public Shares in Certain Companies] which requires the previous administrative authorization in certain agreements and actions related to the public companies considered,⁶ provided that the degree of privatization of a company is over 5 per cent of the capital and has a public capital over 25 per cent, or whenever the privatization process is planned in such a way that the State share is to be under 15 per cent.

After the Partido Popular winning the elections in March 1996, Josep Piqué⁷ takes over the Ministerio de Industria y Energía [Ministry of Industry and Energy]. The distinctive elements of the new industrial policy are the promotion of competition in all markets and privatization as public companies’ main management line. In a block of measures approved by the cabinet meeting on 28 June, 1996, the new government promoted privatization actions to the status of political programme, committing itself to carry out privatization in a comprehensive and total way. Comprehensive in the sense that it would cover every company liable to be sold and total in the sense that it would affect the whole State share, whatever the amount of it were.

⁴ Distributed as follows: 7.34 billions in subsidies; 6.45 billions in capital transfers; 4.84 billions in losses and 4.33 billions in public aids for promoting industrial production.

⁵ Applied by the Socialist Government in the case of the partial privatization of Repsol and recently in the privatization processes of Argentaria, Telefónica, Tabacalera or Endesa.

⁶ This regulation would be applicable to every company of commercial nature having at the date the law came into force (27 March, 1995) a direct or indirect State share over 25 per cent of the social capital and provided that they carried out an activity considered to be of public interest or belonged to a group carrying out this kind of activities, or were totally or partially exempted of free competition (article 90 of the Treaty Establishing the Economic Union).

⁷ In an article by minister Piqué published in the *Economía Industrial* journal, No. 308 (1997) the priority lines of the new industrial policy started by the Partido Popular’s Government are put forward. This policy is mainly centred on three priority lines: the improvement of the business environment, the consolidation of competition and specific actions for the strengthening of industrial competition.

3 PRIVATIZATIONS AFTER THE 1996 GENERAL ELECTIONS

The privatization process was intensified from 1997 on, the weight of the public business sector being reduced in the economy and affecting the largest and most profitable public companies (Telefonica, Repsol, Tabacalera o Endesa) among others. In just the two first years of the new government, public companies to the value of more than four billion pesetas were sold, the revenues obtained in the ten years of privatizations of the Partido Socialista being doubled. Spain held in 1997 the sixth place in privatization revenues⁸ among the 29 OECD countries, of which two thirds corresponded to European Union countries. This is a reflection of the urgency for completing some of the privatization programmes before the arrival of the Economic and Monetary Union (EMU).

In the race towards the EMU, the European governments had a higher incentive for speeding up their privatization programmes. Although privatization incomes cannot be used for deficit calculation, they can be used for reducing debt.⁹ Besides this, privatizations avoid having to run into expenses destined to financing both exploitation losses of some public companies as investment programmes of the whole of the business public sector.

Charter 2 shows companies privatized along 1997 and 1998, indicating the public share being privatized, the operation amount and the date of approval by the cabinet. It also shows the privatization mode carried out. The basic methods of public company assets alienation carried out along those years correspond with two modalities:

a) The negotiated asset sale by which ownership is transferred within the framework of private conversations and after a appropriate preselection of potential buyers -usually producers of the same field of activity, having either a competition or complementary relationship- and the operation being concluded with the interested party offering best conditions or guarantees in the opinion of the public person in charge. Among them Auxini, Aceralia or Inespal stand out.

⁸ According to the preliminary data from an OECD report on privatizations, during 1977 the whole of the States entered 157 million dollars from privatizations, 70 per cent more than the previous year, of which two thirds correspond to European Union countries. Spain entered 5,988 million dollars, with a 123 per cent increase over 1996. *El País, Negocios*, 17 May, 1988, pg. 3.

⁹ When the State directly owns shares of a public company being privatized, the benefit or loss generated by the operation has no incidence on public deficit in terms of domestic accountancy. The cost of privatization will produce a change in the State's financial assets and it should be wholly entered as a negative variation of financial assets (shares), what will simultaneously produce a positive variation of available assets, lacking effect on the capital account's balance (financing capacity or need) and therefore the operation not altering the public deficit. The interest of such an operation lies in the possibility of the funds obtained by the alienation of a financial asset are destined to reducing a financial liability, in particular the amortization of public debt in order to decrease the active balance of outstanding debt. At the same time, if the privatization cost is destined to amortizing outstanding debt, the interests corresponding to amortized debt will be reduced, what will allow to reduce public debt.

b) Or Publicity Issued Shares (PIS), where the typical global offer usually divides into a domestic lot and several international lots, which correspond to different geographical regions. It is the method used in the largest and most profitable public companies: Telefónica, Repsol, Argentaria, Endesa or Tabacalera.

Chart 2 - Selling of public companies (1997 and 1998)

Company	Owner	Price (Mill. Ptas.)	Buyer	Date (*)
Telefónica	SEPPA (1)	630,000	PIS	20/12/1996
Minas Almagrera	SEPI (2)	443	N.Resources	17/1/1997
Sodiga (5%)	SEPI	-	Xunta Galicia	30/1/1997
Iongraf	SEPI	165	Directivos	7/3/1997
Repsol (10%)	SEPI	168,692	PIS	7/3/1997
Surgiclinic (50%)	SEPI	-	Hambros	7/3/1997
Sodical (51%)	SEPI	717	Dip. y Cajas	14/3/1997
Auxini (60%)	SEPI	5,950	OCP Const.	7/6/1997
Aldeasa (20%)	SEPPA	15,000	Tabacalera	15/6/1997
Retevisión (70%)	Fomento	181,003	Endesa-Stet	12/7/1997
Endesa (25,57%)	SEPI	695,462	PIS	24/7/1997
Inespal	SEPI	61,500	Alcoa	29/7/1997
CSI(Aceralia) (35%)	AIE (3)	129,200	Arbed	1/8/1997
Aldeasa (80%)	SEPPA	48,545	PIS	1/8/1997
Infoleasing	SEPI	3,100	La Caixa	12/9/1997
Elcano	SEPI	5,770	Navieras nac.	24/10/1997
Aceralia (52,8%)	SEPI	212,367	PIS	7/11/1997
Aceralia (10,8%)	SEPI	40,000	Aristrain	7/11/1997
Aceralia (0,6%)	SEPI	1,500	J.M.Aristrain	7/11/1997
Aceralia (1%)	SEPI	3,692	Gestamp	7/11/1997
Ferroperfil	SEPI	21	Directivos	14/11/1997
Sodicaman (51%)	SEPI	658	Dip. y Cajas	26/11/1997
Barreras	SEPI	750	G. Barreras	26/12/1997
Argentaria	SEPPA	325,000	PIS	16/1/1998
Tabacalera	SEPPA	310,000	PIS	13/4/1998**

(1) Sociedad Estatal de Participaciones Patrimoniales (Ministerio de Economía) [Ministry of Economy]

(2) Sociedad Estatal de Participaciones Industriales. (3) Agencia Industrial del Estado.

(*) Corresponds to the authorization to sell by the cabinet. (**) Date of putting up for sale through a PIS.

Source: Anuario El País 1997 (1998), Informe Anual SEPI 1996 (1998) and personal elaboration.

Recently, in the 2001, the Grupo Iberia has been privatized by means of a PIS and the cellulose company Ence by means of a selective sale. Some privatization processes of lesser importance and repercussion are about to end. There are two sectors very difficult to privatize, both for political and economical and social reasons, the mining sector and the shipyard sector. Coal mining restructuring is probably the most difficult to undertake although within the narrow margins of the Community regulations, the *Plan de la Minería*

*del Carbón y Desarrollo Alternativo de las Comarcas Mineras*¹⁰ is trying to find non-traumatic solutions, so that the passing of the sector's public companies to private hands may be perhaps the last one to be carried out within this global privatization process.

4 VALUATION

The privatization process in Spain has had two very differing phases. The first stage between 1985 and 1994 where a systematic plan was not followed but a casuistic action responding to particular problems, privatizations being one more among the measures followed in order to rationalize and restructure the business public sector, instead of an aim themselves. In a first phase, a liberalization process was started in order to adapt the Spanish business public sector to Community regulations, the petrol distribution and refining and tobacco monopolies being abolished. In this first socialist stage the privatizations carried out responded to the government wish to reduce the weight of the public sector in non-strategical sectors of activity governed by market criteria. The most important privatizations were partially carried out through Publicly Issued Shares. The revenues obtained by such were around two billion pesetas although it must be mentioned that subsidies and capital transfers to loss-bearing companies amounted to over twenty billion pesetas between 1983 and 1994.

In a second socialist stage, since 1994 budgetary reasons began to gain importance without becoming the main objectives though, due to the specially complicated moment of public finances. It is from that same year on when privatizations begin to be thought of as an industrial policy instrument with the approval of the Plan para la Racionalización y Modernización del Sector Público Empresarial.

The privatization method changed after the 1996 elections. With the approval of the Programa de Modernización del Sector Público Empresarial del Estado, [State's Business Public Sector Modernization Programme] privatizations are intensified and the weight of the business public sector in economy is reduced, affecting the largest and most profitable public companies and the revenues obtained being doubled comparing with the socialist stage. It must be remembered that the Spanish public debt was around 51 billion pesetas at the beginning of 1997. Privatizations, as we have already mentioned, are not an important instrument for fulfilling Maastricht's deficit requirements, although due to their

¹⁰The *Plan de la Minería del Carbón y Desarrollo Alternativo de las Comarcas Mineras* [Coal Mining and Mining Regions Alternative Development Plan] sets the principle of free supply contracting among the mining and electricity companies, guaranteeing a progressive convergence with international prices. In order to reach that goal, the Plan contemplates a reduction of guaranteed consumption of 28 per cent during the 1998-2005 period, trying to fulfill decision 3632/ECSC. Besides, this Plan provides for an approximate annual payment of 50,000 million pesetas, of which 40,000 million would be destined to infrastructure financing.

influence on debt and indirectly, they support Spain's entrance in the Monetary Union. Revenues from privatizations in this legislature until the end of 1998 were around 4 billion pesetas. So, the contribution of privatizations to fulfilling Maastricht's objectives is not excessive, although it is still another instrument. Many of the other benefits attributed to privatizations (cut in Trade Union's power, promotion of popular capitalism, redistribution of income, etc.) can be probably reached through other instruments as Trade Union reform or tax incentives to saving, among others.

The main objective of privatization should be the increase in economic efficiency, not only as a key to improving business public sector's actions but also as a source of other measures which are frequently attributed to privatization, in particular their favourable budgetary effects.¹¹ It is difficult to evaluate to what extent the short run solution to a purely budgetary problem avoids the need of the State's future running into debt in order to compensate for the suppression of the incomes generated previously by the profitable public companies. In this sense, it must be taken into account that if the reduction of interest's cost, due to an amortization of the debt generated through incomes coming from privatization, does not compensate for the undervaluation of the expectatives of income coming from profitable public companies, the State can be obliged to increase income by means of taxing or choose a reduction of socially popular expenses. If, on the other side, privatizations affect companies showing a deficit or to companies placed in specially unfavourable geographical areas, there is no doubt that it will be necessary that these measures go together with an increase in interterritorial compensation funds, besides the increase in social costs generated by such privatizations.

In general, competition and regulation are more decisive determinants in the economic results than shareholding itself. Whenever there are deficiencies in those areas, government actions should be basically oriented towards promoting competition and improving regulation. Privatization is not necessary nor sufficient to create a competitive market. In the case of the privatizations carried out in Spain in the last few years, the Spanish large public companies have been sold before liberalizing markets. The privatization of Telefonica, Endesa or Tabacalera means the transfer of monopolies or duopolies from the public sector to the private sector, while theoretical grounds and international experience recommend privatizing and liberalizing at the same time (or liberalizing before privatizing), what questions the increase in economic efficiency and the obtention of benefits which for the consumer are derived from the opening of market to competition. Evidence shows that

¹¹ As Vickers points out (1993, pgs. 85-86): "The tax collecting argument in favour of privatization is not evident, as a farsighted vision of income is needed. If privatization causes improvements in efficiency, their collecting advantages increase. But if there is a tendency to undervaluing the selling price of shares, collecting considerations can be contrary to privatization."

the consolidation of monopolistic or oligopolistic companies in the private field endangers competition as these groups immediately become resistance centres against liberalization and competition.¹²

The privatization of the Spanish large public companies would not have been so successful without the financing source meant by society saving favoured by the extraordinary period the capital market has gone through and the strong reduction of interest rates in the last few years. The low setting of interest rates has favoured a higher desire for shares. All the saving which is happening in the small investor's economies and which crystallizes into entering investment funds makes the domestic market to become a key source of demand. The shareholding base, this is, what was formerly the State shareholding, has been distributed among over two million investors since 1997. It must also be remembered that selling public companies is a secure and abundant source of commissions and benefits for banks and institutions mediating in the operations. The new interest rate setting and the legislation on capital shares makes it more attractive in this moment for banks and saving banks to invest in significant lots in industry. So, it is likely that the presence of banking in large companies is concentrated and strengthened. In theory, the creation of a wide shareholding base directly interested in the process provides an important tool for curbing future nationalizing tendencies. Only the drop of the financial markets and a predictable economic recession would discourage investors and turn what is nowadays considered popular capitalism into a rather unpopular way of losing money.

At present, in an open and modern economy as the Spanish one where the domestic factor is replaced by the European one and the global market, the latest technological changes that have made the *raison d'être* of some natural monopolies and the strategical character of some others is revised and questioned, together with increasing financial reasons for public deficit and public debt reduction, have obscured public companies' possibilities of subsistence. This aspect of economic intervention is the most discussed nowadays, the privatization option being frequently opposed to it. The centre of the debate consists in outlining with precision the size the managerial State must have or, in other words, the kind of public companies that must be kept out of privatization. Justifying the existence of a business public sector is limited to very specific activities as those which are still considered strategical, those of public interest or those which are in charge of providing certain social services. Productive activities sheltered from market inclemencies are senseless, ex-

¹²Between April and May 1998, Telefonica's highest persons in charge, once this was privatized, started a campaign of public rejection of tariffs proposed by the Ministerio de Transportes [Transport Ministry], which fixes the company's users and second operator - Retevisión - tariffs, and which included the imposition of billing per second instead of per unit as was being done up to now.

cept in very exceptional circumstances. The aim should be a business public sector with less bureaucracy, more competitive and non-collusive but complementary and collaborating with private initiative, besides being financially self-sufficient. When losses are incurred into, these should arise from the situation and not be structural and, of course, much inferior to those borne up to now because the opportunity cost derived from Spanish public companies' losses in terms of use of public resources has been very high.

However, it is not easy to specify when a determined economic sector must be classified as a strategical one. A sector which has historically been classified under this concept is the arms industry, closely connected to national security. However, its activity can be secured nowadays through programmes agreed upon with Spanish private companies. Usually that denomination is associated with companies which generate externalities or incipient industries or companies key to a future industrial development. So, the presence of public companies in sectors with high levels of technological innovation and highly qualified personnel, information, infrastructures and advances services for companies is sought to be justified, therefore being able to generate positive externalities¹³ for the rest of the productive web which, would be impossible to generate without a public intervention. Sectors such as computer science, telecommunications, aeronautics, biotechnology, semi-conductors and pharmaceutical industries among others, are considered nowadays to be strategical although, in order to compensate them, creating public companies is not necessary but private companies carrying out such functions can operate with public aids [Lucas (1988), Romer (1990), Barro y Salas (1995) among others]. In some cases, the presence of public capital may be of interest for the private investor, or for the manager of a venture, because sometimes finding a shareholder with high financial capacity, interested rather on long-term than short-term returns and having the idea of staying in business is not easy to find.

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¹³ The consideration of external economies has gained importance thanks to authors like Poter (1990) or the wide diffusion of Krugman's work (1992a, 1992b y 1997).

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SINOPSE

O PROCESSO PRIVATIZADOR NA ESPANHA (1985-2001)

Nas últimas décadas, tem-se produzido um câmbio de tendência na orientação da teoria econômica e do pensamento político não sobre o papel da empresa pública, mas, em geral, da concepção do papel do Estado. Os enormes déficits públicos, acumulados depois do impacto da crise dos setenta e também como consequência da construção do Estado do bem-estar, unidos às grandes perdas e à necessidade de elevadas subvenções por parte de algumas empresas públicas, são algumas das razões que têm contribuído à fama do Estado de dissipador e de dilapidador de recursos. O resultado tem sido a desconfiança generalizada sobre o papel do Estado como empresário. Pôr em dúvida a atividade empresarial do Estado nos últimos anos, tem-se feito desde posições ideológicas desiguais e em países com diferentes graus de desenvolvimento econômico, convertendo-se as privatizações num fenômeno global. Neste trabalho são analisadas as distintas fases pelas que têm discorrido as privatizações na Espanha, as razões que as têm justificado, fazendo balanço das empresas que se têm privatizado até este momento, o método de privatização que se tem efetuado e as novas privatizações em perspectiva, para deixar aberto ao debate o futuro da empresa pública na Espanha.

SINOPSIS

THE PRIVATIZATION PROCESS IN SPAIN (1985-2001)

En las últimas décadas se ha producido un cambio de tendencia en la orientación de la teoría económica y del pensamiento político, no sólo sobre el papel de la empresa pública, sino, en general, de la concepción del papel del Estado. Los enormes déficit públicos acumulados tras el impacto de la crisis de los setenta y también como consecuencia de la construcción del Estado de Bienestar, unido a las grandes pérdidas y necesidad de elevadas subvenciones por algunas grandes empresas públicas, son algunas de las razones que han contribuido a la fama de derrochador y dilapidador de recursos del Estado. El resultado ha sido una desconfianza generalizada acerca del papel del Estado como empresario. La puesta en tela de juicio de la actividad empresarial del Estado en los últimos años se ha realizado desde posiciones ideológicas dispares y en países con diferentes grados de desarrollo económico, convirtiéndose las privatizaciones en un fenómeno global. En este trabajo se analizan las distintas fases por las que han discurrido las privatizaciones en España, las razones que las han justificado, haciendo balance de las empresas que se han privatizado hasta el momento, el método de privatización que se ha llevado a cabo y las nuevas privatizaciones en perspectiva, para dejar abierto a debate el futuro de la empresa pública en España.