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The scope and nature of privatisation in the financial
sector

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Abstract The processes of financial-system privatisation and commodification in the European countries investigated here took place mostly as a result of changes in the legal and organisational framework for conducting financial activity and as a consequence of individual privatisation decisions taken mainly for macroeconomic reasons. This suggests the predominance of ideological and macroeconomic reasons for the process in Europe. The phenomenon was most clearly visible in CEE countries, although it could also be seen in the privatisation processes taking place in countries of Western Europe. As a result, differences in the subjective and objective scope of financial-sector privatisation in particular European countries should be attributed much more to the influence of ideological reasons – an influence stemming largely from the impact of pressure groups interested in privatisation – than to pressure from the economic determinants of financial activity manifesting themselves in microeconomic reasons for privatisation.

Key words: privatisation, commodification, financial sector, liberalisation

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1. Introduction

As a steady trend, the increasing privatisation of the financial sector in European countries commenced in the early 1980`s and intensified in the 1990`s. The course and directions of the process, as well as its impact on the performance of the financial sector's functions, are discussed in paper D8.03, titled *Privatisation and nationalisation of financial-sector institutions: an impact on performing the sector's functions towards the national economy: business units and households* [Tomidajewicz, J.J., 2014]. On the other hand, the general outcome of this process, i.e. the current ownership structure of the financial sector, was presented in paper D8.02, titled "Report on the structure of ownership in the financial sector across the EU" [Jurek, M., 2014].

The primary aim of the present study, however, is to present the essence and nature of processes related to financial-sector privatisation, as well as the rationale, aims and mechanisms of the privatisation process. The aims, the scope, and, in particular, the methods and tools used in financial-sector privatisation differed between European countries, which makes it necessary to address also the nature and the causes of this diversity.

A starting point for examining the extent and nature of financial-sector privatisation is an analysis of the very concept of privatisation on the one hand, and the rationale and aims of the process on the other. Confronting these two aspects will allow us to characterise the main tools and mechanisms of privatisation, and then evaluate them from the viewpoint of achieving the aims of privatisation, as well as in terms of its implications for the functioning of the financial system and for the performance of its functions for the real economy. Without seeking to precisely define the phrase *The scope and nature of privatization* used in the title of the present paper, we will assume that the nature of privatisation is related to the character and type of reasons for this process, and that they become reflected in the methods and tools used to conduct privatisation. On the other hand, the scope of privatisation is considered here primarily in terms of the extent to which this process concerns the public sector or collectively owned entities, and the extent to

which various privatisation methods were used (such as individual privatisation decisions, legal changes in the ownership status, or changes in the ownership status “forced” by changes in the regulatory system).

The concepts of privatisation as well as commodification and liberalisation (which are related to it) were more thoroughly discussed in paper D8.03 [see Tomidajewicz, J.J., 2014, D8.03]. As in the case of that study, we will assume here that we are dealing with the phenomenon of privatisation in a narrow sense if property rights are transferred from public holders to private ones. At this point, however, it should be added that, in addition to privatisation in the narrow sense, we can also speak of privatisation in a broad sense, which manifests itself as an increased participation of private entities in the activities of a sector (in our case, the financial sector) or of the whole economy. Therefore, we deal with privatisation in the broad sense also if there are no processes of privatisation in the narrow sense, and if an increased participation of private entities in a sector results from the establishment of new private entities (“founding privatisation”) and/or from existing private institutions’ operations growing in scale more rapidly than those of public and collectively-owned institutions [see: Mizsei, K., 1997, p.4].

In contrast, the phenomenon of commodification involves a change in the way certain institutions operate and means the primary orientation of a company or a social sector towards profit maximisation. Thus, while privatisation in the narrow sense is basically used with reference to the public sector only, commodification may refer to both public entities and non-commercial institutions belonging to the broadly-understood private sector, in particular such institutions as cooperatives, funds and foundations, which are considered to be collectively owned because of their form of ownership [see: Tomidajewicz, J.J., 2014 D8.08]. It should also be noted that commodification can take place both as a consequence of changes in the ownership status (as in the case of privatisation in the narrow sense) and as a result of a transformation of the legal and organisational form of a state-owned or cooperative company into a commercial company, with the existing owners at least temporarily maintaining control over it. Commodification is also possible without making

any changes in the formal or ownership status of an institution; instead, it only involves reorienting the criteria and objectives of its activity towards profit maximisation.

Finally, the most general of the concepts discussed here is liberalisation, a term that describes a number of measures (opening of markets, reduction of conditions laid down by the state and monopoly rights) to facilitate market conditions in areas which were previously state- or publicly-regulated. Therefore, while privatisation (particularly that in the narrow sense) and commodification involve changes in the economic behaviour of companies and financial institutions, liberalisation is primarily about changes in their market and institutional environment, although privatisation and commodification, while increasing the importance of the market as a primary regulating mechanism in the economy, can also be regarded as an element of liberalisation, broadly understood.

Consequently, in terms of their scope, the concepts discussed here can be ordered, from the narrowest to the broadest, as follows: privatisation in the narrow sense, formal commodification (which involves changing the organisational status), informal commercialisation (which takes place as part of the existing legal and organisational form), privatisation in the broad sense, and liberalisation.

Unfortunately, the scale, scope and separation of the processes identified here are difficult to observe, in particular to assess quantitatively on the basis empirical data. What is relatively easy to quantify are privatisation in the narrow sense and formal commodification, processes which involve a change in the formal and/or ownership status. Also in this case, however, the majority of countries lack information on the quantity and scale (as measured by business activity indices) of transformation of the ownership and legal status of the financial institutions under study. Sometimes it is easier to empirically assess privatisation in the broad sense, but also here statistical information is usually incomplete, as it more often refers to the legal than to the ownership status of these institutions. For obvious reasons, it is most difficult to verify empirically the size and scale of informal commodification processes. Because of difficult access to statistical data, further analyses of the scope and directions of the financial sector's privatisation,

commodification and liberalisation will largely be based on random, not fully comparable statistical data, as well as on qualitative analyses.

2. Reasons for liberalisation, commodification and privatisation in the financial sector

As mentioned above, the liberalisation and privatisation of the European economy, including its financial sector, commenced on a larger scale in the early 1980s. Varying in their intensity and scale, the phenomena constitute a characteristic element of systemic changes that are still taking place today. Reasons for the changes, which are multiple and diverse, include:

- Theoretical and ideological reasons, related mainly to the growing influence of the neoliberal approach to economic theory and economic policy and the resultant effort to limit the government's role in the economy.
- Systemic reasons, related to theoretical ones: to put it simply, they amount to strengthening market mechanisms (in the case of Central and Eastern Europe, to transforming a socialist economy into a market economy) and creating conditions for free competition. In general, these reasons can be seen as arising from the desire to transform the existing socio-economic system. As a result of these efforts, the previously dominant welfare state and social market economy in Western European countries, as well as the socialist economic system in Central and Eastern European countries, were to be replaced by a generally uniform European system of a liberal, free-market economy.
- At the microeconomic level, the reasons for commodification and privatisation used to justify particular decisions were mainly related to the intention of removing barriers to development and increasing the efficiency of financial institutions.
- At the macroeconomic level, however, the reasons for particular decisions to commodify and/or privatise the public sector were related primarily to the expected benefits for the government budget, which were a consequence of decreased spending on subsidising

(recapitalising) the public sector, and – in short run - of raising government revenues from privatisation¹.

- In addition to these economic reasons, we should also note that the liberalisation processes broadly understood (including commodification and privatisation) were profoundly influenced also by “socio-political” reasons, i.e. those resulting from the pressure of various interest groups. In particular, we should point out here that the development of commodification and privatisation was, on the one hand, the goal of those private capital groups for whom privatisation was an opportunity to gain benefits associated with the acquisition of existing public property. On the other hand, those interested in privatisation also included private entities which perceived collectively and publicly owned financial institutions operating on the basis of non-commercial criteria as “unfair” competition.

2.1 Theoretical and ideological reasons for privatisation

Started on a larger scale in the early 1980s, privatisation of the economy, including its financial sector, had been preceded by the formation and development of theoretical foundations of economic liberalisation which were associated with monetarist conceptions and the development of the Chicago school, as well as with the ideas of supply-side economics, public-choice theory and, to some extent, transaction costs theory. A set of views and recommendations resulting from these theories became a basic component of the theoretical justification of neoliberalism as a basis for economic policy. Within the system of neoliberal theories, what was particularly important about privatisation was the emergence and development of property rights theory. The first conceptions related to this theory are presented in the works of Armen A. Alchian and Harold Demsetz [see: Alchian, A., Demsetz, H., 1972, Alchian, A., Demsetz, H., 1973 and Alchian, A., 1977] published in the early 1970s. Both these early works and other authors’ conceptions making up property rights theory that have been developed ever since emphasise that individual (private)

¹ This was particularly true for CEE countries. See e.g. Włodzimierz Dymarski, Danes Brzica, Malcolm Sawyer, Privatisation in the Industrial Sector, in: M. Frangakis, Ch. Hermann, J. Huffschnid, K. Lorant, Privatisation against the European Social Model. A Critique of European Policies and Proposals for Alternatives , Palgrave Macmillan, 2009, p. 95.

ownership of resources creates the strongest and most beneficial incentive to use them optimally and to best meet social needs occurring in the market. This is perfectly illustrated by A. Alchian's following comment: "Under a private property system the market values of property reflect the preferences and demands of the rest of society. No matter who the owner is, the use of the resource is influenced by what the rest of the public thinks is the most valuable use. The reason is that an owner who chooses some other use must forsake that highest-valued use – and the price others would pay him for the resource or for the use of it. This creates an interesting paradox: although property is called "private," private decisions are based on public, or social, evaluation." [see: Alchian, A., Property Rights].

Although there is not space in this study for an in-depth discussion with the views of property rights theory, it should be pointed out that they are based on several assumptions which are fundamental for it but disputable, to say the least, if confronted with the facts. We should mention here the above assumption that the market is a perfect provider of information on social preferences; a related one, that markets, in their practical operation, approximate the model of market operation and perfect competition; the idea of a general rationality of actions taken by the private owner, who seeks to maximise the benefits derived from their property; and, related to this (and used in comparative analyses of different forms of ownership), the idea of the irrationality of decisions taken by those who manage collectively owned resources (common ownership of resources). A consequence of these assumptions is also the recognition that the primary, if not sole, criterion for assessing how efficiently resources are used is the sum of the results measured with their market value.

Each of these assumptions, which are key for property rights theory, can be challenged, at least as widely applicable to all situations in which we consider the efficiency of allocation decisions taken on the basis of various forms of ownership. Reality demonstrates that, in many situations and sectors of the economy, the basic starting assumptions of property rights theory are not or cannot be fully realised. Consequently, drawing from property rights theory conclusions about practical economic policy measures

aimed at privatising the economy should always be preceded by an analysis of the conditions in which such privatisation is conducted. In particular, it should be examined whether, within the sector being privatised, the assumptions of property rights theory are met, assumptions on the basis of which the theory suggests a higher efficiency of private ownership². In situations where these conditions are not met, or are met only partially, the costs and benefits of privatisation should be analysed before taking any privatisation steps, in order to determine the extent and consequences of failure to realise, in a particular case, the theoretical assumptions of property rights theory.

Since in most of the cases of privatisation carried out from the early 1980s as part of European countries' economic policy analyses of this type were not conducted, and since the basic rationale and impetus for privatisation activities were broadly-understood ideas of property rights theory, it can be concluded that property rights theory was transformed from a scientific analysis of the implications of various forms of ownership into some ideology of economic policy. Also privatisation itself transformed in practice from a measure to rationalise the economy into an instrument of an ideologically motivated restructuring of the socio-economic system. This nature of privatisation manifested itself most strongly after 1990 in the systemic transformation policy of Central and Eastern European countries after the fall of the socialist system, because in these countries privatisation was treated as one of the most important manifestations of and conditions for creating a market economy. As a result, privatisation was transformed from a tool for achieving specific efficiency objectives into an independent aim of economic transformation policy³.

² India's experience has shown that 'it is possible to retain the public sector as the sheet anchor of the banking system without compromising on efficiency' through exposing it to competition. See: T. T. Ram Mohan, Don't mess with the banking sector, *The Hindu*, May 31, 2014

<http://www.thehindu.com/opinion/op-ed/dont-mess-with-the-banking-sector/article6067186.ece>

³ I discussed this issue at length, using the case of Poland, in: Specific problems of privatization in post-socialist European countries (case of Polish economy), in: *Privatisation in Poland and Formation of European Social Order*, ed. Janusz J. Tomidajewicz, Publishing House of The Poznan Society for Advancement of The Arts and Sciences, Poznan.2009 . J. Kornai, on the other hand, defines a privatisation subordinated to systemic transformation objectives as a strategy of accelerated privatisation, as opposed to a strategy of organic development. See *Ten Years After "The Road to a Free economy": The Author's Self-evaluation of Privatisation*, in *Privatization and Structural Change in Transition Economies*, ed. Y. Kalyuznova and W. Andreff, Palgrave Macmillan, Houndmills Basingstok Hampshire, 2003.

The reasons featured less clearly in privatisations carried out in Western European countries, where privatisation was justified mainly by its pragmatic and short-term effects. On a larger scale, it was only in the UK, as part of the economic liberalisation programme implemented by Margaret Thatcher's cabinets, that privatisation was used as a tool to carry out systemic transformation by the government's withdrawal from the economy and by replacing the welfare state with a free-market economy. It should be emphasised at the same time that the UK's ideologically motivated privatisation concerned mainly various sectors of the real economy, and the financial sector only to a very little extent⁴. As a rule, in other Western European countries, such extensive programmes of economic liberalisation were not undertaken, and its progress tended to result from the sum of pragmatically justified detailed actions rather than from the implementation of an ideologically motivated strategy of systemic transformation.

2.2. Practical and pragmatic reasons for privatisation

Moving our discussion to a less general level and considering specific situations in which privatisation efforts have been undertaken, we should point to the main groups of pragmatic reasons for and factors behind privatisation. S. Kikeri and J. Nellis identify the following five main effects of privatisation:

- financial and operational performance at the enterprise level,
- the fiscal and macroeconomic effects of privatisation
- broader welfare and economic consequences of privatisation
- impacts on employment and a broader labour market.
- the effects of privatisation on income and wealth distribution [Kikeri, S., Nellis, J., 2002].

However, not all of these effects of privatisation can be seen as a justification or reason for its implementation. In the following discussion we will assume, therefore, that the reasons can be divided into two main groups.

⁴ See D8.03 - Privatization and nationalization of financial sector institutions: an impact on performing the sector's functions towards national economy, business units and households - point 2.2.2 Privatisation processes in selected European countries.

The first group comprises macroeconomic reasons. They are related to the expected impact of privatisation on the scale and proportions of economic variables in the whole economy as well as to its influence on the functioning of economic mechanisms and institutions. The reasons include:

- as part of the above-mentioned theoretical and ideological reasons, improving and strengthening the functioning of market mechanisms in the whole economy or its particular sectors, and increasing the overall efficiency of resource use;
- strengthening competition mechanisms in privatised sectors;
- increasing their international competitiveness;
- and providing benefits for the budget, mainly by generating government revenues from privatisation and reducing spending on subsidising (recapitalising) the public sector.

The other group of reasons for privatisation are microeconomic ones, which translate into privatisation results expected to improve the efficiency of particular privatised companies and institutions. From the microeconomic point of view, therefore, privatisation of particular entities should lead mainly to

- their improved classical microeconomic efficiency measures resulting from higher profitability and company value;
- their increased growth potential, thanks to their direct recapitalisation, or their access to additional external sources of financing;
- their greater competitiveness, thanks to their scale of operation and market share having been increased by privatisation on the one hand, and their cost advantage resulting from a better resource use on the other.

Consequently, we can assume that microeconomic reasons for privatisation require an assessment of the economic situation of particular entities being privatised, and that they will most often appear when these entities' activity and development as part of the existing ownership, organisational and legal status encounter obstacles and barriers whose overcoming involves changing this status. This means that a privatisation based on microeconomic reasons generally takes place as a result of initiatives by particular

companies (financial institutions). The overall effect of these individual privatisation decisions leads to privatisation of the whole economy or one of its sectors.

Between privatisations conducted for macro- and micro-economic reasons there may be interrelationships affecting the extent and character of privatisation processes. Undertaking privatisation efforts in economic policy for theoretical, ideological and macroeconomic reasons may lead to a situation where the measures are used towards companies and institutions whose economic and financial standing does not adversely affect their functioning and development, and which can operate as part of their existing ownership status. Depending on the sector towards which such measures are taken, a privatisation carried out for macroeconomic reasons may therefore concern companies which, as part of public or group ownership, are highly capable of competing with private companies (institutions). Therefore, in sectors operating in a competitive market, a privatisation of state-owned companies and institutions conducted for macroeconomic reasons can also concern entities whose efficiency of resource use is comparable with that of private enterprises, and whose microeconomic efficiency indices related to profitability and company value are favourable.

From the viewpoint of macroeconomic effects of privatisation, manifesting themselves in its impact on the budget situation, privatisation leads on the one hand to one-off budget revenues from privatisation, but on the other it deprives the budget of a permanent source of revenue in the future. If we assume, therefore, that we privatise a company (institution) which generates an annual government revenue of X as a result of its effective operation in the market, then, from the viewpoint of the government budget, the privatisation will be beneficial if the privatisation income (PI) is at least equal to the sum of discounted budget revenues of X , obtained from this institution.

$$PI = \sum X_t (at) \quad (1)$$

where:

PI - privatisation income

X_t - government budget revenue from participation in the privatised institution's profits in year t

at - discounting coefficient with an assumed discount rate of r

At the same time, for the private purchaser of a privatised institution, the transaction is profitable on condition that the discounted sum of the expected profits generated by this institution is higher than the price paid for its acquisition.

$$B = \sum pt (at) > PP \quad (2)$$

where:

B - purchaser's benefits from privatisation

pt - expected profits generated in year t

PP - privatisation price

which leads to:

$$B \geq PP \geq PI \quad (3)$$

This leads to the conclusion that, for privatisation of state-owned companies and institutions to be possible and beneficial for both parties to the transaction, there should be a difference between the government budget income it generates and the total profit expected from the privatisation. It seems that the main source of this difference should be an increased efficiency with which the institution is managed after being privatised. If the conditions indicated here are fulfilled, then there is general agreement between macroeconomic reasons for privatisation resulting from the situation of the government budget and microeconomic criteria for privatisation, because gaining (macroeconomic) benefits for the government budget is associated with an increase in the microeconomic efficiency of privatised companies (institutions).

There is a risk, however, that a privatisation motivated by the desire to change the macroeconomic proportions of ownership will lead to an undervaluation of privatised companies and institutions in order to encourage the private sector to take them over. In effect, the impact on the government budget of a privatisation motivated by macroeconomic transformation is not clear because, on the one hand, the revenues raised are generally lower than the economic value of privatised companies and institutions would suggest, and on the other, the balance of losses and benefits for the budget arising from privatisation is

heavily dependent on the time range of the calculation and on the discount used in it to express time preferences [Katsoulakos, Y., Likoyanni, E., 2002].

In addition to the above mentioned rational macro- and micro-economic reasons for privatisation, the process of privatisation was also influenced by socio-political factors related mainly to the impact of pressure groups and other groups interested in privatisation. These groups seem to have been of twofold character. On the one hand, they were made up of private companies operating in mixed sectors, i.e. sectors with coexisting both private entities and ones which were publicly or collectively owned. In the case of financial activity, this applies particularly to the banking sector. In these sectors, from the viewpoint of private companies operating in them, public and collectively owned institutions were competitors who, acting on the basis of other (often non-commercial) decision-making criteria, could offer their services on more favourable terms⁵. This is why private companies sometimes consider the activity of such entities to be unfair competition which limits private entities' ability to achieve high profitability. In this situation, pressure groups associated with the private sector seek either to subordinate the activities of public or collectively owned institutions to the criteria of microeconomic profitability, i.e. to commodify them, or to fully privatise such institutions.

On the other hand, pressure groups focus their attention on those sectors which were previously dominated by the public sector, considered to be a provider of public services. In these sectors, privatisation processes give private entities access to new, previously inaccessible markets, thereby creating conditions for extending the scope of their activities. Therefore, in the broadly-understood area of public services, pressure from the private sector is faced in areas such as communication and energy infrastructure, telecommunications, postal services, education, utilities, etc. As for the financial sector, which is of the greatest interest to us here, the activity of pressure groups associated with the private sector concentrates primarily on the financing of public services in the fields of health care and old-age pensions. In the case of these sectors, the influence of pressure

⁵ Economic differences in behaviour of financial business entities operating as part of various ownership forms are discussed in greater detail in: D8.08 – Janusz J. Tomidajewicz, Analysis of the economic behaviour of financial organisations (by forms of ownership).

groups (most often linked to private financial institutions) is aimed at replacing public systems of financing health services and old-age pensions with private health-insurance and pension funds, which enable their owners to make profits in a new business area.

3. Tools and mechanisms of commodification and privatisation

Depending on the dominant reasons, objectives and scope of privatisation, a diverse set of methods, tools and mechanisms of commodification and privatisation were used in relation to particular sectors in the EU countries surveyed. The mechanisms and tools vary in terms of the scope of use, the degree to which privatisation processes are spread in time, the nature of ownership transformation itself, the role of particular decision-making entities in privatisation decisions, etc. Given these diverse characteristics of privatisation processes, we can distinguish the following main types of privatisation mechanisms:

In terms of the nature of ownership transformation, we should first of all distinguish a privatisation based on legal transformations from an economic (market) transformation. Legal transformations leading to a privatisation process are associated with the following types of influence on non-private entities.

The first of them consists of a direct action taken by the public owner, who changes the formal and legal status (at least in the first stage – without changing the owner) of a given public institution into a commercial company, most often a corporation. Transforming a public institution into a corporation involves its commodification, usually constituting a preliminary stage of its full privatisation, which is carried out on the basis of market mechanisms.

Another legal privatisation mechanism involves use of the regulatory role of the state. In this case, the state does not decide as the owner to transform a particular institution but, through a legal regulatory framework applying to a particular sector or type of institution, changes formal conditions for the functioning of non-private institutions and/or companies, thereby forcing a transformation of their formal and legal status, and subsequently also their economic privatisation. The latter privatisation mechanism is applied particularly to collectively-owned financial institutions such as cooperative banks

or non-profit savings banks [Davidmann, M., The Trustee ...]. Also in this case, the first consequence of legal changes in the regulatory sphere is usually commodification of these institutions' activities, only later followed by their gradual privatisation. A special mechanism used in a privatisation forced by regulatory actions is what has been dubbed "creeping privatisation"⁶.

Still another method of legal privatisation is a direct and practically free transfer of public institutions' ownership rights to private hands. This privatisation method, widely used in the transition of Central and Eastern European countries to market economies, consisted in using different varieties of what is called voucher or universal privatization[see: Morita, T., 2009, Mazurkiewicz, J., Lis, P., Zwierzchlewski, S., 2009 and Tomidajewicz, J.J., 2003]. Finally, we can also mention "reprivatisation" as a tool of legal privatisation, used mainly in post-socialist countries and consisting of returning ownership rights to private owners of properties previously acquired by the state as part of nationalisation.

However, we speak of economic (market) ownership transformation in pure form if, without a change in the formal and legal status of an institution (company), there is a change in its ownership structure, and if public entities are replaced by private entities or individuals. The main roads leading to such a change could be: either to allow new private owners to become co-owners of the privatised institution and thus increase its equity, but without the existing public owner receiving any proceeds from the sale; or for the state or another public entity to sell the currently-held shares and thus transfer ownership to private hands. In the latter case, the privatised institution's equity remains basically unchanged, while the public owner earns privatisation revenues equal to the value of the shares sold. Clearly, in practice, both these methods of economic privatisation are often combined, which allows the state to obtain revenues from the sale of its previously held

⁶ With reference to privatisation of public services, the term was used by D. Sześciło, who defined it as a process in which privatisation of public services is a result of a sequence of decentralised decisions taken by local public entities which, owing to scarce funds, seek to reduce spending on the provision of these services. See Pelzająca prywatyzacja. Państwo zwija się tam, gdzie nikt tego nie kontroluje, <http://forsal.pl/artykuly/829351,pelezajaca-prywatyzacja-panstwo-zwija-sie-tam-gdzie-nikt-tego-nie-kontroluje.html> and D. Sześciło, Rynek, prywatyzacja, interes publiczny. Wyzwania urynkwienia usług publicznych, Scholar, Warszawa 2013

shares, and the company to increase its equity by admitting new private shareholders. A special form of market privatisation is “privatisation by liquidation”, which consists in liquidating the state-owned company (institution) and transferring (selling) its assets to private hands.

4. The scope and methods of financial-sector privatisation in selected European countries

The course and the level of financial-sector privatisation in selected European countries is discussed in point 2.2.2 of D8.03 [Tomidajewicz, J.J., 2014]. This study, however, focuses primarily on the methods and tools used in particular countries in the processes of commodifying and privatising the financial sector. Given the various traditional financial-systems, economic situations, and socio-political conditions found in particular European countries, the analysis conducted in the present section will cover:

- Germany and France as representatives of economically developed countries where at the beginning of privatisation processes the financial sector had a diverse ownership structure;
- the UK and Sweden, also representing highly developed countries, but with a relatively strong dominance of the private sector at the moment that liberalisation and privatisation of the economy started;
- Italy as a representative of southern European countries at a lower level of economic development, with a significant share of public and collective ownership in the financial sector as late as the beginning of the 1980s;
- Owing to CEE countries' special situation, resulting primarily from the fact that until the end of the 1980s they had been socialist economies in which private ownership did not play a significant role, these countries are also discussed here as a separate group.

The scope and instruments of financial-sector privatisation in Germany

Germany is the European country where the processes of privatising and commodifying the financial sector had the smallest scope. In fact, throughout the whole period investigated, the country maintained a traditional, three-pillared ownership structure, with a significant

participation of the public sector (which in 2013 accounted for about 35% of total assets of the entire German banking industry) and with a participation of the German commercial private sector of only about 36% (in 2010) [see: Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands) and Hassan, F., A View From Germany]. The period analysed did not see a significant reduction in the number of both publicly and collectively owned financial institutions or in the scope of their activities.

It is more difficult, however, to assess ownership changes consisting in commercialising non-private financial institutions. The sector of public financial institutions in Germany is made up, first of all, of regional banks (Landesbanken), owned by the federal government and state governments. For a very long time, namely until 2001, these banks had benefited from government guarantees, which ensured their stable position in the financial services market and helped to achieve the objectives of stimulating the economy and limiting an orientation towards maximising owners' profits and financial benefits. The European Commission's 2001 recognition that using public guarantees is a threat to competition and the resulting legislative changes created the necessity at least partially to commodify Germany's public financial institutions and to subordinate them to rules of profit maximisation.

As for cooperative financial institutions in Germany, these essentially maintain their cooperative character and, so far, have not undergone advanced processes of commodification, whether it be understood as changing their formal status by transforming formally cooperative institutions into limited companies, or as changing these institutions' actual objectives and focusing them on short-term profit maximisation.

The scope and instruments of privatisation and commodification in the UK and Sweden

The UK and Sweden are two European countries whose financial systems, since the early 1980s, have been characterised by the absence of a strong sector of public financial institutions. As a result of acquisitions and mergers, pre-1980 public financial institutions, such as Sweden's Post och Kreditbanken, became private in the early 1980s, and public control of the country's financial system was carried out through considerable quantitative

interference in the activities of private financial institutions. In particular, as late as the mid-1980s, the Swedish Central Bank (Riksbank) still made use of the credit ceiling. In the case of publicly owned institutions, we can hardly speak of privatisation processes in these countries.

To a limited extent, we dealt with privatisation phenomena in a strict sense only as processes following nationalisation, which was conducted in these countries to save from bankruptcy private financial institutions affected by the crisis of the 1990s in Sweden and by the crisis of 2008 in the UK. These reprivatisations cannot be regarded as elements of a more general process of gradual privatisation and commercialisation, typical of financial business activities in Europe from the early 1980s onwards, hence the suggestion that they be dubbed pre-privatisation [Harrison, E., Did Sweden really nationalize its banks?].

For a long time, however, in both these countries, starting from the mid-nineteenth century, an important part in financial activities (besides private commercial institutions) was played by institutions that could be classified as collectively owned. In Great Britain these included, in particular, Trustee Savings Banks, which under the Trustee Savings Banks Act of 1985 [see: Trustee Savings Banks Act, 1985] were transformed into joint-stock companies, and then, by merging with Lloyds Bank, were fully integrated into the system of private commercial banks.

The process unfolded in much the same way in Sweden, where the transformation of traditional savings and cooperative banks into private companies took place in 1992. The companies' subsequent flotations, as well as successive mergers and acquisitions, led gradually to a full privatisation of the sector.

The main privatisation tools used in both countries were individual decisions to sell public stakes in publicly owned financial institutions, as well as legally (in the case of the UK) or only economically (in the case of Sweden) forcing cooperative institutions and non-commercial savings banks to change their legal status and transform into commercial companies.

Privatisation and commodification of the financial sector in Italy

In Italy, as in Germany, the financial sector's traditional structure was based on three pillars: the public, cooperative and private sectors of commercial banks. Changes in that structure were made in the 1990s.

The tools applied to implement them were, on the one hand, first commodification and then privatisation of the largest public financial institutions, carried out on the basis of individually taken privatisation decisions. On the other hand, a way of privatising the public sector was to introduce legal regulations forcing the sector of public savings banks (Casse di Risparmio) to transform them into joint-stock companies (formal commodification) and then privatise them by selling their shares to private hands.

In the case of Italy's cooperative sector, it is hard to speak of an advanced privatisation process. The sector established institutions that concentrate the activities of dispersed local cooperative banks relatively late. In addition, these institutions have the status of associations, which protects them from the commodification trends seen in other countries. As a result, it can be assumed that Italy is a country where the scope of commodification and privatisation has, so far, been restricted to the public financial sector, without encompassing cooperative ownership.

Privatisation and commodification of the financial sector in France

A unique feature of privatisation and commodification of France's financial sector is the large scale of public-sector privatisation, which results from an extensive nationalisation of the financial sector, conducted in the early 1980s. But while financial-sector nationalisation was carried out on the basis of an essentially single act, privatisation of France's public financial sector was spread over many years, and was not based on a single legal basis, but carried out as a number of individual decisions concerning commodification and privatisation of successive financial institutions. The most commonly used method of privatising France's public financial institutions was the sale of state-owned shares in these institutions on the capital market, often through a public sale (issue) of these shares on the stock exchange.

Only to a limited extent did the rationale and official justification of subsequent privatisations in the financial sector refer to the ideological reasons for privatisation; instead, they pointed in particular to benefits for the government budget resulting from privatisation and sometimes to the necessity of privatisation as a means of concentrating and consolidating the financial sector. From the viewpoint of microeconomic reasons for privatisation, in most cases we had to do with privatisations forced by an unfavourable economic situation of public financial institutions. In some cases, however, we can speak of privatisation as a way of increasing privatised institutions' growth opportunities.

As a result of these processes spread in time, in the 1990s and early 2000s France privatised the majority of public financial institutions. Today, public ownership is present in the financial sector mainly thanks to several major financial institutions, such as La Banque Postale, La Caisse des dépôts, and Les Caisses de crédit municipal.

As far as collectively-owned financial institutions are concerned, the French financial system is characterised by a significant share of cooperative and mutual institutions. It should be noted, however, that, in particular, cooperative institutions as part of Credit Agricole are being increasingly commodified in their activities. A way of conducting this commodification was primarily to establish the Credit Agricole Financial Group, which has the status of a joint-stock company. The company continues to be controlled by regional cooperative banks but, because of the other shareholders and out of concern for the share price, its actions show clear signs that the criteria of its activity are being gradually commodified.

Privatisation and commercialisation of the financial sector in Central and East European countries

For obvious reasons, the processes of financial-sector commodification and privatisation in CEE countries commenced in the 1990s as part of the broadly-interpreted systemic transformation, which consisted of a transition from a socialist to a capitalist system. Therefore, privatisation of these countries' financial systems was to a much larger extent subordinated to ideology, with the main objective of reducing or (if possible) eliminating the

government's participation in the operation of the financial sector. One of the system-related reasons (i.e. those related to the transformation of the whole economic system) for privatisation was trying to create tough conditions for financing real-sector companies, a prerequisite for which was financial-sector privatization [see: Crivelli, E., 2012]. Combined with the fact that, under the previous system, the financial sector was almost entirely owned by public institutions, this forced a very large scale of and became a reason for rapid privatisation processes. As a result, the methods employed in financial-sector privatisation largely consisted in using mass-privatisation mechanisms and selling government shares on the capital market at prices attractive to buyers.

According to S. Kikeri and J. Nellis, "different countries have typically preferred different methods of privatisation. Poland opted for IPOs at the beginning, and switched more and more to a mixture of IPO and closed bidding with participation of strategic bidders; the Czech Republic opted for voucher distribution methods first only to shift towards direct sale lately which may result in mixed ownership structures of wide shareholding. Hungary has had probably the most open policy of direct sales each time involving dominant foreign strategic partner(s). This policy has been dictated by budgetary considerations and also by the fact that the government wanted to strengthen its position on the international capital markets; involving large, highly rated institutions in bank privatisation has indeed improved foreign confidence in the country." [Kikeri, S., Nellis, J., 2002, p.10]

Croatia's unique process of financial-sector privatisation was different from the centrally directed and systemically motivated privatisation process prevailing in CEE countries. Because of a self-government system inherited from Yugoslavia, the formal owner of the country's banks was not the state but real-sector companies. As a result, the privatisation process there was indirect, in its first stage consisting in maintaining companies' stakes in the banks and simultaneously privatising the companies themselves. Only in later stages was the financial sector privatised directly through the companies' sale of their stakes in the capital market [see: Kraft, E., Hofler, R., Payne, J., 2002].

A unique feature of financial-sector privatisation in CEE countries was also the fact that, given the weakness of the domestic private sector during transformation, privatisation often involved the acquisition of a large part of the sector by foreign capital [see: Bonin, J.P., Ábel, I., Retail Banking in Hungary...]. As a result, retaining national control of the financial sector was possible only by limiting the scope of privatisation and maintaining state ownership of the financial institutions whose control, for strategic reasons, was intended not to be given to foreign capital. This, in turn, was possible only by adopting the privatisation method consisting of the state taking individual decisions concerning the privatisation of particular financial institutions. In the case of the financial sector, such a method of privatisation prevailed, among others, in Poland, Hungary and the Baltic states [see: J. Bonin, P. Wachtel, 1999 and Consiglio, J.].

Consequently, it can be concluded that despite differences between particular privatisation methods, in CEE countries financial-sector privatisation was conducted on a very large scale, covering the majority of public financial institutions. However, the methods employed in privatisation processes in these countries, despite their diversity, were subordinated to the chief task of reducing the role of the state in the financial sector, which limited the significance of microeconomic criteria of privatisation's efficiency.

5. Conclusions

As part of an overall assessment of the scope and course of commodification and privatisation of the European financial sector, we will attempt to comment on the reasons for and justification of these processes, the resultant tools and mechanisms of privatisation, as well as the subjective and objective scope of banking-sector privatisation.

On the basis of the analysis conducted in the present study, we can conclude that, generally speaking, the basic reasons determining the scope and course of commodification and privatisation processes in the financial sector were of a theoretical and ideological nature. They were closely related to general economic liberalisation, recommended as part of the neoliberal approach, a dominant basis of economic policy from the early 1980`s onwards. This dominance of the theoretical and ideological reasons for

privatisation became most apparent in the 1990`s, during the privatisation of CEE countries' financial sector. However, we could see the dominance of these reasons for privatisation also in the majority of Western European countries. This is evidenced by the fact that a noticeable acceleration of privatisation there took place either as a consequence of legislative changes affecting the functioning of the public and collective-ownership sectors (this was true of the Trustee Savings Banks sector in the UK), or as a result of a legally enforced transformation of these institutions into commercial companies. The most typical example of this is the legally enforced transformation of Italy's Casse di Risparmio into joint-stock companies.

The process of financial-sector privatisation in France is seemingly inconsistent with this pattern. In that country, the main privatisation method was a series of individual decisions to privatise successive public financial institutions. What is significant here, however, is the reasons for and justification of these successive decisions. It seems that only in a few cases were they of a clearly microeconomic nature and a consequence of an inefficient operation of public financial institutions. In most situations, successive privatisation decisions were justified either by a general trend towards economic liberalisation and the necessity of the state giving up its participation in financial activities, or by macroeconomic budgetary considerations.

Of considerable importance to privatisation processes within the financial sector was also Europe's single competition policy and financial safety regulations. Under this policy, the specific features describing the activities of public and, to a large extent, cooperative institutions (such as public guarantees for public institutions or preferences for members within the cooperative sector) have been found to be inconsistent with the principles of free competition. They first forced commodification of public institutions and then opened the way to their privatization [see: Hübner, F., *The German Banking System ...*]. Similarly, the safety standards introduced as part of Basel II and, more recently, Basel III, became a tool for forcing commodification and privatisation of collective property. This is because these standards are developed on the assumption that a financial institution has a commercial character, and therefore they do not usually take into account the security measures and

behaviour typical of public and collective ownership. This way, they change non-commercial institutions' operating criteria and methods, forcing their commodification and opening the way to privatisation.

The analysis of the course and scope of privatisation processes in the European countries studied here points to a unique course of these processes in Germany. This is because the country's public and cooperative sectors have not experienced extensive or far-reaching privatisation processes forced by legislative changes or the government's decisions. This has allowed Germany to preserve its traditional, three-pillared structure of its financial system, becoming one of the factors enhancing the system's resistance to shocks caused by the financial crisis [see: Brämer, P., Gischer, H., Richter, 2013]. This, clearly, does not preclude the possibility of commodification processes occurring in this country, restricting itself to public and cooperative financial institutions being more strongly subordinated to commercial criteria. Unfortunately, since the process is difficult to quantify, it has been impossible to determine the scale of the phenomenon.

Given that in most of the countries investigated here privatisation processes were forced by changes in the financial system's regulatory framework and/or by government bodies' autonomous, macroeconomically motivated decisions, it is difficult to determine whether, and to what extent, these processes were related to the occurrence of microeconomic reasons for privatisation resulting from the fact that public and cooperative financial institutions encountered barriers to their activity and development that persuaded them to change their form of ownership. From this point of view, the case of Germany seems to indicate that, in the absence of significant changes in the financial system's regulatory framework, both the public and the cooperative sectors retain the ability to function effectively as part of the financial system and to ensure this system a greater stability and capacity to meet the needs of the real economy.

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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