

# Privatization in Denmark, 1980-2002

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Abstract: Denmark is one of the most developed welfare states, but also a rather capitalistic state with little public ownership outside the traditional fields of the public sector and the natural monopolies of the network industries. The low level of public ownership corresponds to peoples' attitude in polls. Nevertheless, 12 privatizations of state companies have been made along with everybody else. No statistics on privatization have been previously published in Denmark. Most of the 12 privatizations are small, and the telephone company provides 76% of the total revenue. In the municipal sector, but most privatization activity appears to be outsourcing.

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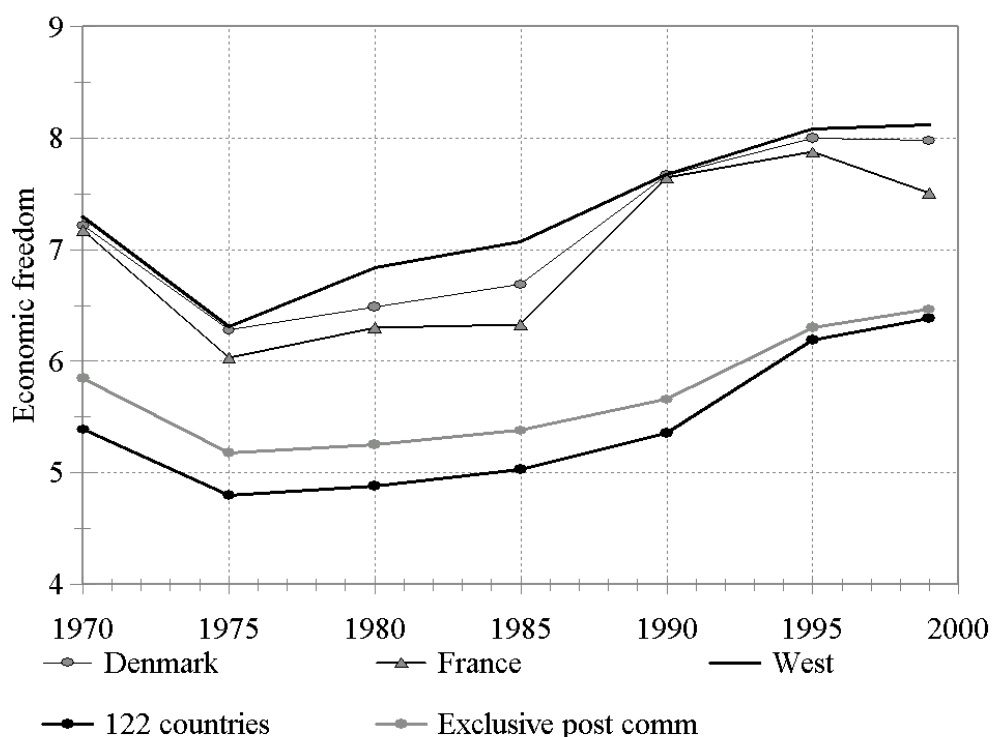
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## 1. Introduction: Two privatization frontiers

Denmark is an advanced welfare state and widely perceived as semi-socialist. However, no private company has been (deliberately) *nationalized* the last 125 years, and few Danish business outside the network industries was built as an *SOE* (*public corporation*). Table 1 gives a survey of the status in 2003, and a brief look backward and forward. Privatization is little researched in Denmark, and nobody has even made a list of what has been privatized before now.<sup>1</sup>

Figure 1. Economic freedom ratings of Denmark, 1970-1999



Note: Numbers from the Fraser Institute data set. See Paldam (2003) and Gørgens, Paldam & Würtz (2003) discussing and using the index. The data contains fewer observations in the beginning than the end, and has been extrapolated backward for consistency in 6 groups.

The leading index of economic freedom has Denmark as a typical Western country, slightly above France that is rarely seen as particularly socialist, see Figure 1. The detailed data show

1. If possible we refer to published material. Especially when it comes to the results of the privatizations few studies exist. Much of the information reported is consequently based on newspaper articles and private information from people, who should know. In these cases we use terms such as “it is reported that” or “it appears that”.

Table 1. Survey of production ownership and delivery

Sector	Status	Change 1980-2002	Plans	Experiences
Primary sector	Private, except 2/3 of forests	Marginal	None	None
Trade and finance	Over 99% private	Small privatizations	None	See 2.1 and 4
Manufacturing	Over 99% private	Small privatizations	None	See 2.1 and 4
Service production <sup>a)</sup>	Over 99% private	Small privatizations	None	See 2.1 and 4
Housing	Private, cooperative sub sector	None	Cooperative <sup>b)</sup>	Not discussed
Network industries	Public share about 70%	10% privatization	More expected	Discussed
1. Electricity, heating often incl.	Mixed state/municipal/private - no dominating owner	Some shares sold	More to be sold	Not discussed
2. Water	Municipal and private	Marginal	None	No study
3. Natural gas net <sup>c)</sup>	SOEs, State + other public	None	May be sold	See 2.3
4. Telephone	Private	Privatized	None	See 4.1
5. Railroads	Main lines SOE, some side lines outsourced	Outsourced January 2003	Main line may be sold	See 4.2
6. Buslines	About 80% private	20% privatization	More to be sold	See 4.2 and 5.3
7. Post	Public	Postal bank sold	Plan to sell rest	See 4.2
8. TV and radio	Main stations public, most other stations private	None	Second station may be sold	Political fight, <sup>d)</sup> not discussed
9. Airline	SAS is SOE, 30% Danish other companies private	SAS Structure is made privatizable	Shares may be sold	See 2.3
10. Airports	Two largest private, most smaller local public	Most shares of Copenhagen Airp. sold	Last shares may be sold	See 4.2
11. Roads	All public, no tolls			Not discussed
12. Giant bridges	SOE's, financed by tolls	Both opened	Next private	See 2.3
1. Core public sector <sup>e)</sup>	10% outsourced in old "special" arrangements <sup>f)</sup>	<i>Weak trend toward</i>	Government for free choice of	About 20-30 %
2. Auxiliary services	60% outsourced	<i>outsourcing</i>	public and private	cost savings, see 5 production

a. Service sector outside the traditional public sector.

b. Plans are being made to make social flats semi-private. The proceeds will to be used to build more flats.

c. Gas production is private, but gas pipelines are public.

d. Control of media is very political, and the "Left" has preferred public, while the "Right" has pushed for private ownership. The result has been a whole set of complex compromises.

e. Core services are the ap 80% of public services which people demand in itself: Education, healthcare, etc., while non-core services are the auxiliary inputs in the production that people normally disregard.

f. Primary healthcare is done by "semi-private" practitioners, some special clinics are private too, 10% of primary and secondary education is nonprofit "private" schools, and also many kindergartens and old people's homes are run by nonprofit "private" organizations. Little is run as business.

that the public sector is relatively large, and that the “freedom” score is above average in other fields. That applies precisely to the sections of the index dealing with ownership, freedom of trade and finance. The Danish solution is thus on the one hand a large welfare state and on the other hand relative strict capitalism. For long it differed from the German model of “Soziale Marktwirtschaft” which was supposed to have more regulation and less welfare state, but the two models have converged.

Figure 1 shows that Denmark has moved toward a more liberal economy much as everybody else. Part of this process is the increased freedom of international capital movements and other deregulation that will not be discussed, but some minor part is privatization and outsourcing. We use the usual definitions: Privatization is when the ownership of production units changes from public to private.<sup>2</sup> Outsourcing is when goods and services provided to people by the public are bought in the market, normally after competitive bidding. This is mainly done by the local authorities.

Section 2 is the historical background. The politics of privatization is covered in Section 3, while the actual cases are covered by Section 4. The gradual process of outsourcing production of public goods in the municipal sector is discussed in Section 5. Finally, Section 6 contains a few concluding remarks.

## **2. Development of the economic system**

Thus Denmark deviates a little from the average Western countries by combining (a) a relatively large welfare state with (b) a relatively capitalist system, both in the sense of relatively strict private property rights and (for a long time) unusually free trade.<sup>3</sup> We first discuss how the system originated (based on Paldam, 1991), and then turn to recent trends.

### *2.1 Origin of the system: Extreme liberalism till the 1920s*

A large welfare state reduces incentives and needs relatively strict capitalism for efficiency. Also, in small countries “everybody” in the elite knows each other so a sharp division of powers and free trade is important. These arguments seem not to have played a political role. However, three “historic trends” are important:

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2. In Denmark mainly by the state, and in the form of the sale of shares in SOEs. Sometimes the change from being an “administrative branch” to becoming an SOE, may be a step on the way to a privatization, but also it may not. We use the strict definition of a change of ownership.

(a) Denmark was unusually liberal in all respects during the Liberal Century (1818-1914), especially in the period from 1870 to 1901, where a prolonged constitutional fight *paralyzed* political decision making.<sup>4</sup> The financial sector developed during the period of political paralysis and was fully private, but cooperative institutions as saving banks and (bond issuing) mortgage funds were important. The mortgage bonds were sold on the market, so real estate was (still is) in private hands – also financially. The cooperative sector has gradually grown to appear much as normal business. The public sector share was constant at about 9% of GDP like in the world’s most liberal country Hong Kong today, it was below the OECD average as late as 1960. The Danish Welfare state thus started from an unusually low point in the 1920s.

(b) Till 1950 Danish exports were largely agricultural, processed in the cooperative sector of the farmers. To get access to export markets for agricultural goods tariffs on other products were low. Also, the old trading/shipping business strongly favored free trade.

(c) Industry developed in the same way during the liberal century without public support and protection and with no natural base. It was(still is) mostly light industry. For long it for the home market, but it gradually turned to the world market. It is marked by a low level of concentration in the sense that no dominating firms exist. The biggest firm has since the 1930s been the shipping-trading conglomerate – Maersk – that has most of its activity abroad. It is a family company with one key owner, who has just turned 90.<sup>5</sup>

Socialists wanting to take control of the commanding heights of capitalism have had a hard time finding these heights. Consequently, few proposals to nationalize have made the political agenda, and the few ones that happened were at the borderline to normal business.<sup>6</sup>

## 2.2 *The welfare state and the big compromise after 1920*

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3. If the average rate for effective protection could be calculated for all countries for the 19<sup>th</sup> and 20<sup>th</sup> centuries Denmark would probably take the gold medal – or at least the one of silver – for free trade.

4. From 1866 to 1901 the King kept a government of the *Right* (the old “feudal” group) in power, while the majority in the Parliaments became increasingly dominated by the farmers. They rejected all proposals from the Government, while it managed to prevent the King from signing the law approved by the Parliament. Most public sector decision making thus stopped for almost half a century.

5. The company was formed by a captain owning a couple of ships and his son, who was an extraordinarily able businessman, and so was his son the present owner, who has just resigned. The next generation will not manage the company, and the corporate structure has been changed accordingly.

6. From 1840 a dozen private railways were launched. Most of the new railways failed and were *therefore* taken over by public sector and in 1885 the public railways were merged into one company (DSB, still existing). A similar story can be told about a number of harbors. The only “borderline” nationalization in the 20<sup>th</sup> century has been the pilot service in the Danish sealanes.

The Social Democratic Party was the largest between 1924 and 2001, but it did not obtain a majority even with the parties of the (divided) Left Wing. This caused the small center parties – notably the Radical Party – to be pivotal in Danish politics. The center parties were against socialism, but for *social responsibility*, ie the welfare state. This led to a *Big Compromise*: *The Left obtained the welfare state and the Right obtained rather strict capitalism*. Polls have over the years demonstrated how the consensus has increased around this solution. Section 3 discusses the most relevant set of such polls. In addition the precarious political balance in the country since the 1930s led to a tradition for cross-center agreements on the big issues.

The only significant case of a “rust-belt industry” – ie old heavy industries in distress – is the one of shipyards, of which Denmark used to have a dozen. Here a subsidy system of finance existed, much as everywhere else, but the state never took over, and when they failed they had to close, so only one major shipyard is left. In addition the State owned shares in a (small) metal recycling factory that recently went bankrupt.

### 2.3 *Special cases: Companies with a special licence and 7 new semi-commercial SOEs*

Two major Danish private industries have operated with a highly profitable public licence. They were allowed to keep the monopoly profits without much pressure or political discussion:

The Danish Alcohol Monopoly was the only firm allowed to distill alcohol between 1923 and 1973.<sup>7</sup> However, import was always free, though liquor taxes were levied in a way favoring Danish “snaps”. The monopoly was revoked in 1973, and the tax has been made more even handed. Also, the distillery has been sold (by DANISCO) to a Swedish company (in fact to the Swedish State Liquor Monopoly).

A group of farmers and the Danish Sugar Company (now part of the DANISCO conglomerate) has since 1932 had a highly profitable licence system, which is now part of the EU sugar arrangement. It forces the consumers to buy sugar to a price about twice the world market price. The sugar company and the farmers split ap. € 150 mill of income due to the price difference. The drugstore licencing system is worth mentioning too. It was for long a closed system with a set number of controlled pharmacies. They ran (still do) a lobby from a palace near the Royal one, but a process of liberalization has started.

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7. Retail sale of products containing alcohol has always been free in Denmark, contrary to the situation in the other Nordic countries. The alcohol tax has been halfway between the Swedish and the German one.

The SAS airline is jointly owned by Denmark, Norway and Sweden. It operated under a route licencing system like other national airlines, generating high fares and amazingly large rents in the form of excess costs. European air traffic is being gradually liberalized by the EU, the SAS corporate structure has been streamlined, and hard budget constraints have been introduced. This has made SAS cut costs – during the last 3 years by no less than 50%. Sector analysts seem to believe that some fat remains to be cut.

Finally, 7 new large SOEs have been formed: Five are in Natural Gas. In the first years of the 1970s natural gas and oil were found in the Danish parts of the North Sea. The exploration and production are private. A large majority in the Parliament decided that the oil and gas should be used to make Denmark self sufficient in energy.<sup>8</sup> With this aim 6 (now 4) SOEs were established by law in 1972. The largest was DONG, building and owning the national gas grid costing about € 5 bill, while the local net and sale were given to 5 (now 3) regional companies.<sup>9</sup> The decision to launch these companies were based on a compromise in the Parliament, where it was decided that natural gas was a viable production for the country, so the large subsidy necessary was hidden as a tax rebate (for “environmental” reasons). Now the net has been written sufficiently down so that the companies are almost viable, and they may be sold.

A similar case is the SOEs running two new giant bridge/tunnel-complexes both spanning waters of about 22 kms: (b1) The Great Belt Bridge built between 1982 and 1994 between the islands of Funen and Zealand. (b2) The Oresund Bridge built 1995 to 2000 between Zealand and Southern Sweden. Both were deemed too big and too uncertain for business. The first bridge is commercially successful, but the second is not, so a special cross subsidization arrangement has been made. A third giant bridge is now in the negotiating stage: (b3) The Fehmern Belt bridge connecting Zealand to Germany. It appears that it may be built by a private company.

#### 2.4 *The rise and stabilization of the public share*

Between 1958 and 1973 the public sector increased from about 23% of GDP to about 50% or with 27 percentage points over just 15 years. The expansion was equally divided between an increased production of (non-defense) public goods and increased redistribution. The

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8. It would have been commercially better to sell the gas to foreign companies that already had pipelines nearby. However, at that time the two future energy sources appeared to be either *atomic energy* or *arab oil*. To obtain “energy security” it was decided to reserve the Danish North Sea oil and gas for national uses.

expansion was very smooth, and even when it was fully financed by taxes it caused a period of rapid growth. It created the Welfare state, but it did end up in a relatively large crisis.<sup>10</sup> The expansion had to be stopped and since the early 1980s the share has been almost constant just above 50% of GDP.

Denmark is highly dependent upon foreign trade, with trade shares of about 40% of GDP.<sup>11</sup> All “responsible” decision makers know that national competitiveness is crucial.<sup>12</sup> Hence, it is important that the share of the public sector is controlled and not permitted to rise too much above the level in the EU and other main trade partners.

The dynamics of public sector growth and the demand of the public for increased service has made it a constant problem to prevent the growth of the public sector share. The ability of the politicians to control the costs of the programs is influenced by the fact that the share of the population that depends upon the public sector is now about 60%.<sup>13</sup> The strong upward drift in public spending, and the pressures on the decision makers to prevent the drift, have caused a pressure to privatize at the two relevant margins. On the one hand the public sector has wanted funds in the short run to finance the public sector and on the other hand it has wanted to reduce costs. Privatization of the last few “ordinary” SOEs – in particularly the telephone company – has generated public income, and outsourcing has provided some savings.

The stories in the other papers of the conference show that the Danish story of privatization is much as in other EU countries. We have found few indications that pressure from the EU mattered for most of the decisions in any of the concrete cases, but it is likely that the “Zeitgeist” of liberalization has contributed. It is, as always, difficult to substantiate.

### **3. Politics and values: The ownership issue**

Most economists see competition as the key to efficiency, so the question to any privatization is how it affects competition. Property rights theories claim that ownership matter more for

9. The regional companies are partly owned by the municipalities, and they have obtained a rather bad reputation as places generating incomes and perks to local political elites.

10. Both the expansion of the golden 1960s and the crisis after 1973 were strong in Denmark relative to the similar trends throughout Western Europe.

11. Exports and imports of goods and services in percent of GDP.

12. Competitiveness has two margins: Externally it means that domestic goods can compete with foreign in the market, internally it means that the tradables sector can compete with the nontradables sector for resources.

13. Christoffersen & Paldam (2003) terms this the *welfare coalition*. It is the share of those, who work in the public sector plus those, who receive an income compensating social payment in some part of the year.



efficiency.<sup>14</sup> Marxist theory considers the ownership to the means of production the basic factor shaping society, and hence *the* central political issue. Consequently, the ownership issue is complex and can easily be politicized. This may still happen in Denmark, but till now it has not, for two reasons: The largest privatizations have been done by the Center-Left, and private ownership is in accordance with the values of a large majority of the population.

### 3.1 *Privatization and party politics*

When the list of privatizations in the two appendix tables is compared with Table 2, it appears that most were done under the Center-Left government of Poul Nyrup Rasmussen.

Table 2. Danish governments during the last quarter-century

From	To	Prime minister	Composition
1975 Feb	1982 Sep	Anker Jørgensen	Socialdemocratic (minority)
1982 Sep	1993 Jan	Poul Schlüter	Conservative/Liberal coalition, with various small parties
1993 Jan	2001 Nov	Poul Nyrup Rasmussen	Socialdemocratic/Radical coalition
2001 Nov	-	Anders Fogh Rasmussen	Liberal/Conservative coalition

The reasons for the privatizations seem to have been largely fiscal. When Tele Denmark and Copenhagen Airports were already SOEs, why not sell the shares? As the sales were done by a Center-Left government neither the parties to the right nor the trade unions could protest, so the sales were largely uncontroversial. Most of the media space devoted to the sale of the phone company discussed the high price obtained. The present Liberal/Conservative coalition originally planned to sell more. The sales planned are mostly in the network industries, see Table 1. However, after 4½ years little has happened.

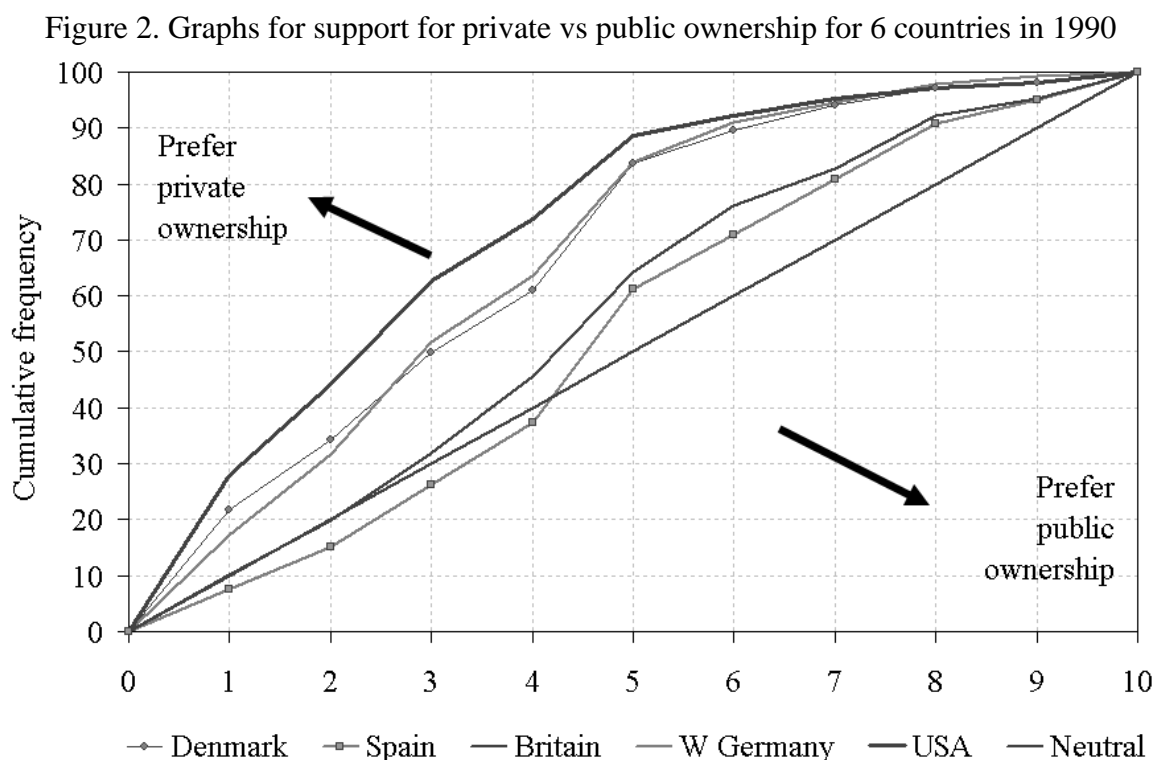
### 3.2 *An index of attitudes toward public vs. private ownership*

The World Value dataset covers the ownership issue by the item: *Do you support Private/public ownership of business?* Ronald Inglehart who headed the group developing the survey argues (see his 1997, p 316-18) that the question shows peoples attitudes on the ideological socialism/capitalism axis. The answers are on a 10-point scale, from (1) strong support for private over (5) neutral, to (10) strong support for public. Category (11) is *don't*

14. A collection of the main articles are found in Pejovich (1997), see also the long essay Pipes (1999).

know. Figure 2 is a visual survey of the cumulative distributions of the 10 answers for selected countries. Only between 5% and 10% answer *don't know*, so it is salient for people.<sup>15</sup>

We have drawn the answers for some countries as a cumulative curve. A high curve (toward the NW) points to a high support for private ownership, while a low curve (toward the SE) points to a high support for public ownership. The straight *neutrality-line* from (0, 0) and (10, 100) divide *capitalist* (above) values from *socialist* ones (below). Twice the area above the line in % of the area of the full square is a (Gini-type) score for the amount of capitalist values. If the area is below the line, it points to socialist values. Nearly all the curves discussed are above the axis and we have hence scaled the cumulative area above the axis as positive (for capitalist values). The area below the axis is thus negative (for socialist value).<sup>16</sup>



The scores for all available developed countries are given in Table 3. The two waves of the World Value survey are from 1990 and 1999, but for 9 of the countries intermediate waves are

15. See Inglehart, Basañez & Moreno (1997). The data used are from home page of project. We disregard the don't know and start the cumulative curves (0,0). The curve thus ends at (10, 100) per definition. Points for answers, 1, 2, ... , 9 are non-trivial. The area between the curve and the straight *neutrality-line* from (0,0) to (10, 100) measures excess "capitalist" values if the area is above the line or excess "socialist" values if the area is below the line.

16. From the chapters of the volume it is obvious that other motives than ideological ones exists to nationalize or create public firms, see e.g. the chapters on Finland and Spain.

available too. Only the first wave includes Denmark, but Table 3 shows that these values change slowly in most of the countries.

Capitalist values dominate in all 22 countries though only marginally in Spain, but strong socialist segments of the population appear both in the Orient and in Latin Europe. With such a divided population the curve has a S-formed shape, so it is important to consider the whole curve.

Table 3. "Capitalist" value scores for 22 developed countries in increasing order

Country	Wave	Score	Country	Wave	Score	Country	Wave	Score
Spain	90	9.8	W Germany	90	41.5	Australia	95	38.9
Japan	90	10.0	Finland	90	42.3	Switzerland	96	48.2
Britain	90	17.0	Austria	90	47.1	USA	95	52.6
S Korea	90	17.6	Canada	90	48.1	Last wave – Eurobarometer		
N Ireland	90	20.2	USA	90	52.1	Britain	99	18.0
Netherlands	90	27.0	Different waves			Portugal	99	20.3
Italy	90	27.6	Spain	96	5.9	N Ireland	99	24.4
France	90	27.7	Taiwan	95	11.0	Germany *	99	26.0
Norway	90	28.1	Britain	98	14.6	Netherlands	99	26.9
Portugal	90	29.4	S Korea	96	17.7	Ireland	99	30.3
Sweden	90	29.4	Japan	95	17.8	Finland	99	30.4
Ireland	90	33.1	Norway	96	24.9	Italy	99	32.2
Belgium	90	34.0	Sweden	96	25.6	France	99	34.2
Iceland	90	37.5	Finland	96	31.4	Iceland	99	41.9
<b>Denmark</b>	<b>90</b>	<b>41.1</b>	W Germany	97	34.0	Austria	99	47.5

Note: The two main waves are from 1990 and 1999 for Europe only. 17 countries have more than 1 observation. The average change is -0.6, so we are dealing with rather stable attitudes.

Denmark is one of the countries with the highest capitalist values. Only the USA, Canada, Switzerland and Austria are more capitalist while Finland, Australia, Iceland and West Germany<sup>17</sup> are close to Denmark. The remaining 14 countries all have more socialist values.

#### 4. The state sector: 12 privatizations and 15 dubious ones

17. The survey is done separately from the (former) DDR. It was even more capitalist than West Germany in 1990, where the Easterners wanted to be westernized, but it was much less capitalist in the latest wave, as many have developed second thoughts, and a wave of "ostalgia" has swept the area of the late DDR.

The Danish State sold a business 27 times from 1980 to 2002 as listed in the Appendix. Table A1 covers 15 dubious cases, while Table A2 holds 12 genuine privatizations. In addition a couple of SOEs went bankrupt and were liquidated, without a sale of assets.<sup>18</sup> When all the 27 SOEs privatized are sorted by revenue a very skew distribution appears. One privatization accounts for 76% of the revenue, and 16 cases added provide less than 1%. The total revenue corresponds to 3% of GDP for the middle year, 1990, but it is only 0.15% per year for the two decades considered. Below we look at the cases in order of size. We start with the large one.

#### 4.1 *Tele Danmark*

In November 1990 the four regional Danish phone companies were merged to TDC. Then they lost their monopoly, and finally they were sold to the US company Ameritech (now SBC) for 31.140 bill DKK or € 4.2 bill in 1998. Now a number of new operators are competing in the market, though TDC is still – by far – the largest operator. Also, much competition has emerged from the mobile phone market. The Danish phone companies were typical SOEs, while TDC is a private US company. Everybody expected the new company to be both leaner and meaner than the old SOE. However, TDC decided to start operations as a “nice” Danish company, and even put two former Ministers of Finance in charge: The chairman of the board is a former Social Democratic MoF (now retired) and the CEO is a former Conservative MoF.<sup>19</sup>

The increase in competition on the market has caused prices to go down, so the company has been under a profit squeeze, and it has reduced personnel by 15% – first by not replacing people going on pension and the by a round of sacking. Analysts of the branch already assume that the State obtained a rather good price.

The CPI price index for telephoning has fallen by 20% relative to the general index between 1998 and 2003, mostly due to a large drop in long-distance fares. However, the composition of tele-services consumed have changes in the period and experts disagree about the average savings – the gain for the average family is probably larger. The story is thus fairly

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18. This applies to the Military Uniform Factory and the Naval Shipyard – they were changed from being Military institutions into becoming SOEs in the early 1980s, but never privatized. The Military Uniform Factory went bankrupt in 1996 in a rather spectacular way and was liquidated, and the Naval Shipyard was closed too, though in a less spectacular way.

19. His description of events is that the process changing the company was planned during his own tenure as MoF in the Schlüter government, as a reaction to the EU “Green Book” on telecommunication. Hence it would make the process truly non-political.

typical of the many privatizations of phone companies which have taken place throughout the world during the last two decades.

Politically, the privatization took place under a Social Democratic government and with little opposition in the Parliament. Also, it seems that the personnel in the company recognized that they could do nothing to prevent the privatization, so the whole process appeared to take place in a calm atmosphere.

#### 4.2 *Four middle sized cases*

The three next privatizations sizewise are also all at the border to the traditional public sector: (1) The Public Pension Insurance Institute, (2) Copenhagen Airports and (3) the Postal Bank.

The first case is the pension system for civil servants. It worked as all other such systems and it was sold to a private company Baltica A/S in 1990. As the assets and liabilities are easy to assess the sale went smoothly, and hardly caused any debate. Also, no effects on the efficiency of the company have been reported.

Kastrup Airport (in Copenhagen) is the main international airport of the country and for the SAS airline. In 1990 Kastrup was merged with the much smaller Roskilde Airport, and turned into an SOE. Till now 66% of the shares have been sold to many investors at the Copenhagen Stock Exchange. The main reason for the sale is fiscal, and little has changed in the way the airports run.<sup>20</sup>

The third case is the one of the postal bank. The bank was made an SOE in 1993 and 52% of the shares were sold, in 1995 the remaining shares were sold and the PostBank (in Danish GiroBank) merged with a savings bank Bikuben to BG Bank. Later BG Bank became a part of the largest Banking Company in the country, Danske Bank, but it continues running as BG Bank.

Finally two small cases relate to the potentially large case of the Danish Railways, DSB. One is the colorful case is Combust, a public bus corporation formed by DSB, to compete with private bus companies. It did so by large scale underbidding at tenders for bus lines. When it later had to run the lines won, it did so with a large deficit. When the government enforced a hard budget constraint, the company went bankrupt after a much discussed scandal. Its remaining assets were sold for € 15. In 2002 a number of train sidelines in Jutland – which had till then been run by DSB – were outsourced. Even when DSB made a very low bid, the

British company Arriva was chosen. In January 2003 Arriva started to run the train service. It took almost half a year before the service worked as well as it had before, but now customer's satisfaction is as high as before (perhaps even higher). It has been reported that the effect of introducing contestability in railways has greatly enhanced the efficiency of DSB.

DSB has been formally broken into smaller units – tracks, goods transport and ferries – and some or all of these parts may be privatized. While the division is being carried out it is not yet decided whether the sales will be made.

#### 4.3 *Remaining cases*

Datacentralen was a data processing company made to service the public sector. It was moderately successful and was sold in two installments to the (much larger) US company CSC, which is still one of the largest data processing companies in the country. The Export Credit Insurance SOE, was sold to a major international concern in the field. Both sales seem to have followed normal business practices, and the prices reached appear to have been reasonable.

Most of the other remaining cases are empty/failed SOEs that were sold for next to nothing. Most are small, little known companies.

The Construction Machine Station was an SOE created to help small contractors in the building sector in 1948 as a Marshall Aid project. It started well, but it was not a dynamic enterprise, and when it was finally sold the feeling was that it had outlived its usefulness.

Five small consultancy services had branched off from larger public entities and obtained an independent life. They were sold to the market. One of these is the internet facility developed by the Uni-C, the university computer net. A sad case is the research-heavy computer pioneer, Regnecentralen. At one stage it looked promising as a producer of technologically advanced small size mainframes, but it always lacked commercial acumen, and gradually lost its considerable human capital to university computer departments.

The final case is a popular amusement park that has for a long time (allegedly since 1583) existed in the Royal Deer Park (established 100 years later). In 1997 the State decided to sell its interests in the holding company running the park at a nominal amount to the association of the owners of the stalls.

#### 4.4 *Cases connected to Greenland*

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20. The second airport in the country is Billund Airport. It has remained private as it started as the company airport of LEGO, and gradually developed into the main airport in Jutland. The public Aarhus Airport is losing

Within the Danish Kingdom is the micro-state Greenland with 56'500 inhabitants. It has home rule, and an economic system, where the public owns virtually everything. Historically, it was a traditional LDC with hunting and gathering instead of agriculture till the early 1950s,<sup>21</sup> when Danish politicians decided to change the colony to a “normal” Danish “county” by huge transfers of funds. The idea was to provide Danish institutions at the same standard as much as conditions permitted. The transfers have amounted to about € 15 bill till now.

Greenland obtained Home Rule in 1979, but the flow continues, and it now amounts to € 8'700 per capita per year. The subsidy is not given to the individual Greenlander, but to the Home Rule Government. The transfer is a bit larger than Greenland's production would be in the absence of the transfer. This has created a very strange economy, where virtually all “business” is in the form of heavily subsidized or protected SOEs, a price level 50% above the Danish one, and a huge public sector – collective consumption is no less than 55% of GDP, as explained in Paldam (1997). Five of the dubious cases are from Greenland.

The biggest of these cases is Kryolitselskabet Øresund that generated a privatization revenue of about € 100 mill. It was an SOE that ran a mine for the rare mineral cryolite (sodium aluminum fluoride) at Ivigtut in Greenland from 1870 to 1987, when the deposit was exhausted. Cryolite was the first catalyst in aluminum refining, and the company was thus a profitable operation, accumulating considerable assets (in Copenhagen). The surplus of the company corresponded to the deficit of the colony of Greenland, till big-style subsidization started in the early 1950s. However, all cryolite ore was accounted for in the early 1980s and the company assets were sold to the insurance company Hafnia in 1985.

The remaining cases occurred in the late 1970s, when Greenland Home Rule was established. In addition to the cases mentioned many “public firms” were donated to the new Home Rule Authority. The Royal Greenland Trading Company and the stock of public housing (virtually all housing in the towns) were thus donated to Greenland. Thus the State “lost” a great deal of Danish Property, but it was not privatized.

In order to gradually turn the economy more normal the State has converted its business activities into SOEs, and vague plans exist to gradually privatize these SOEs. Till now only one privatization has occurred, as the main chain of shops has been sold. However, most of Greenland's SOEs operate with large subsidies or heavy protection, and with cost levels far exceeding the competitive ones, so they will be difficult to sell. Also, the boards of

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passengers, due to a bad location, which local politics has made it impossible to change.

the SOEs are dominated by local politicians and examples are plentiful that political considerations override the ones of business. Even when most of the SOEs have Danish management they hence operate much as SOEs everywhere else.

## 5. Privatization in the municipal sector<sup>22</sup>

The Danish municipal sector is unusually large and powerful. It is forbidden to run, and to subsidize business in the traditional private sector. However, municipalities do run many small business like activities at the border between the sectors. Some privatizations have been made, but no central authority has kept track of what has happened.

### 5.1 *The municipal system and the formal nationalization of nonprofit organizations*

Local public utilities have traditionally been a main task for the municipalities. Supply of water, gas and electricity was organized as municipal activities in most urban municipalities already during the liberal century till the 1920's. From their formation in the 1840's municipalities were responsible for primary schools and social security, but *private nonprofit schools* have been an important part of the national cultural life – not least because of a tradition for religious freedom. They hold about 10% of each age cohort. In social security private charity played an important role during the liberal century, but gradually the municipalities became involved. The modern local government system in Denmark was formed by two reforms:

(i) A system of economic equalization payments between rich and poor municipalities were established in the 1930's. At the same time stronger central government norms for service provision passed parliament, when the Social Democratic party became the leading one. However, charity organizations were still allowed in the public service production.

(ii) The second round of institutional local government reforms took place in the years around 1970. Here 1300 municipalities were amalgamated into 275 new units and 14 counties were established with the same institutional and democratic status as the municipalities.

The reform of 1970 took place during the period of rapid growth of public expenditure, as married women entered the labor market earlier and stronger than in other

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21. As much as such comparisons make sense Greenlanders (an Inuit/Eskimo people) had an African standard of living, and a widely dispersed population.

22. Background: Three levels exist in Denmark: (1) State 45%, (2) County 8%, (3) Municipality 45%, where the percentage given show the share of total expenditures they administrate in 2001. Local governments have the right to impose income taxes as well as land taxes, within certain limits.



European countries (except Sweden). The municipalities became the replacement of the family in childcare etc. The belief in the modern welfare state was strong, and it was to take full control over the production and distribution of welfare services. Consequently it became decisive for the efficiency performance in municipalities and counties to exploit economies of scale in the service production fully, and large units were needed.

After the structural reform a local nationalization process took place in Danish local government. The private school sector survived because of their cultural importance although the economic conditions were reduced, but almost all social institutions run by charity organizations or profit seeking organizations were enrolled into the public systems.

Now a new reform reducing the number of municipalities is in the process of being implemented. The consequences for the border between the public and private sector is still largely into the future, and they have barely been discussed.

## 5.2 *Increasing outsourcing as a mean to control costs*

Research from many countries as surveyed by Borcharding, Pommerehne & Schneider (1982) and Domberger & Jensen (1997), show that the same goods and services are cheaper by 20-30% in average if bought on a market than if they are produced by a public monopoly organization.<sup>23</sup> These results are confirmed by Danish studies such as Kristensen (1983), Christoffersen, Paldam & Würtz (2000) and Blom-Hansen (2003). The knowledge of these facts spread much before they were analyzed and documented, and a new market orientation came up in the municipal sector since the early 1980's. Three main reasons lie behind:

(1) The new market orientation may be a response to the increasing economic pressure on the welfare state in late 1970's, where the public budget deficits exploded after fifteen years with immense public growth and after the economic recession with the oil crisis. A new Conservative-Liberal government in 1982 stopped further public growth definitively and started up a program for bringing in market forces to raise efficiency. A core point here was to urge local government to take up outsourcing in the service production.

(2) The fixed costs and economies of scale in the production of local and regional public services have become a more important factor in the cost function. The use of experts and automatic administration systems as a response to increasing requirements contributes to

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23. The distribution of cost differences has a large variance and it is upward skew. In about 10% of the cases the public producer is cheaper, but at the end of the tail large cost differences appear. Public producers sometimes diverge into remarkable inefficiency before the system reacts. In Denmark the most famous case of such divergence is the postal letter sorting facility (Postterminalen) between 1970 and 1985.

explain this change in cost structure. The small municipalities become squeezed by the increasing fixed costs and they can escape the higher unit costs by bringing in private producers.

(3) Liquidity pressures urge municipalities and counties to let private investors contribute to financing capital equipment, building stock and other capital assets. This perspective has in recent years been still more relevant as the central government regulation of local government economic activity now focuses on total spending including investment spending.

### 5.3 *Outsourcing: Nonpartisan local decisions and national politics*

No statistics are available for the amount of outsourcing done. However, casual observations and a couple of studies indicate that ap. 10% of municipal production is done by private companies.<sup>24</sup> The core areas as schools, hospitals etc., are still done by municipal or county employees, but marginal activities are often done by private companies. Typical examples are the cleaning of public buildings, regional bus lines especially at the countryside, repair of public roads, trash collection, park maintenance, cafeterias in public institutions, fire engines and ambulances, etc. In such fields between 30% and 70% appears to be outsourced.

Christoffersen & Paldam (2003) analyzes the amount of outsourcing. It is largely an effect of modernity, i.e., it is largest in municipalities near main towns, with large shares of modern industry and less in traditional rural municipalities. Economic pressure on the municipality increase outsourcing, while the share of population being dependent upon the public sector decreases outsourcing. Partisan politics was irrelevant.

While the proper privatizations discussed in Section 4 have caused little public controversy, outsourcing has sometimes been fiercely resisted by old stakeholders. The most notorious case is the one of the municipal bus company of the town of Esbjerg that lost the contract to a private company, Ribus. This caused a prolonged and – for Denmark – fairly violent blockade of the central garage of the new operator. However, the private company prevailed.

The former Social Democratic government did push for outsourcing, but at several of the annual meetings of the party controversy emerged on the issue, and the party maintains that outsourcing should not be allowed into the core areas, notably the hospital sector. The

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24. Another 10% is done by non-profit NGOs under municipal control. Thus 10% of the schools are non-profit NGO's, of which some are, e.g. Catholic or Islamic.

present Liberal-Conservative government has “free choice” between public and private suppliers of public goods as a much advertised policy. It has ruled 4½ year as this is being written, and all indicators show that outsourcing has slowed down. It is much easier for a Center/Left government to push for outsourcing than for a Center/Right government.

At present there is only a couple of small private hospitals in the country, and no school is run for profit.

## **6. Conclusions: A typical story?**

The main message from the above story is that the international wave of privatizations in the 1980s and 90s has been reflected in the Danish economy. That is, some network industries have been privatized and liberalized. This has met with little public resistance as it was mainly done by the center-left. Privatization has been a small political issue in Denmark as there has been little to privatize. This has historical reasons as discussed, and it was demonstrated that the structure of ownership is well in accordance with the values and attitudes of the population.

The total privatization revenue amounts to app 3% of the GDP of the median year (1990) of the period considered, so per year it is 0.15%. As taxes amount to 50-52% of GDP, this is ap. 0.3% of the public revenue, but 76% came from the privatization of the phone company.

Even when the sales revenue is small seen in the perspective applied it was big a couple of years, and this may be the main motive. Another motive may have been to unload the state from awkward responsibilities.

With the slowly, but steadily increasing pressures to finance the welfare state new privatizations are being discussed and they will probably also be approved. The only ones possible are social housing and some of the network businesses: The postal service, the railroads, the public part of the utilities and the natural gas companies. All of these are already under discussion, but it appears that the government is very slow making up its mind as they are “natural monopolies”, which may be is problematic to run as private companies. However, one may argue that they are not running impressively well now.

## Appendix: Privatizations by the Danish State, 1980-2002.

The list is made by a check of all “acts” to the “Financial Committee of the Parliament”, which should consider all “deliberate” reductions in public assets. Hence, the list should be complete. It is divided in two parts: Dubious cases and the genuine privatizations.

Table A1. State sale of shares and assets in firms 1991-2002 – 12 genuine cases

Company	Danish name	Year	State share	Method of sale	Revenue Mill €
1 Junker Industries	do	1989	37/0	Direct sale	7
2 Construction Export	Byggeeksportrådet A/S	1989	51/0	Direct sale	0.02
3 Construction machine	Byggeriets Maskinstation A/S	1990	68/0	Block sale	6
4 Civil Servants Life Insur.	Statsanstalt. for Livsforsikring	1990	100/0	Direct sale	574
5 Postal Bank 1 of 2	GiroBank A/S	1993	100/49	Open bidding	98
b --- 2 of 2	---	1996	49/0	Direct sale	100
6 Phone Monopoly 1 of 3	Tele Danmark A/S	1993	94/90	?	11
b --- 2 of 2	---	1994	90/*	Reorganization	121
c --- 3 of 3	---	1998	*/0	Direct sale	4237
7 Copenhagen Airports 1 of 3	Københavns Lufthavne A/S	1994	100/75	Open bidding	95
b --- 2 of 3	---	1996	75/51	Open bidding	148
c --- 3 of 3 pt	---	2000	51/34	Open bidding	132
8 Export Credit Insur. 1 of 2	EKR Kreditforsikring A/S	1995	100/75	Direct sale	10
b --- 2 of 2	---	1997	-	Sale of assets	37
9 Data processing co 1 of 2	Datacentralen A/S	1996	100/25	Direct sale	46
b --- 2 of 2	---	1999	25/0	Direct sale	17
10 Standard and testing co	DEMKO	1996	100/0	Direct sale	4
11 Travel bureau	Skandinav. Reisebüro GmbH	1998	100/0	Direct sale	0.9
12 Railroad consultancy	Banestyrelsen Rådgivning	2001	100/0	Direct sale	10
Sum:					5654

Note: In these cases a normal operating company was sold to the private sector.

Table A1 contain 15 dubious cases, which appears under the heading privatizations in the “acts”. Most are of two types: (1) Cases where an SOE has failed and is closed, but contains assets of some value: This applies to: 3, 4, 5, 6, 7, 8, 10, 11, 12 and 15. In nearly all of these cases the activity of the company has de facto ceased and in only one of the cases (8) valuable assets remained. In cases 1, 2 and 9 the company is sold to or given away to a foreign public body, including the Home Rule Authority of Greenland. The last two are case 13, where a

commercially valuable, but small activity in a research institute was sold, and case 14 where a very old legally complex ownership problem was solved.

Table A2. State sale/discharge of shares and assets in firms 1990-2002 – 15 dubious cases

Company	Danish name	Year	State share	Method of sale	Revenue Mill €
1 Eurochemie	Eurochemie	1983	-/0	Capital reduction	1.5
2 Nuuk fish industry, Greenland	Godthåb fiskeindustri	1985	41/0	Write off	0
3 Sawmill in public forest	Centralsavværket	1985	-/0	Symbolic sale	0
4 Land surveyor IT service	Landinspektørernes EDB	1985	-/0	Write off	0.02
5 Mestersvig Mine, Greenland <sup>1)</sup>	Nordisk Mineselskab	1985	-/0	Capital reduction	0.6
6 Windmill production	Dansk Vindteknik	1985	-/0	Capital reduction	0.7
7 Production of biogas turbine	Scanenergi	1985	-/0	Capital reduction	0.3
8 Cryolite Mine, Ex-Greenland <sup>1)</sup>	Kryolitselskabet Øresund A/S	1985	50/0	Sale of share	97
9 Greenland travel bureau	Grønlands Rejsebureau	1986	33/0	Sale to Home rule	0.1
10 Environmental products <sup>2)</sup>	Naturdan A/S	1991	/0	Write off	0
11 Computer production co <sup>3)</sup>	A/S Regnecentralen af 1979	1992	/0	Direct sale	0.07
12 Transport of hazard. waste <sup>2)</sup>	Danfragt A/S	1996	33/0	Direct sale	0
13 University internet service	UNI-C's internetaktiviteter	1997	-	Sale of assets <sup>5)</sup>	1
14 Amusement park holding co	A/S Dyrehavsbakken	1997	50/0	Insider sale	0.03
15 Bankrupt public bus co <sup>4)</sup>	Combus A/S	2001	100/0	Direct sale	0
Sum:					101

Source: Budget acts. Column 4 shows state share of equity before and after. The cases are termed dubious as they do not concern normal operating companies or are non-commercial sales.

1. Assets (including financial) left in Copenhagen after exhaustion of mine. The Ivigut mine was run by a company in Copenhagen having expensive real estate and accumulated funds as well.
2. These companies were almost empty at the time of the closing.
3. Regnecentralen was established to produce mainframes, and it developed away from world standards.
4. Combus was established as a competitive company participating in the outsourcing of bus lines. It did win many contracts, but at prices below production costs, and went bankrupt.
5. The exact sales revenue is secret.

Table A2 contain the remaining 12 cases which are the genuine privatizations. They are once again in chronological order. When the sale is done in several “rounds” they are put together, so that only the first round is in chronological order. The strange looking change in public shares in item 6b is a posting made in connection with the company reorganization, before the sale.

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