PRIVATISATION IN IRELAND

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Abstract

Public enterprises in Ireland were offshoots of political nationalism. They were part of a protectionist economic policy and in 1980 employed over 90.000 staff in a total national employment figure of 1.1m. Public opinion moved away from public enterprises because of perceived high costs to both consumers and taxpayers. In the Celtic Tiger era since 1987 the share of public enterprises in total employment has fallen by almost two-thirds to 2.7 percent. Ireland has experienced major increases in GNP per head and in employment by adopting open economy policies and securing large increases in exports and in foreign direct investment. No privatised enterprise has been re-nationalised. It is public policy to retain network infrastructure such as the electricity and gas grids in public ownership while selling state companies in areas such as food, banking, telecoms, and shipping.

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1. BACKGROUND.

The Irish economy since 1990 has experienced unprecedented economic growth while employment in state commercial enterprises has fallen. The causes of the economic growth of the 1990s include; investment in education; deregulation and openness to foreign trade and investment; the 1993 devaluation of the Irish pound; large foreign investment flows especially from the United States; subsidies from the EU; order in the public finances, leading to tax cuts both for individuals and corporations in a so-called process of expansionary fiscal contraction with high economic growth and a declining public sector share of GNP. (Barry, 1999).

Table 1 shows the decline in state commercial enterprise employment since 1980 from 90,000 to 48,000, a fall of 47% and the rapid rise in total national employment since 1990 by 64% from 1.1m at work to 1.8m. The share of commercial state enterprise in total national employment thus fell from 7.8% to 2.7%. About two thirds of this decline is accounted for by the massive rise in total national employment and one third is due to the reduced numbers employed in state commercial enterprises. The decline in state enterprise employment is due to both privatisations and reduced employment in the companies which remained in state ownership such as the transport and energy companies. The Irish labour market in the years since 1990 has been dominated by the massive increase in overall employment achieved in the era of the Celtic Tiger of 0.7m and the reduction of unemployment from 17% in the 1980s to 4.5% currently. The reduction in state commercial employment by 24,000 has been a little over 3% of the overall employment gain in the economy. In the words of Wolff (2003) it is a time when "entrepreneurs and managers seem to have fallen in love with Ireland." The parameters of Ireland's recent economic growth experiences have moved policymakers away from state commercial enterprises as engines of growth in the economy. The emphasis has changed to the private sector and export-led growth.

TABLE 1; Employment in Commercial State Enterprise (CSE) and Total National Employment, Ireland, 1980-2002.

CSE Employment, National Employment, (000), CSE Share (%)

1980	90,375	1,163	7.8
1990	71,913	1,100	6.5
2002	47,700	1,761	2.7

Source: Chubb, B., op cit, third edition; Irish Statistical Bulletin, March 2003; Department of Finance Review and Outlook.

2. THE ORIGINS OF STATE OWNERSHIP AND INTERVENTIONISM.

The Republic of Ireland, then known as the Irish Free State, gained independence from Britain in 1922. The independence movement was strongly interventionist in its economics. The belief in interventionism was founded on a perceived failure of British economic policies in particular during the famine of the 1840s and the decades of emigration which followed; the belief that a period of legislative independence between 1782 and 1800 brought economic growth stimulated by the Irish parliament; successful rent-seeking by Irish politicians at the Westminster parliament where they from time to time held the balance of power; a belief among British governments that they could “kill Home Rule with Kindness” by placing moderate Irish nationalists on public boards; and finally a lack of empathy between Irish nationalists and the business community. The latter were mainly based in the north-east and relied on foreign trade in particular with the British Empire and saw little future in serving just the Irish home market.

Daly states that “the belief that the Act of Union (1800) brought industrial decline and that Home Rule would mean prosperity was an important dimension in Irish nationalism.”(1981; 79). Arthur Griffith, the founder of Sinn Fein, the independence movement, cited the infant industry argument of German economist, Frederich List, to justify protection of industry. (Daly; 1992; 5). Daly also states that “the apparent coincidence between industrial decline and loss of an Irish parliament encouraged an exaggerated belief in the power of politics to determine economic well-being, an interpretation given greater credence because the interventionist policies of the late eighteenth century coincide with a period of prosperity.” (1992; 4)

A delayed consequence of the Act of Union between Britain and Ireland was the abolition of the Irish currency in 1826. Ireland had a monetary union with Britain from 1826 until 1979 when it joined the European Monetary System. The lack of an independent exchange rate as an instrument of economic policy increased the emphasis in Irish economic policy after independence on direct state intervention to respond to economic problems such as unemployment and deficits in the balance of payments.

Under "Killing Home Rule with Kindness" the independence movement was given more state boards on which constitutional nationalists sat. This rewarded rent-seeking and replaced normal economic activity by lobbying for, and sitting on, the boards. Sir Robert Peel, Chief Secretary for Ireland (1812-18) stated that "everybody in Ireland, instead of setting about improvement as people elsewhere so, pester government about boards and public aid. Why cannot people in Ireland fish without a board (for fishing) if fishing be so profitable?" Guiomard found that "by 1914 there were forty government departments in Ireland. Although eleven were Irish branches of British Departments, twenty-nine had no British equivalents." (1995; 207) Ireland thus arrived at independence with a strong belief in intervention by the state and an inherited tradition of setting up state boards. This would dominate economic policy for six decades. Ownership of enterprises by the state was a dominant goal in economic policy and the enterprises were seen as symbols of the new state. Little thought was given to either the regulation of the enterprises or how they would compete in the marketplace. Having the enterprises in public ownership became an end in itself and the motivation was founded on nationalism rather than Marxism.

3. THE ERA OF STATE COMMERCIAL ENTERPRISES (1927-1984).

The first Irish tariffs were imposed in 1924. "By 1929 the government claimed that 60% of non-agricultural jobs were subject to tariffs creating an extra 15,000 jobs." (Daly, 1992; 41). The first state commercial enterprises were established in 1927. These were the Dairy Disposal Company to acquire bankrupt creameries and rationalise the sector; the Electricity Supply Board to acquire 160 electricity undertakings in the state and the Agricultural Credit Corporation to provide credit for that sector.

Economic nationalism increased after the change of government in 1932. A trade dispute with Britain, known as the "economic war "escalated from a disagreement over land annuities from the British government to tenant farmers to buy out agricultural landlords during the last forty years before independence. Since 95% of Ireland's trade was with Britain in the 1920s (O'Leary and Leddin; 1995;175), a trade war strengthened interest on state enterprises serving the home market. Firms with large markets in Britain served the market from bases there such as Ford which opened at Dagenham, Guinness which opened at Park Royal, London and Jacobs which expanded its Liverpool factory to serve a British market previously served from Ford's Cork depot and the Guinness and Jacob plants in Dublin. In addition the move away from free traded reduced the availability of inputs for industries such as Jacobs and the Irish whiskey companies. O'Maitiu (2001;81) states that "in one fell swoop, the huge export trade so painstakingly built up by the Jacob family in Dublin and supplied by Dublin workers over the decades was lost by the city." O'Maitiu states also that restriction on ingredients "was a large contributory factor to the success of Scotch in the post-war years in America, to the detriment of Irish whiskey." (81). The casualness with which Ireland discarded export markets in the protectionist era contrasts with the current appetite for free trade in an economy which has, after Luxembourg, the highest ratio of foreign trade to GNP in the EU and the lowest unemployment.

In the 1930s new state enterprises were established in areas such as industrial credit, sugar manufacture, chemicals, shipping, insurance, steel and aviation. The list of state companies lacks any pattern. There is no stated reason why some sectors were chosen for state enterprise participation and others were not. The government minister most associated with state enterprise and later Prime Minister (Taoiseach), Mr Sean Lemass, espoused pragmatism as his philosophy. According to Chubb the growth of public enterprises in Ireland "owed little to socialist theory. After the eclipse of the left wing of the labour movement during the latter part of the First World War, there were few socialists in Ireland, no socialist movement worth the name and no developing body of socialist doctrine." (1970:274).

Before examining the case studies of the era of state commercial enterprise in Ireland it is appropriate to review the wider macroeconomic impacts. These were

(i) A rent-seeking or dependency culture in the Irish private sector.

With exporting severely curtailed, major exporters located in Northern Ireland and others relocating to England, Irish industry became protectionist and depending on tariffs, quotas, state purchasing and other forms of state aid. As Daly states, "one major legacy of the thirties was the institutionalisation of an Irish dependence on the state, and on politicians, for economic benefits." (1992; 178).

(ii) The growth of political clientalism.

Keogh (1994;331) noted that there were in 1992 some 2,200 appointments to state boards compared to 1,500 locally elected public representatives. Lee identified the patronage of appointments to state boards with the prime minister (Taoiseach) in the 1930s, Mr de Valera. "He encouraged the gradual growth of an insidious, if initially discreet spoils system in the army, the judiciary, and the state sponsored bodies." (1989; 322). With political loyalty rather than commercial ability influencing board appointments the system of political patronage undermined the quality of board members, reduced the independence of the state commercial enterprises and lowered their public standing.

(iii) The growth of a trade union veto in state commercial enterprises.

Mr Lemass was close to the trade union movement. State companies were quickly heavily unionised in contrast with minimal unionisation among the 700,000 extra at work in the 1990s. With weak management and politically-appointed boards the commercial state enterprises were captured by public sector trade unions. This persists to the present day. In 2003 there have been work stoppages against the Minister for Transport's proposals to introduce competition between the three state airports and to liberalise the bus market.

(iv) The growth of regulatory capture of regulatory bodies by state companies

Since state enterprises were seen as an end in themselves there was no provision to regulate them in the public interest or to ensure that the state enterprises competed in the marketplace. The state companies achieved regulatory capture over their supervising government department which already faced the conflicting roles of owning the company and regulating the market. The study and practice of economics in Ireland was weak throughout this period. It was not until 1950 that economists were employed in the civil service and in the initial stages they were confined to the Department of Finance. (Fanning, 1985 ;)

(v) The emergence of a state managerial class.

In an economy characterised by lack of opportunity elsewhere, Lee states that "not until the state sponsored bodies began to develop did some openings arise for managers who had lacked the foresight to be born into the right families." (1989; 393)

4. THE RATIONALE FOR COMMERCIAL STATE ENTERPRISE-SOME ILLUSTRATIONS.

Irish nationalism and ignorance of market economics are the recurring themes in the establishment of state commercial enterprises. For example, in 1928 in the parliamentary debate on the Creamery Act establishing the Dairy Disposal Company, concern was expressed that control of 112 creameries would pass into the hands of Lovell and Christmas, "the biggest grocers in the world" (PDDE,vol.25:233). Rather than a market opportunity to gain access to the shelves of the biggest grocers in the world this was seen as a threat and a case for nationalisation.

In 1933 the state sugar company was established. According to its official historian, its objects included "a national wish to be independent of foreign supplies of basic needs".

(Foy, 1976; 23). The relative cost of cane and beet sugar was not apparently a factor in deciding to establish the company.

The nationalist dimension was extended to the services sector in 1936 when the Minister proposing the Insurance Bill stated that "we are taking steps to promote the extension of native insurance by prohibiting the entry of any further insurance companies into the Saorstat"(Irish Free State) (PDDE. vol.63:2650).

The official history of Aer Lingus records the evolution of protectionism in the aviation sector for over fifty years. The Air Navigation (International Lines) Order of 1935 gave the Minister for Industry and Commerce control over air services "with a view to the limitation or regulation of competition as may be considered necessary in the public interest". (Share, 1988, 3). In 1935 Crilly Airways, seeking to operate air services between Ireland and Britain was informed that "the Minister was unable to entertain his proposals. The reason given was the government's intention to set up a national airline at the earliest possible date." (ibid, 3). In 1949 a proposal for a service from Cork to Britain was refused "on the grounds that air transport policy did not contemplate that airlines other than Aer Lingus would operate a scheduled service between the two countries." (ibid. 69). In 1950 a proposal from a British airline for a service from Liverpool to Dublin was refused because Aer Lingus "was considering the opening of a similar service on the route." (ibid. 69).

The recurring theme of economic nationalism is reflected in the official airline history's reference to the opening of the New York route by Aer Lingus in 1960. "You saw for the first time an Irish plane with a shamrock. There was a great deal of emotional pride in the thing."(ibid.95).

The alternative interpretation was that Irish aviation policy represented an extreme case of regulatory capture. The Department of Transport was referred to informally as "the downtown office of Aer Lingus." The airline held out for protectionism because Irish routes and not the airline were inherently uneconomic. The Chief Executive of the airline wrote in 1998 that "the traditional Aer Lingus view was that the short-haul and seasonal nature of our European network was inherently not economic, or at least only marginally so, and would have to be supported by a profitable Atlantic operation. (Kennedy, 1988).

The OECD (2001) stated that airline deregulation "provided a clear demonstration of the potential benefits of competition to all consumers in Ireland, having a significant effect on public opinion." The Irish airline deregulation in 1986 led to an immediate reduction in fares of 54% on the Dublin-London route and an increase of 92% in passenger numbers in August 1987 over the pre-deregulation levels in August 1985. The average Ryanair fare in 2002 was 38 euro per single journey compared to the 500 euro which is the 2002 value of the £208 return fare charged before deregulation in 1986. The number of tourists which had been at 2m for some twenty years increased to 6m in the years after deregulation. Tourism employs 140,000 and its employment growth has exceeded the strong employment growth of the economy as a whole. The airline facilitated most by deregulation, Ryanair, is currently carrying 22m passengers a year compared to 6m by Aer Lingus. The short-haul routes have been highly profitable and the capitalisation of Ryanair at some € 5 b is the highest of any European airline. In the last two years Aer Lingus has adopted the low fare low cost model and is a candidate for privatisation. The policy before 1986 failed to consider the wider economic impacts of the European airline cartels on the economy of an outer offshore island. The policy was changed because of a revolt in the parliament against legislation designed to prevent rather than promote competition.

In 1965 the state nationalised the B and I Line, a shipping company operating on the Irish Sea. The Minister stated in parliament that “a greater measure of Irish participation in the cross channel trade for a long time has been an important objective of government policy” (PDDE, VOL. 214; 974). The acquisition was warmly supported by the opposition parties. “It is a good thing that the B and I Line is now in Irish hands…..there are far too many foreigners buying land and public firms in this country” (PDDE, vol. 214: 974). The nationalised shipping company continued to participate in a cartel with the British Rail shipping subsidiary and became heavily loss-making until privatised in 1992.

5. EX-POST ANALYSIS OF STATE ENTERPRISE.

In 1960 Dr Garret FitzGerald, a future Prime Minister (Taoiseach) published the first major volume on Irish state companies. He noted that they “had not hitherto received the attention they merit by virtue of their importance in the life of the country” (1960:3). He attributed the dearth of analysis to “their relative novelty as an instrument of government.”

In his analysis of state trading enterprises FitzGerald gave two main reasons for their establishment, viz. “a desire to maintain in existence a bankrupt, or virtually bankrupt, undertaking, whose preservation is believed to be in the national interest”; and “a desire to initiate an economic activity deemed necessary in the national interest- but one which for one reason or another private enterprise has failed to inaugurate or to operate on a sufficiently extensive scale” (ibid,15).

In his first category, nationalisation to preserve bankrupt companies, FitzGerald included the state transport company, CIE, and Irish Steel. In his second category, state commercial enterprise where the private sector did not exist, he included the state companies in air transport, shipping, capital for industrial development and peat.

The policy of nationalisation to rescue private sector firms from bankruptcy runs the risk that the necessary reforms of the company will be made more difficult by nationalisation because the nationalised company does not face a bankruptcy constraint. In the CIE case its nationalisation is accompanied by the payment of large subsidies and investment grants and a rigid licensing regime to severely restrict new market entry and competition. The Department of Transport both owns CIE, awards it operating subsidies and investment grants, and protects it from competition. The contradictions in banning new entrant transport companies, eliminating some 1561 independent transport operations from the market by legislation in 1932 and 1933, and then subsidising the monopolist because its services are deemed essential are not examined by FitzGerald. The other example in the category of preserving bankrupt companies cited by FitzGerald, the Irish Steel Company, was uneconomic in both the public and private sectors and closed in 2001.

The sectors which became state commercial enterprises because the private sector did not exist, FitzGerald's second category, might be said not to have stood the test of time.

We have seen that, far from filling a void left by the private sector, Aer Lingus successfully lobbied governments to keep other airlines out of the market. There proved to be no need either for state bodies to run shipping or to provide industrial financing. The privatised shipping company competes rather than colludes and the state banks have been privatised and compete with a large and active financial services sector. In summary the FitzGerald theoretical attribution of state enterprises to either failure in the market by the private sector or private sector failure to enter markets is seen to be doubtful both as a theoretical explanation for Irish public enterprise and as a correct historical record.

6. DISILLUSIONMENT WITH STATE COMMERCIAL ENTERPRISE IN THE 1970S AND 1980S.

State commercial enterprises in Ireland became over time identified not as development corporations as intended by Mr Lemass, but with producer dominance, high costs, indifference to consumers, regulatory capture, and subsidy seeking. Lee (1989;536) notes that in the early 1980s the Labour Party proposal for a National Development Corporation failed to generate enthusiasm because "the public had so lost confidence in the capacity of any state organisation to serve any purpose except its own self-interest that the proposal generated more scepticism than enthusiasm. A series of poor returns on several enterprises and the apparent casualness with which public sector trade unions resorted to the tactic of inflicting suffering on the public, the same public they claimed to serve in their more esoteric flights of rhetorical fancy, in order to intimidate the government into concessions left public opinion increasingly dubious about the likely results of direct state intervention".

The case studies of public enterprises as inefficient included a report by the National Prices Commission (1972;45) which found that bus and train fares in the public sector were substantially above those charged by the small rural unsubsidised independent bus companies. In 1979 the Dargan Report found that the state telephone company was overmanned by a factor of three compared to Britain, four compared to the US and almost eight compared to Switzerland. The Report of the Enquiry into Electricity Prices in 1984, chaired by E.G. Jakobsen, managing director of ELSAM Denmark found manning levels double those in Scotland, three times those in Denmark, and six times those in Vermont (1984,83). The report also found that the level of overmanning in Ireland's electricity sector was higher in newer plant than in older plant when contrasted with plant of similar size and age elsewhere.

The 1980s was also a decade of reassessment in Irish national economic policies. Between 1982 and 1987 both national debt and unemployment doubled. In 1987 the debt to GNP ratio was 1.3 and unemployment was almost 17% with heavy emigration. Marginal tax rates were as high as 73% for persons on the average industrial wage. The Public Capital Programmes for 1983 and 1984 noted that Ireland's high ratio of investment to GNP, one of highest in the OECD, had not resulted in either output or employment growth.

7 NEW ECONOMIC POLICY AND PRIVATISATION

Emphasis in Irish macroeconomic policy changed in 1987 under the above influences away from the closed economy to a small open economy model with the emphasis on competitiveness within the EU and a wider global economy. State spending became seen not as an engine of economic growth but as a possible negative impact on national competitiveness. The new emphasis from the 1987 crisis on was on expansionary fiscal contraction, a proposition that the more public expenditure contracted the more the economy would expand. (McAleese, 1990). At any rate the years since 1987 have seen reductions in personal and corporate taxation and rapid increases in economic growth and employment described in Section 1 above.

Table 1 indicates that commercial state enterprise played little part in the Celtic Tiger economy after 1987. Employment in commercial state enterprises declined both in absolute terms and as a proportion of total employment. FitzGerald noted two important characteristics of state enterprise, capital intensity and high wages. State companies accounted for 30% of total gross fixed investment in 1960 and "earnings per head in this sector appear to be about 40% above the national average for employees." (ibid 2). By the late 1980s these were seen as causes for concern reflecting both inefficiency in the public capital programme and regulatory capture.

The first state company, the Dairy Disposal Company, was also the first to be privatised. Founded in 1927 to rationalise the creamery sector with the aim of protecting farmers from ruin as creameries in both the private and co-operative sectors began to fail, the company was sold in 1974 to the infant Kerry Group for £1.15m. The success of Kerry following its stock exchange flotation in 1986 indicated to the investment community that the company might be a model for future privatisations. The share price rose from 52p at launch to 200p in 1991. In October 2000 Kerry's market capitalisation was €2.5 billion making it the fourth largest company on the Irish Stock Exchange. It employed 14,000 and only a quarter of its turnover was generated in Ireland. (Kennelly 2001; 399-404).

In 1984 the government for the first time liquidated a state company. The Irish Shipping Company had assets of £23m and liabilities of £117m. The Minister for Communications estimated that the cost of keeping the company in operation for the period 1984-89 would be £144.45m after which it would have debts of £59m. He told the parliament that "charter agreements were entered into on behalf of Irish Shipping without the knowledge or consent of the then Minister for Transport or the Minister for Finance and have led to the destruction of what was, up to then, a viable and successful state enterprise."

The liquidation of Irish Shipping was a signal to the state commercial sector that the taxpayer could not be taken for granted in future. The case illustrated the weaknesses in the ministerial, administrative and parliamentary controls over the state commercial sector. The company engaged in unsuccessful speculation in international charter rates without referral to government ministers, the supervising department or parliament. Guiomard pointed out that "in the public sector, it is unheard of for senior managers of public companies, no matter how loss-making, to be called to account. None of the senior executives responsible for managing companies like Irish Steel, Aer Lingus or Team (the maintenance section of Aer Lingus) which went on to make huge losses, were even called before a Dail (parliament) Committee to explain themselves. (op.cit. 193). Weak financial controls became unacceptable in the new economic climate from 1987. The foundation of the Progressive Democrats in 1985 introduced privatisation to the Irish political agenda. The large and immediate impact of airline deregulation in 1986 undermined the long-standing arguments in favour of protected state enterprises in aviation and in the view of the OECD "provided a clear demonstration of the potential benefits of competition to all consumers in Ireland, having a significant effect on public opinion." (op. cit. 29).

The wave of privatisations in the United Kingdom after 1979 evoked much interest in Ireland. In view of Ireland's problems with access by air under airline cartels there was particular interest in the transformation of British Airways from a lossmaking airline with 54,000 staff in the early 1980s to almost £200m profits and 36,000 staff in the mid-1980s

(Vickers and Yarrow, 1989; 347/8). The legal and financial experience in preparing British firms for privatisation and the popularity of the policy in Britain also influenced Irish politicians.

A further milestone in the evolution of public opinion on the issue of privatisation was the May 1989 conference at University College, Dublin, on the topic and the publication of the proceedings in 1990 (Convery and McDowell, 1990). The Irish Economics Association was founded in 1986 at the Kenmare conference on economic policy and the privatisation conference brought to privatisation the focus of a more organised economics profession. The Convery and McDowell volume emphasised the imminent single European market; the importance of property rights transfers caused by privatisation; the resulting benefits of a market in corporate control and a bankruptcy constraint; and the problems of monitoring nationalised industries in Ireland.

In regard to the single European market it was pointed out that there were massive market opportunities opening up for Ireland and that the emphasis should therefore switch from protecting state enterprises to improving competitiveness in order to avail of the new market opportunities. It was also pointed out that the Irish government could not continue to both own companies and regulate sectors in the interests of these companies as heretofore.

In regard to property rights it was stated that shareholders in private companies held a negotiable asset. Through the market in shares, a market in corporate control is created and company efficiency is monitored. By contrast taxpayers are involuntary holders of equity in state companies and are powerless to influence the efficiency of these companies. Parliamentary control is weak and the state companies have achieved regulatory capture over their supervising departments. State companies are therefore controlled by their management and staff and are not amenable to outside parliamentary, bureaucratic, or public, scrutiny and control. Wolff (2003) describes privatisation in Ireland as a series of transfers of property rights, i.e.

(a) transfer of control of enterprises from politicians, management and trade unions to management ;

(b) transfer of profits from the State to shareholders;

(c) transfer of liability from the State to shareholders; and

(d) the sale of property rights from politicians and management to shareholders.

The voluntary holding of equity in a privatised company with the consequent incentives to secure enhanced efficiency thus replaces the involuntary captive holding of equity in state companies with no incentives to secure enhanced efficiency. The allocation of benefits and liability to a decision maker is a prerequisite of efficient allocation of resources; In addition privatisation in Ireland saw political clientalism, rent seeking and regulatory capture replaced by market forces.

8. PRIVATISATIONS 1990-2003.

Table 2 indicates the flow of privatisation receipts to the exchequer over the years 1990 to 2003. The table indicates the exit of the state from food, telecommunications, shipping, and fertiliser, oil refining, steel and banking sectors.

The Irish Sugar Company sale was completed over the years 1991, 1992 and 1993. Sugar growing in Ireland was part of the policy of the independence movement from 1908. In 1926 the state began the subsidisation of the Lippens Company, a Belgian concern, at the rate of £400,000 a year for one sugar refinery. In 1933 the Irish Sugar Company was established by the state incorporating the Lippens operation. Three other refineries were established in order to develop alternative products and markets for farmers whose exports collapsed during the "economic war" with Britain. In the 1980s the Irish Sugar Company was in financial difficulties. Losses peaked at £50.7m in 1982. During the 1980s 1,800 jobs, half of the employment in the company, were shed. Twenty-three subsidiaries and two sugar refineries were either closed or sold. Turnover declined from £384m in 1980 to £199m in 1987 when the company returned its first profits in the decade, £10.4m. The holding company Greencore, was formed in February 1991 and was offered for sale in April at a market capitalisation of £192.5m. The purpose of the privatisation was to ensure that "the development of Irish Sugar will no longer be constrained by the fact that it has a single ordinary shareholder which, for policy reasons, may not be in a position to provide funding in the future." (Greencore 1991, 7). The company was sold in three stages as shown in Table 2. Staff members were given 109 shares each and staff and sugar beet suppliers were given preference in the purchase of shares. Nine new directors were appointed in 1991 and the size of the board was reduced from twelve to ten by the removal of the trade union representative and the worker directors. By 1996 market capitalisation was £589m and pre-tax profits increased from £21m in 1990 to £54m in 1996. In 2001 turnover was €1.8 billion , profits were € 2.10m and there were 5,000 staff. Davy Research states that the group is redefining itself as a food manufacturer and not as an agri-processor. (2002:2). In 2004 through its acquisition of Hazlewood it has become a leader in the sandwich sector in the United Kingdom.

TABLE 2: Privatisation Receipts in Ireland 1990-2003 (£m)

1990		Nil
1991	63.0	Greencore
	270.4	Irish Life
1992	33.0	Greencore
	8.5	B and I Line
1993	69.9	Greencore
	104.5	Irish Life
1994		Nil
1995	99.2	Irish Life
	2.3	Interim Milk Board
1996	7.1	Interim Milk Board
1997		Nil
1998		Nil
1999	3,677.4	Telecom
2000	1,138.1	Telecom

2001	8.8	Telecom
	321.6	TSB Bank
	253.8	ICC Bank
2002	154.6	ACC Bank
	24.0	INPC oil refinery
2003		Nil

Source: Finance Accounts; Annual Budget Statements. Note: £1 Irish was designated as €1.27 on the establishment of the currency.

The Irish Life Assurance Company was offered for sale in 1991, 1993 and 1995. In the offer document it was stated that "the Minister has decided to reduce his shareholdings in order to realise part of his investment and to facilitate the future development of the Group and its products" (Irish Life, 1991:4). Of the five members of the executive board in 1991, one remained in 1995.

In 1992 the Irish Continental Group bought the B and I Line shipping company from the government. The B and I Line had accumulated losses of £128.5m and a capital deficiency of £26.5m. The fleet in 1989 comprised only two ships. Between 1985 and 1989 turnover fell by 45% in real terms and staff numbers fell by half to 897. No director of the B and I company was retained when Irish Continental bought the company in 1992. In 1990 the profits of Irish Continental Group were £2.3m and the losses at B and I

Line were £3.4m. The Irish Continental Group was acquired from the liquidator of the Irish Shipping Company by a number of institutional investors in 1987 and in 1987/8 had profits of £0.869m on a turnover of £34.1m. The profits of the amalgamated group of two former state shipping companies, now known as Irish Ferries, in 1995 were £11.0m and are projected for 2002 at €22.9m on sales of €304m.

The largest privatisation in Table 2 is the Telecom sale. The privatisation and deregulation of the sector has changed it from a high cost system with political lobbying for phones to a competitive system. The Culleton Report (1992) reported that "telecom revenue in Ireland- at 2.7% of GDP- was by far the highest of any EC country in 1989, with most other Member States having revenue in the range of 1.3 to 1.8% of GDP. International charges are higher than in competitor countries and this will not alter with the proposed 1992 tariff rebalancing which Telecom has announced." (47). The OECD (2001) while "Ireland had relatively high international collection charges which were above the OECD average in the past" reductions through indirect competition and a government decision to end an earlier derogation from EU liberalisation in 1998 resulted in the OECD finding in August 2000 that "Ireland's international charges are less than half of the OECD average both for business and residential calls in USD/PPP." (83) Ireland thus improved from above average charges to half of the OECD average. The Comreg index of telecoms prices in Ireland (2002) indicates a fall from an index of 100 in November 1996 to 95 in January 1998 to 75 in January 2002.

As investor confidence in the telecoms sector declined share prices of all telecoms companies fell including Eircom's, although the fall in Eircom's share price was in fact less than the industry average. However the company did not tackle its long-standing productivity problems and investors lost an estimated 30% on the flotation price. The company was taken over and removed from the stock exchange by Valentia, a US venture capital group in November 2001. Thus the shareholders exited and the mobile phone business was sold to Videophone. The company lost 104m euro in 2001/2 compared with a profit of 104m euro in the previous year. Sales declined from 2.2 billion euro to 1.8 billion in 2001/2 and the company's share of the voice market declined to 38%. Mobile phones had 52% market share and other fixed line operators had the remaining 10%. The Company returned to the stock exchange in March 2004 with strong institutional investor interest.

The three remaining privatisations in Table 2 were trade sales. The state sold its oil refinery to Tosco. The state banks were sold to Bank of Scotland in the case of the Industrial Credit Corporation, Rabobank in the case of the Agricultural Credit Corporation and Irish Permanent Building Society in the case of TSB Bank. Dublin had become a major financial services centre by the 1990s. The factors which influenced the establishment of state banks to serve industry and agriculture were not perceived to be significant almost eighty years later.

9 PRIVATISATION-THE IRISH TEMPLATE.

The change in ownership in Irish privatisations has transferred control of the companies from their managers and staff to the new owners. Ownership of state companies by taxpayers was a theoretical rather than negotiable property right. Taxpayers have gained relatively small receipts from privatisation receipts but support transfer to the private sector in order to improve efficiency. Market forces operate in the case of all the companies privatised as shown in Table 2.

The sectors privatised and shown in Table 2 operate in contestable markets. The state comes under less pressure to intervene to weaken competitive forces when it no longer owns one or more of the companies in the market, and overall efficiency is improved. The state has not privatised public monopolies such as electricity, gas, railways and water. Regulatory bodies to deal with public sector monopolies are relatively new in Ireland. Previously public monopolies were subject to ministerial order to control prices and to provide services. Given these ministerial powers, further independent regulation of the company was not, until recently, regarded as important. Since 1999 however regulatory bodies have been established in sectors such as energy, telecoms, airports and health insurance but only in the telecoms sector has there been privatisation. In contrast with companies trading in contested markets there has been a political unwillingness to privatise what might be called strategic network activities such as electricity networks, gas pipelines, water and seaports. This policy was expressed by the Minister for Communications and Natural Resources in an address to the Oireachtas (parliament) committee supervising his department in March 2004. The Minister stated that "infrastructure such as wires and pipes are critical national assets and should remain in Statre ownership". The Minister also stated that privatisation of the ESB's generating business was unlikely in the short or medium term. "I am opposed to any privatisation which would result in a private monopoly in the power generation sector." The Minister also admitted that the separation of the distribution grid from the ESB had not been accomplished but admitted that returning the grid to the ESB would "send a negative signal to the market."

The perceived problems in Britain in privatisation of railways, water and electricity have probably influenced Irish politicians away from areas which generated controversy in Britain.

There are no formal performance measures for Irish privatised enterprises but in general the lower prices from airline deregulation and the limited bus competition would be seen as price-reducing. The Megginson and Netter finding, based on some 227 studies of privatisation throughout the world, that "privately owned firms are more efficient and more profitable than otherwise-comparable state-owned firms" (2001; 380) corresponds to the Irish experience also.

Ownership is important in the Irish privatisation studies. State ownership was associated in the public mind with heavy subsidisation, requests for free capital, poor service and regulatory capture. The special feature of the Irish case has been the replacement of Irish nationalism and protectionism by support for the EU single market and for global free trade.

The perception about privatisation in Ireland is pragmatic with a high degree of support for lower air fares since deregulation in 1986. Public sector trade unions are hostile to privatisation in sectors such as airports, public transport and waste collection.

The ability of policymakers to ban or restrict new entrants from a sector appears since the High Court deregulation of taxis in 2000 to be in doubt. The taxi deregulation decision was based on the rights of persons to enter a sector for which they had the training and skills and the rights of the public to the services of such persons. The judgement also referred to EU law on competition. Since the majority of the insiders in the Irish taxi market were Irish citizens the protectionist policy invited challenge because of the virtual exclusion of other EU citizens from the Irish taxi sector. (Murphy, J, 2000). The Competition Authority ponders the extension of taxi deregulation by the courts to the bus sector…. "in the light of a recent High Court decision, it may actually be questionable whether quantitative restrictions on licensing such as those provided for by the practice of the Minister under the 1932 Act are constitutional or compatible with EC Treaty Rules." (2001;6).

The receipts from privatisation in 2001 were equal to 2.6% of that year's government expenditure. Fears that governments would "sell the family silver" for short term gains have not been realised. Receipts in the early 1990s were used to retire national debt while the later receipts were used to fund future state pension liabilities through a designated fund.

The lessons for other countries from Irish privatisations, deregulations and a general movement to free trade and away from protectionism are positive. In particular Ireland may offer a role model for the new smaller economies about to join the EU. The market opportunities created by the EU and global moves towards freer trade have transformed the Irish economy.

The changes in regulation in Ireland in addition to greater market forces include the establishment of regulators for the energy, telecom, broadcasting, airport and health insurance sectors. Two privatised companies failed under both public and private ownership. Irish Steel closed in 2001 and Irish Fertiliser in 2002. There were no adverse impacts in the product markets for either steel or fertiliser.

10. THE FUTURE OF PRIVATISATION.

Table 3 shows the exchequer shareholding in state-sponsored bodies at the end of 2001.

The list is a useful starting point for assessing likely candidates for future privatisations.

TABLE 3; Exchequer Share Capital in State Sponsored Bodies, 2001.

Body	**Sector**	**Shareholding £m**
AerRianta	Airports	146.7
AerLingus	Airline	239.8
AnPost	Post	44.4
BNM	Peat	61.9
Coillte	Forestry	626.2
IAA	Airtrafficcontrol	17.9
NationalStud	Horsebreeding	9.8
ShannonDevelopment	Regionalbody	144.4
Seaports-Dublin		5.9
Drogheda		5.6
DunLaoghaire		11.5
Galway		6.9

Cork		13.3
Waterford		8.4
NewRoss		3.7
Shannon-Foynes		3.0

Source: Finance Accounts, 2002. Note: £1=1.27 euro

Aer Rianta, is the state airport company at Dublin,Cork and Shannon, has a 98% market share of passenger traffic in the Republic of Ireland. It was widely seen as a candidate for privatisation in the 1990s with an estimated flotation value of £700m. (Business and Finance, Oct. 8, 1998). The establishment of the Commission for Aviation Regulation has brought to the company a stricter regulatory regime than the previous supervision by the government department. The company has appealed to the Supreme Court against the High Court judicial review verdict in its dispute with the regulator's controls over its prices and investment plans. Regulation in the interest of efficiency has replaced privatisation as the policy priority in the sector. The government currently is considering proposals for independent terminals at Dublin. The decision to have separate boards for three competing airports has been opposed by both management and trade unions. In addition Aer Rianta also has stakes in Birmingham, Hamburg, and Düsseldorf airports and operates duty free shops in Europe, North America and the Middle East.

Aer Rianta owns the Great Southern Hotel group of nine hotels. In 2001 the hotel group has profits of €4.7m on revenues of €42.5m euro and had 738 employees. The airport group wishes to sell the hotels but the trade unions have successfully opposed the sale.

Aer Lingus has restructured following difficulties in 2001. Reducing employment from 6,000 to 4,000 while increasing passenger numbers above 6m, accompanied by board and management changes have turned the airline's European operations into a low-cost carrier. A free trade agreement in aviation between the EU and the USA would allow the company to expand its North Atlantic operations. The 2000 estimate of the value of the airline was €950m. The operating margin of Aer Lingus in 2003 was 9.3% and the airline favours privatisation by placing a stake with private institutions rather than a flotation.

An Post is currently in financial difficulties. The An Post Board was charged in 2001 with bringing in a strategic partner to take up to 35% of the equity but this now appears unlikely. BNM already has commercialisation experience in fuel and horticulture and has a large landbank, as has Coillte. Air traffic control has a strong cash flow from overflights, due to Ireland's strategic location as well as the Irish traffic. The National Stud is an inheritance from cavalry training for the British army and has income form horsebreeding and tourism. Seaports have been a highly successful privatisation in Britain. The port of Larne, in Northern Ireland, is privately owned. Widely regarded as the most efficient port on the island it draws traffic from large areas of the Republic.

Privatisations in public transport depend on the level of subsidy for socially desirable services since Irish Rail, Irish Bus and Dublin Bus are all subsidised. The contract to operate the Dublin light rail service has been awarded to Connex, a French company. The lengthy Nestor Bus case, concerning a private bus operator, in the High Court in 2001 resulted in the award of extra licences to Nestor and the state paid all costs. There is likely to be more private participation in the bus sector such as Nestor and Citylink on the Dublin-Galway route and Aircoach between Dublin city and suburbs and the airport.

In the energy sector, in addition to BNM discussed above, the state owns the Electricity Supply Board and the Irish Gas Board. The electricity board dominates the market with revenues of €1.9 billion and profits of €211m.in 2001.The market is due to be liberalised by 2005, two years ahead of the EU deadline of 2007. The sector is regulated by the Commission for Energy Regulation established in 1999 for electricity and extended to cover gas in 2002. The results to date have been disappointing. The National Competitiveness Council (2003) found that in 2002 industrial electricity prices per 10 GWh at €7.42 in Ireland were the second highest of eight countries surveyed. Italy was the most expensive at €9.53 and Sweden the cheapest at €2.83. The Council stated that " an important issue here is the level of cross-subsidisation of domestic users by industry. Unfortunately, there is insufficient data to properly analyse the situation and so further study is merited to clarify this issue." Given the weakness of deregulation to date it may be necessary to split the company's generation and distribution sections into independent companies and to split its generating stations into several competing groups in order to achieve competitive efficiency. The Commission explains that electricity prices have risen due to investment requirements of over €2.7 billion to upgrade the network and the increased costs of oil and gas.

The state-owned Voluntary Health Insurance Company has enrolled almost 40% of the population and is seven times larger than its only competitor, BUPA. Under risk equalisation rules BUPA will be required to compensate VHI for taking a younger age profile of customers. BUPA believes that its lower premia are due to a genuine lower cost base and has referred the risk equalisation scheme to the European Court. The regulatory body for the sector, the Health Insurance Agency, established in 2001, recommended in March 2004 that the risk equalisation scheme should not be activated as the estimated risk difference between the two companies did not exceed 10%.

The state television and radio company, RTE, has about a 50% market share in each case. Independent radio stations, licensed since 1989, have taken more than half the listnership while the main competition for RTE television is from UK channels. There is also a considerable privatisation of activities rather than organisations such as the school bus service, railhead deliveries from rail stations, privatised rubbish collection, and vehicle testing, urban car parking control, clamping and removal.

11. SUMMARY AND CONCLUSION.

Irish commercial public enterprise has declined rapidly as a proportion of total employment. This is due to the rapid rise in market sector employment and a decline in commercial state employment due to a combination of privatisations and employment reductions in the remaining enterprises. The success of the Irish economy since 1987 has been based on reducing the government share of GDP from 53% to 33%, reducing personal and corporate taxation, promoting inward investment especially from the USA, and having the highest ratio of foreign trade to GDP in the EU after Luxembourg. In 2001, unemployment was 3.7%, down from 18% in the 1980s and a little over a third of the core euro countries, Germany, France and Italy. The increase in employment by 64% from 1.1m in 1987 to 1.8m in 2003 is the largest percentage increase of any OECD member state. Table 4 contrasts the changed economic policy in Ireland in 2000 compared to the 1980s. The economy as a whole was privatised, liberalised and opened to foreign markets. State commercial enterprises were no longer seen as major drivers of economic growth.

Table 4; A Transformed Economy- Ireland in 1986 and 2000.

	1986	2000	Index 1986=100
Employment (million)	1.1	1.7	155
Unemployment rate (%)	17.4	4.7	27
GNP per head/EU average (%)	60	100	167*
Government spending/GDP (%)	52.7	33.3	63
Corporate tax rate (%)	50	12.5	25
Personal income tax rates (%)	35/60	22/44	63/73
Tourist numbers (m)	2	6	300
Public debt/GDP (%)	131	33	25
Exports/GDP(%)	56	80	143

* GDP per head in Ireland exceeds GNP per head by 24% in 2004 due to large net factor payments. Sources; Department of Finance Annual Review and Outlook, Annual Budget Statements, Revenue Commissioners Annual Reports. Economic and Social Research Institute, Medium Term Review, 2003-2010.

Nationalised commercial enterprises were at the core of Irish economic nationalism and have faded as Ireland became part of the single European market and world free trade. The Irish state enterprise model by contrast was based on economic nationalism, reinforced in the aftermath of the 1929 depression, universal protectionism in the 1930s and difficult trading conditions for a neutral state the second world war. In past and present periods of free trade the Irish economy has achieved its best performances. Geary and Stark estimate that Ireland's economic performance was good enough to locate the economy among the richest in the world in the 1870s and on the eve of the Great War (2002; 927). Cullen (1972) pointed out that by the end of the nineteenth century "its large foreign trade, its export-oriented industries, its highly developed infrastructure of banking, commerce and railways, and its foreign investment yielding a sizeable income made Ireland comparable in some respects to a handful of highly developed nations." The basic tenet of Irish economic nationalism- that state enterprises were required because market forces had failed, or would in future fail, to develop the Irish economy- was historically inaccurate. Ireland since participating in the single European market has again enjoyed success in free trade and returned to the relative economic position it occupied in the world of ninety years ago. The assumption that Ireland would fail in the market economy had no foundation either in the past or in the 1990s. It is no surprise that the returning of state enterprises to the market economy has happened without controversy in a wider context of deregulation, reducing the economic role of the state and globalisation.

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