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Response by Dag Detter

Privatisation should be part of Europe's long-term growth plan

Many of the countries whose precarious fiscal positions most worry the European leaders meeting on Thursday actually have substantial portfolios of commercial assets: not only the usual suspects of utilities, banks and transportation assets, but also a very significant portfolio of real estate assets.

These are often barely managed, and there is a certain lack of transparency in what is held. Yet the so-called 'state-owned commercial assets' are now one of the larger asset classes globally – many times that of private equity and hedge funds combined – but yielding a very small return to their ultimate owners, taxpayers. Making these assets not just more transparent but also more efficient and profitable could be one part of the solution of improving the long-term prospects for countries such as Greece, Ireland and Portugal.

The concept of a government acting as an asset manager is not new, but tends to be more popular in wealthy export-oriented economies. Singapore and its National Wealth Fund, Temasek, is an obvious example. In the developed world, Sweden was one of the first countries to restructure its portfolio in the late 1990s. As a result, the value of the portfolio outperformed the local stock market for more than eighteen months.

Privatisation of state assets, as has been suggested in Greece, is often the most instinctive response from the financial perspective when considering this asset class. However this may not be the fastest or the most efficient reaction. The current timing and conditions might result in a hasty fire sale.

Instead, troubled countries could – once a fix is found for their immediate problems – attempt a longer-term solution by raising bonds on the back of a new national wealth fund created to manage the asset portfolio. Portugal and Spain already have such a fund, while Greece is in the process of setting one up.

Economists and analysts recognise the importance of restructuring these assets. It leads to a more efficient use of capital and resources, and enhanced competition in the affected sectors. As a substantial part of the domestic economy, the bonds from the national wealth fund would help introduce private sector discipline to the assets class and the portfolio, and thereby contribute to economic growth.

Correctly implemented, these commercial assets can become an engine for structural reform and growth in Europe.

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Eurobonds are the only answer to Europe's crisis

Eurozone leaders face a fundamental choice when they meet on Thursday. Either they declare, once again, that they stand ready to do “whatever is necessary” to overcome the eurozone crisis, or they actually do it. In the first case, markets are likely to step up to the next stage of their challenge to the European authorities. They will target larger countries, such as Italy and Spain, thus making the “whatever necessary” ever more costly and ever less credible.

Alternatively, the eurozone leaders could show leadership. Markets, so far, have been winning a game of divide and conquer, simply because countries are not providing a common response. Eurozone governments have been seeking “financial stability” by committing ever larger amounts of their taxpayers’ money. Yet, these sums merely measure the eventual cost to citizens of their leaders’ attempts to behave as if they were not part of a monetary union.

A more effective strategy would be to surprise the markets with a genuinely common policy. For such response to be agreed on, the government of the leading eurozone country, Germany, has to provide leadership among the member states and at home. This means convincing Germans that they are benefiting from the European Union, its single market and the euro; that the German “culture of stability” is permeating the rest of the union; and that Germany would be the biggest loser – in terms of stability, competitiveness and the financial cost – if the eurozone were to break up.

A German government that promotes common policies focused on the long term would be better able to protect German taxpayers’ interests than one which, in focusing on their shorter-term interests, convinces neither the markets nor its citizens. It is this lack of credibility that would generate, further down the road, a disruptive ‘transfer union’ that would likely lead to acrimony domestically and across borders.

Luckily for Chancellor Angela Merkel and for Europe, the two main opposition parties in Germany – the Social Democrats and the Greens – are

pro-EU. Although the SPD initially opposed the euro and Chancellor Gerhard Schroeder, with President Jacques Chirac, undermined the credibility of the Stability Pact in 2003, earlier this week SDP leaders pledged support for unpopular measures to deal with the eurozone crisis.

This creates a fresh opportunity for Ms Merkel and Wolfgang Schäuble, German finance minister, to support the use of eurobonds – an initiative that would reinforce Germany’s real and perceived ties to the euro.

Commissioner Olli Rehn said last month in the European Parliament that, as part of an economic governance package, the Commission will be ready to propose the setting up of a system of common issuance of euro-denominated government bonds before the end of the year. This would be aimed at strengthening fiscal discipline and increasing stability in the euro area through market mechanisms, ensuring that those member states that enjoy the highest credit standards would not suffer from higher interest rates. The Commission’s report will, if appropriate, be accompanied by legislative proposals.

The proposal is for the use of eurobonds as an instrument of debt management, not as a financing instrument for new expenditures. It was put forward to the president of the Commission last May*, and introduced in the European Parliament in December by Sylvie Goulard**, based on [research](#) by Jacques Delpla and Jakob von Weizsäcker, among others.

Many options are possible, including giving the European Financial Stability Facility new powers. The new bonds would assert the euro currency in the global markets. It is not obvious that there would be a higher (absolute or relative) financing cost for the most creditworthy member states, when considering both the liquidity of the new eurobond market but also the existing turbulence of the sovereign debt markets. To liberate the European Central Bank from the role it has been obliged to play would also be in the general best interests and in line with the best German traditions.

There is growing consensus that it would be difficult to find a lasting solution to the eurozone crisis without the use of eurobonds. This week’s eurozone summit could give at least a clear political signal that it is worth considering the eurobond proposal. A European vision, based on the creation of a European instrument, backed by a precise timetable, could be a good way to restore trust and stability.

Mario Monti is president of Bocconi University and former European commissioner. Sylvie Goulard, co-author, is a member of the European

Parliament and rapporteur on the economic governance package.