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The Financial and Economic Lessons of Italy's Privatization Program

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Abstract

Since 1994 the Italian government has sold equity stakes in some 75 large state enterprises, in the process raising over $125 billion-more than any other country during the same period. In this article, a U.S. academic collaborates with the Italian government's Director of Privatization in summarizing the accomplishments and disappointments of Italy's privatization program, assessing its impact on Italian capital markets, and offering lessons for other countries embarking on new privatization programs. The article also describes the share issuance methods used by the government to execute several massive offerings, including the largest IPO in history.

The principal benefits of Italian privatization have been dramatic increases in the size and efficiency of Italy's stock markets and in the safety and stability of its banking system. Despite such improvements, however, privatization has failed to bring about the increased competition in key industries and lower prices for consumers its planners originally envisioned. And based on this experience, the authors offer a number of lessons for government planners.

Perhaps most important, privatization is likely to yield decisive benefits only if the divestment program is properly designed *and sequenced.* Governments should begin by privatizing state-owned banks and other financial institutions, and as quickly as economically and politically feasible. Especially in less developed economies, commercial banks are for many companies both the only suppliers of credit and the only effective source of market discipline-which explains why results have often been disastrous when governments have retained control of banks while