

This is an Open Access document downloaded from ORCA, Cardiff University's institutional repository: <https://orca.cardiff.ac.uk/id/eprint/41459/>

This is the author's version of a work that was submitted to / accepted for publication.

Citation for final published version:

Foreman-Peck, James 2003. Review of 'The rise and fall of state-owned enterprise in the Western World', editor P. A. Toninelli [Book Review]. *Journal of Economic Literature* 41 (3) , pp. 931-932.
10.1257/002205103322436232

Publishers page: <http://doi.org/10.1257/002205103322436232>

Please note:

Changes made as a result of publishing processes such as copy-editing, formatting and page numbers may not be reflected in this version. For the definitive version of this publication, please refer to the published source. You are advised to consult the publisher's version if you wish to cite this paper.

This version is being made available in accordance with publisher policies. See <http://orca.cf.ac.uk/policies.html> for usage policies. Copyright and moral rights for publications made available in ORCA are retained by the copyright holders.



and beyond. The editors might, however, reasonably reply that debates about the Bank and Fund are best left to independent researchers rather than quasi-official publications such as this one. And one of the co-editors has amply made up for the omission in his more recent book!

A second printing will provide an opportunity to add an index (definitely needed in this sort of volume) and perhaps undertake a somewhat tighter edit here and there.

This will be a widely read book, and deservedly so. Though analytically rigorous and well-referenced, its style is mostly accessible. It is not designed to be a text, but it will be important supplementary reading for courses on economic development, comparative economic systems, and the Asian economies.

HAL HILL

Australian National University

The Rise and Fall of State-Owned Enterprise in the Western World. Edited by Pier Angelo Toninelli. Cambridge, New York and Melbourne: Cambridge University Press, 2000. Pp. xiii, 320. \$49.95. ISBN 0-521-78081-0.

JEL 2001-1492

The remarkable burst of industrial privatizations around the world in the last two decades prompts not only the questions Why? and, Will it last? But also, why and when was so much state ownership built up in the first place? An international perspective is essential for interpreting this global phenomenon and an historical approach can illuminate a process distributed over so many years. Pier Angelo Toninelli's edited volume, the product of a colloquium held at Milan, offers viewpoints reflecting these perspectives in two parts.

The first, "setting the stage," consists of four essays, beginning with a framework or overview by the editor. Toninelli takes a broad view of state-owned enterprises (SOEs), including private companies managed as state organizations, as in France, as well as state-owned enterprises managed as if they were private companies, where Italy provides examples. He offers a three-fold classification of motives for nationalization—ideological; achievement of social goals (including full employment and industrial relations); and economic reasons, covering market failure, promoting economic growth (the state as entrepreneur), as well as bail-outs. As to the timing of

SOE growth, Toninelli's phase 1 was first concerned with defense and then "catching up." During phase 2, between 1900 and 1940, state ownership expanded more rapidly. In Weimar Germany this was for post-war rationalization and reconstruction but the process was often triggered by the world depression, as with Italy's IRI state holding company. Phase 3 covered the apogee of the SOE and decline from the 1970s.

Broader state-industry relations behind the decline of SOEs are the subject of the second essay (Nicola Bellini). The third, a literature survey of the performance of SOEs around the world, roughly from the 1960s to the 1980s (Yair Aharoni) concludes plausibly that competition rather than ownership determines performance. Yet it would be helpful in a historical work to understand how studies of earlier time periods, such as Will Hausman and John Neufeld's analysis of 1897-98 data, can be integrated with these conclusions (1991, "Property Rights versus Public Spirit: Ownership and Efficiency of U.S. Electric Utilities Prior to Rate of Return Regulation," *Rev. Econ. Statist.* 73:413-23).

Erik Reinert's "Role of the State in Economic Growth" begins with the Renaissance. His principal interest is the history of thought, which leaves a gap where the history of events is concerned. The broad classification of SOEs adopted by the editor suggests at a minimum that the contribution of the Dutch East India Company (VOC)—from the seventeenth century an enormously powerful arm of the mercantilist state financed by private capital—and its British, French and Danish imitators, warrant consideration here.

The second part of the volume consists of case studies of Germany (Ulrich Wegenroth), Italy (Franco Amatori), Britain (Robert Millward), France (Emmanuel Chadeau), Spain (Albert Carreras, Xavier Tafunelli, and Eugenio Torres), Austria since 1946 (Dieter Stiefel), the Netherlands (Davids and van Zanden), and the United States over two centuries (Louis Galambos). These impress by the wide variety of national experiences.

Robert Millward mounts a strong quantitative defense of the performance of British nationalized and municipalized industry outside manufacturing unmatched elsewhere in the book. He also argues that nationalization was rarely ideological or driven by trade unions; rather its aim was to improve efficiency. Accountability is the

key to performance, he believes. Price controls in the 1970s unwarrantedly ruined the reputation of nationalized industries, contributing to the wave of privatizations from the 1980s.

In the United States, Louis Galambos identifies two cycles or phases of development of SOEs. State canals, intended to promote local development, proved financially disastrous in the 1830s. The Second Bank of the United States, another major SOE, failed to have its charter renewed in 1837, leaving only the Post Office and the public lands. The second cycle began in the 1880s with what Galambos calls “the planning impulse”—initiating municipalization of electricity, and introduction of state hospitals, shipping, and insurance. The New Deal brought the colossal Tennessee Valley Authority in 1933, across five states. Most exceptional though was the extent of Federal land ownership, amounting even in 1979 to one third of the nation. The end of the planning phase Galambos identifies as beginning in the 1950s with President Eisenhower. Another burst, driven by anti-state sentiment, came in the 1970s and 1980s, the product of Vietnam and Watergate.

Galambos shows that the United States was unusual in neglecting SOEs during the 1970s compared with other western countries. In fact this “exceptionalism” was apparent earlier. Of 22 countries in 1913, 12 had telephone systems exclusively operated by the government and only the United States lacked any government telephones. Of 23 countries in 1906, there were no state-owned railway lines in only four (the United States, Britain, Greece, and Spain). Telegraphy outside the United States was almost exclusively a government monopoly once the British nationalized it in 1868. Why did the United States regulate these industries rather than internalize regulation through nationalization? Possibly the United States federal structure is the explanation, for the United States was not unique in nineteenth-century regulation. The British adopted a quasi-judicial form of regulation—the Railway Commissioners of 1873—before the U.S. Interstate Commerce Commission of 1887. Leaving telecoms aside, the big difference between the British and U.S. national policies appears to arise from the British Labour government of 1945–51, raising some questions about Millward’s assessment.

In their (pre-Enron) conclusion, Louis Galambos and William Baumol judge that SOEs did not facilitate growth as was hoped and that,

by contrast, “free enterprise” has done so magnificently. Over the long term they believe it is difficult to resist the appeal of the private sector. But the message of the rest of this book seems to the reviewer that war, depression, and scandal all damage public confidence in market institutions and therefore might promote SOEs again in the right circumstances.

JAMES FOREMAN-PECK

Cardiff Business School

N Economic History

The Mighty Experiment: Free Labor versus Slavery in British Emancipation. By Seymour Drescher. Oxford and New York: Oxford University Press, 2002. Pp. vi, 307. \$50.00. ISBN 0–19–509346–1. *JEL 2002–1099*

For the past 25 years, Seymour Drescher has been raising disturbing questions about the economic history of British slavery and antislavery. In *Econocide* (1977, Pittsburgh: University of Pittsburgh Press), Drescher challenged the notion that the abolition movement arose only after the British Caribbean slave economy had begun to decline. In *Capitalism and Antislavery* (1987, New York and Oxford: Oxford University Press), Drescher questioned the conventional linkage between antislavery sentiments and the rise of capitalist or free-market ideologies. Now, in *The Mighty Experiment*, Drescher explores the role of science and scientific arguments, including economics, in the transformation of prevailing British opinion on slavery between the 1770s and the 1830s. Although in a sense this is a narrow window on the larger historical topic, it is of particular interest to economists because it highlights certain attention-selection traits that have characterized the discipline from its beginnings.

Naturally the discussion begins with Adam Smith. Smith’s assertion that slave labor was “in the end” more costly than free labor became “a central article of abolitionist faith, ordaining and forecasting the ultimate triumph of voluntary labor” (p. 22). Drescher observes that this was a common theme among eighteenth-century writers, a reflection of Britain’s emerging national self-image as well as an interpretation of the trend towards freedom discernible in European history. But Smith never directly confronted the vivid counter-example provided by rapid export