Reasons Behind the Privatization of Datacentralen

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Abstract. In 1959 Datacentralen was created by the State and local governments to provide IT services to the government and to regional authorities. Similar centralized IT service centers were created in other parts of society, where Danish Agriculture created LEC, Landbrugets Edb-Central. The municipal governments created one big IT center, Kommunedata, by merging many small local IT centers. For several years Datacentralen was the only supplier of IT to central government and administration. But through the 1980s the development of minicomputers and powerful PCs led to new kinds of decentralized IT systems and IT services. Economic conditions also forced the government to reconsider the role of Datacentralen and of the whole use of IT in Denmark. Gradually this led to the privatization of Datacentralen and other IT services. Quite similar developments took place in other Nordic countries.

1 First Proposal for a Population Register in 1918

The women in Denmark got their voting rights in 1915 in the new constitution. In the first election thereafter, in 1918, four women were elected (but the small number was a disappointment). One of them belonged to my political party The Social–Liberal Party. She can be considered as my pre-pre-predecessor.

In her second speech in parliament in 1918 – on the law of finance - she asked the minister if he would consider passing a law, which made it possible for those municipalities – who so wished – to establish a population register. She mentioned many reasons for that, but no doubt one of them was closer to her heart than others, namely the possibility to get hold of the alimentants, the men/fathers who should pay to their children born out of wedlock, the so-called illegitimate children, but who ran away from their payment. A register system could be helpful in solving that problem.

Such a population register system was very effective in Germany, she said, so effective, that it was easier to find a fleeing Danish father in Germany than in Denmark. In 1924 Denmark got the first law on establishing a population register, and that was the beginning of the later CPR.

Do not say the election of women makes no difference to man or mankind!

2 The Computer Environment in the 1950s

2.1 The Background for creating Datacentralen

The use of computers in Denmark started in the late 1950s with Regnecentralen (RC), who built DASK, the first Danish computer, and started research and service center activity. In 1959 Datacentralen I/S was created by the State and local governments (municipalities) with the purpose of providing IT services to the government and to regional authorities. In the early 1960s several similar IT service centers were created in other parts of society, where, *e.g.*, Danish Agriculture created LEC, Landbrugets Edb-Central, and the municipal governments created one big IT center, Kommunedata, by merging many small local IT centers.

In other words there was a good environment for the use of computers in Denmark in that period. And furthermore we had a Danish company RC which developed and built computers that were quite outstanding, and RC had a milieu with a solid knowledge about computer technology and applications. The Ministry of Finances wanted a technical report on the future use of computers in the public sector. So I agree with Anders Vind Ebbesen [1] who writes that it is noteworthy that the task of writing this report fell on the desk of an IBM consultant, who furthermore was paid by IBM. The report considers 'commercial EDP' as requiring another type of computers than 'scientific EDP'.

My personal opinion at that time was – and still is - that RC wasn´t given a fair chance, and that we missed some opportunities by not using the experience gathered at RC. May be I am biased, knowing some of the excellent people working at that time on Regnecentralen, and biased by my connection to ATV[1], whose report led to the start of Regnecentralen.

But knowing that period - and with my later knowledge and experience with the public sector – I believe there is a need for a study of the public administration and its relation to the environment outside the administration. It is not less important to day than earlier.

2.2 Establishment of D/C I/S in 1959

Anyhow, the result of the report was the establishment of Datacentralen I/S in 1959 with the author as director and IBM equipment – which also was – as explained by Per Gjerløv – introduced by a gift from IBM to The Tecnical University later on.

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[1] ATV is the Danish Academy of Technical Sciences.

Whether it was with equipment from IBM or another supplier, establishing a computer center with the purpose of handling the various task from different public sectors was a wise decision, and is part of the danish succes in relation to effectiveness in public service.

3   The first 30 Years

During the first 30 years, approx. 1959-91, Datacentralen (DC) was jointly owned by the State and the local governments and grew rapidly into a big service center running applications for many branches of public administration. A few milestones in this development are mentioned.

In 1962 the first computers were delivered to DC and the first task done for the Ministry of Transportation.

In 1965 DC had 34 employees.

In 1967 the government decided to introduce the value added tax system (VAT) – which means handling an amount of data not seen before. DC got the task to create an IT system capable of doing that. Fortunately DC and the custom authorities already had started working together on building such a system.

Anders Ebbesen [1] has described the situation up to 1970 with the establishment of CPR and pay-as-you-earn tax reform (a reliable CPR is a prerequisite for the tax reform). It is interesting that there was – as far as I remember – no substantial public debate about the registration of every citizen by a number. I don´t think it could have been introduced today without a major debate.

The big issue was the tax reform, which was - among other things - advocated with the advantage of getting a taxfree year. This was a truth with modifications but it was 'sold' well without the use of spindoctors.

This are just a few examples on how close the cooperation between various parts of the public administration and DC was.

A result of the development was that the number of employees at DC grew with the culminating 1400 employees in 1984, and DC was responsible for very many public service systems. DC had a de facto monopoly on these services, and with strong trade unions the employees had the power to bring the society to a stand-still. And that was used at some occasions.

4   Change in Ownership

4.1   The first Change in 1991

In 1991 it was decided to change Datacentralen I/S (owned by partners) to Datacentralen A/S (a limited company) and at the same time a decision was made to sell 25 % of the capital. That type af political decisions is normally done through a bill/document from the minister in charge to the Committe of Finance (CF) and de-

cided/voted upon there. In this case the responsible ministry was the Ministry of Finance.

The overall reason for this was the changing circumstances on the electronic data market. To this was added

- The wish to reduce the exceptional position of DC and create competition in the field of IT systems for public administration
- EEC demands on liberalisation of the state purchases
- A wish to given DC a more business oriented profile
- To get rid of the municipalities, which did not use DC and had created there own center, Kommunedata
- The wish from DC to expand its export activities

What was not mentioned in the bill was the deficit in the State budget. But by selling a part of the capital you could take money out of the company. Other impulses were to limit the power of strong trade unions and to follow a generel tendency to privatize public administration.

The bill was passed with a marginal majority behind – but for people interested in politics it is worth noting that the Social Democratic Party voted against it because 170 mio. DKr. were taken out of the company to cover part of the financial deficit. Less than two years later the party was in government with another point of view!!

I was appointed chair of the board by the Minister of Finance.

It turned out to be impossible to sell 25 % of the shares. No company wanted to buy without getting real influence on DC. The board of DC A/S therefore had to look for other solutions and succeeded in doing so.

4.2   Creation of DCM in 1993

The solution we found was to separate the operational activities from DC and create a new company 50-50 owned company together with Mærsk Data. Several good business arguments were behind that. The construction was quite genious – which I can say as it was not my idea – because it solved the task laid on the board, namely to sell 25% of the shares. Besides, the separation of operational activities from the rest of DC had several business advantages.

The creation of the new company DCM required a new bill to be accepted in CF. It was sent confidentially to CF and approved in December 1992. It may be interesting to note that in the same month a broad political agreement was made on privatizing other state owned companies.

4.3   From 25% to 75% sold in 1996

The creation of DCM solved "the 25% problem" but it was obvious that the solution did not solve the deeper problems of DC. A strategic partner was a necessity for the survival of DC unless the state wanted to be an active partner in the company. We

have no tradition for companies run by the State in Denmark. This was outlined in a report 1993 written by me with strong help from others.

The work to find a new strong strategic partner started in 1995. It ended with a very close race between CSC[2] and IBM after months of intensive work negotiating and comparing. Due to the strong cooporation with IBM in DCM there was interest in a IBM take-over for two reasons:

 - we knew IBM which was operating in Denmark while CSC was new to us

 - with IBM, Mærsk and DC we would create a big strong IT company in Denmark.

There are two stories to be told about the final result. One is the official one stated in the bill to CF. The biddings from IBM and CSC were very equal in many respects, and the evaluation led to CSC as being the best future partner for DC. The other inofficial story is that the remark about pollution on the DC ground was decisive. It said that if the buildings one day should be expanded, the pollution should be fully removed if IBM should join. This was not possible due to Danish law.

The result was that CSC was chosen as the partner - as we all know today.

In the bill – which was confidential until 1999 - is stated that Ministry of Research and Ministry of Finances weighted that:

1. DC should be strengthened
2. The competion on the market should grow
3. The price should be attractive for the State

 The bill also explained how CSC should perform in Denmark after the buy. Last – but not least – it states various conditions about eventual expansion of the capital, possibility for the State to sell – and for CSC to buy - the rest of the shares, etc.

5   Final Sale to CSC in 1999

In 1999 CSC requested to buy the rest of the shares, which was accepted by the government.

Worth noting is a quite comprehensive paper from the Danish data protection agency, dealing with the security situation in relation to authority registers of various art. It is concluded that the ruling for private companies is the same as for the State, municipalities etc. This question was also raised with the first privatization of DC with the same conclusion, but as far as I remenber no report was issued.

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[2]   CSC (Computer Sciences Corporation) is a big US-based company selling IT services and solutions world-wide.

But having experienced several leaks of civil registration numbers – the last one in the summer of 2014 – we can conclude that we have a general safety problem that also comprises the data kept by the State and municipalities. Remember, *e.g.*, the case in 2013, wherethe police admitted that the driving license register was hacked.

In the bill about selling the last shares in DC is also mentioned a compensation for the pollution of the ground - mentioned earlier - and three law-suit´s still unsolved. The most important of these is about a system to Thailand. The negotiation on this sale was started before the establishment of A/S in 1991 and the final contract was signed just arond the time the A/S was established.

I am mentioning in particular the Thailand case because it started as a very good system export case – supply of software - and ended in a disaster. It cost the company a lot of money, took up lots of working hours – including in the board – and ended with compensation to Thailand payed by CSC and the State. The software was ok but nobody had checked the tax system behind, which was non-existing. It underlines that system export is not always an easy go.

6   Conclusion on the Privatization

The privatization of Datacentralen was done by a step by step method. From the beginning we did not know the final result. My conclusion is:

- The state got money out of the privatization.
- All in all it was a good idea and succesful for the State
- It is more difficult to judge whether it was succesful for CSC. That I will leave to others to conclude upon.

References

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