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## Liberalisation and Privatisation in the EU: Services of General Interest and the Roles of the Public Sector

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## Liberalisation and privatisation in the EU – Services of general interest and the roles of the public sector

This publication gives an overview of the privatisation process in services of general interest in Europe and its outcomes, elaborating in particular on its consequences for the European social model. In the first parts, the history of privatisation is discussed, including its timing, rationale and drivers. An overview of different types of privatisation is also given as well as of the accompanying processes. Then the publication looks in detail into the economic outcomes, especially in the context of the underlying assumptions which justified decisions to launch the privatisation processes. It finds that most of the positive effects expected did not materialise at all or were very minor. As regards the creation of competitive markets, for example, increased competition was only achieved in countries and sectors that had a state monopoly at the outset. On the other hand, when a number of regional or local monopolies existed, market concentration increased as larger companies bought up their smaller competitors. Liberalisation and privatisation of public services also fundamentally challenged the traditional labour relations regime in the public sector, resulting in a two-tier system of stable bargaining structures within the incumbent firms, and decentralised and fragmented bargaining structures among new competitors, leading to lower employment standards. The advocates of shifting from public monopoly promised cheaper and better services, and that reduced prices would boost demand and create more jobs. However, the reality proved different, with rising atypical forms of employment and only minor productivity gains, driven mainly by lower labour input combined with other cost cutting strategies that led to a deterioration of employment and working conditions. Liberalisation and privatisation have also had some positive, as well as negative, effects on service quality. Furthermore, the publication argues that these processes have had adverse effects on the European Social Model as they resulted in lower social cohesion in access to good-quality public services. In its final chapters, the publication draws implications for public policy, focusing in particular on the key phases of the privatisation process, the market regulation processes which need to be in place and the impact of privatisation on employment, industrial relations, productivity and profitability, and service quality. The publication concludes by identifying areas where knowledge gaps still exist regarding services of general interest and the role of public sector.



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Liberalisation and Privatisation in the EU

Elke Loeffler, Dominik Sobczak and Frankie Hine-Hughes

Multi-Science Publishing

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## Executive summary

This publication gives an overview of the privatisation process in services of general interest in Europe and its outcomes, elaborating in particular on its consequences for the European social model. In the first parts, the history of privatisation is discussed, including its timing, rationale and drivers. An overview of different types of privatisation is also given as well as of the accompanying processes. Then the publication looks in detail into the economic outcomes, especially in the context of the underlying assumptions which justified decisions to launch the privatisation processes. It finds that most of the positive effects expected did not materialise at all or were very minor. As regards the creation of competitive markets, for example, increased competition was only achieved in countries and sectors that had a state monopoly at the outset. On the other hand, when a number of regional or local monopolies existed, market concentration increased as larger companies bought up their smaller competitors. Liberalisation and privatisation of public services also fundamentally challenged the traditional labour relations regime in the public sector, resulting in a two-tier system of stable bargaining structures within the incumbent firms, and decentralised and fragmented bargaining structures among new competitors, leading to lower employment standards. The advocates of shifting from public monopoly promised cheaper and better services, and that reduced prices would boost demand and create more jobs. However, the reality proved different, with rising atypical forms of employment and only minor productivity gains, driven mainly by lower labour input combined with other cost cutting strategies that led to a deterioration of employment and working conditions. Liberalisation and privatisation have also had some positive, as well as negative, effects on service quality. Furthermore, the publication argues that these processes have had adverse effects on the European Social Model as they resulted in lower social cohesion in access to good-quality public services. In its final chapters, the publication draws implications for public policy, focusing in particular on the key phases of the privatisation process, the market regulation processes which need to be in place and the impact of privatisation on employment, industrial relations, productivity and profitability, and service quality. The publication concludes by identifying areas where knowledge gaps still exist regarding services of general interest and the role of public sector.

## **Acknowledgments**

This policy review was drafted by Elke Löffler, a specialist in public sector governance and Chief Executive of Governance International. In order to complete her work, Ms Löffler reviewed thoroughly the proceedings of three EU funded research projects on privatisation and liberalisation in services of general interest (PIQUE, PRESOM and UPP) and conducted interviews with some of their coordinators. Frankie Hine-Hughes assisted Ms Löffler in a critical assessment of research outcomes providing valuable inputs into the report. The idea for the book came from Dominik Sobczak, scientific officer in the Social Sciences and Humanities unit in the Directorate-General for Research and Innovation, who coordinated the work on behalf of the European Commission, supported the author in working out the structure of the publication, provided feedback on the different drafts, and put together the annexes.

## Introduction

Three decades ago, privatisation was high on the agenda of European policymakers. In particular, under the Thatcher administration in the UK, the neoliberal doctrine of privatisation and deregulation became orthodox thinking in both politics and economics, and spread throughout Europe at a remarkable rate. Today, however, the momentum in Europe has slowed. Privatisation projects are being postponed or cancelled and in some cases privatized assets are being renationalized.

The current slowdown of privatisation policies raises the question of what has been the effect of previous privatisation and liberalisation policies. It also raises the question of what should be the role of privatisation and market liberalisation in the light of the financial crisis in the European Union.

This report considers how European Union member states adopted, and then adapted, privatisation and market liberalisation policies over the subsequent decades. It outlines the findings of three EC-commissioned research projects on privatisation and liberalisation policies, exploring the history, purposes, drivers, processes, and political, economic, and social impacts of privatisation. The report concludes with a summary of recommendations to support future policymaking with regard to privatisation.

This report is based on an extensive review of three research projects that investigated processes surrounding privatisation (PIQUE, PRESOM and UPP). The projects were financed by the European Commission, DG Research, within the sixth Framework Programme of the EU, under the socio-economic sciences theme.

## Chapter 1. The Policy context

### 1.1. What is privatisation?

Privatisation involves the transfer of either possession or control, or both, of state assets, organisations and operations to private investors. It can be whole or partial and can be followed by complete withdrawal of state interest in the privatized activities or can lead to some degree of regulation of those activities, over and above the regulation involved in normal state industrial policy.

### 1.2. The European Social Model – common attributes of social models in Europe

The European Social Model was developed after World War II within Europe, with many variations across states, but all sharing many features, and was distinctly different from the US model. The European approach involved:

- ***a universal welfare state*** based on social citizenship, offering ***public services available to all***, with a universal right to education, health care and social security;
- ***state intervention*** to ensure employment and redistribute income from the richest to the poorest in society;
- ***mechanisms of non-market economic coordination*** that involved an institutional compromise between labour and capital, with both strong unions, and labour market regulation;
- ***public ownership of key economic sectors.***

In its most influential social democratic form, this model was based on the assumption of an inextricable link between capitalism and democracy. Welfare regimes were regarded as the mechanism for combating poverty and assuring the educational and health outcomes which would enable underprivileged classes to move beyond being mere production factors towards being citizens who had equal political status and could fully take part in the political arena. The welfare state and its institutions, embodying a distinctive role for public services ‘from the cradle to the grave’, were seen as a vehicle for forming a common identity at national level, and a guarantor of social harmony and cohesion. Moreover, in some European countries such as Germany, Austria and the Scandinavian countries, this social model was also credited with having created and maintained a pact between labour and capital which promoted long-term productivity growth.

In the period up to the 1980s, the major expansion of public sectors across Western European countries was seen as a protection against ‘raw’ market forces. During this period there was a consensus that market mechanisms were in principle not capable of satisfying the needs of all the population and guaranteeing sufficiently equal life chances and standards of living. Free education, subsidised public services such as universal health and affordable housing, state pension systems for



the retired, public investment in basic infrastructure and a strong state role in the regulation of the banking and financial sector were viewed as preconditions for realising the economic, social, political and cultural rights of citizens. Consequently, public goods such as education, health care, and access to cultural institutions, which did not qualify as 'pure public goods' under economists' definitions (as they were neither non-excludable nor non-rival in consumption) came to be viewed by most major parties as goods of social value (or 'merit goods'). Consequently, the major Western European democracies saw it as their role to use the power of the state to organise the provision of public services and resolve collective problems that private actors with short term interests were unable to address.

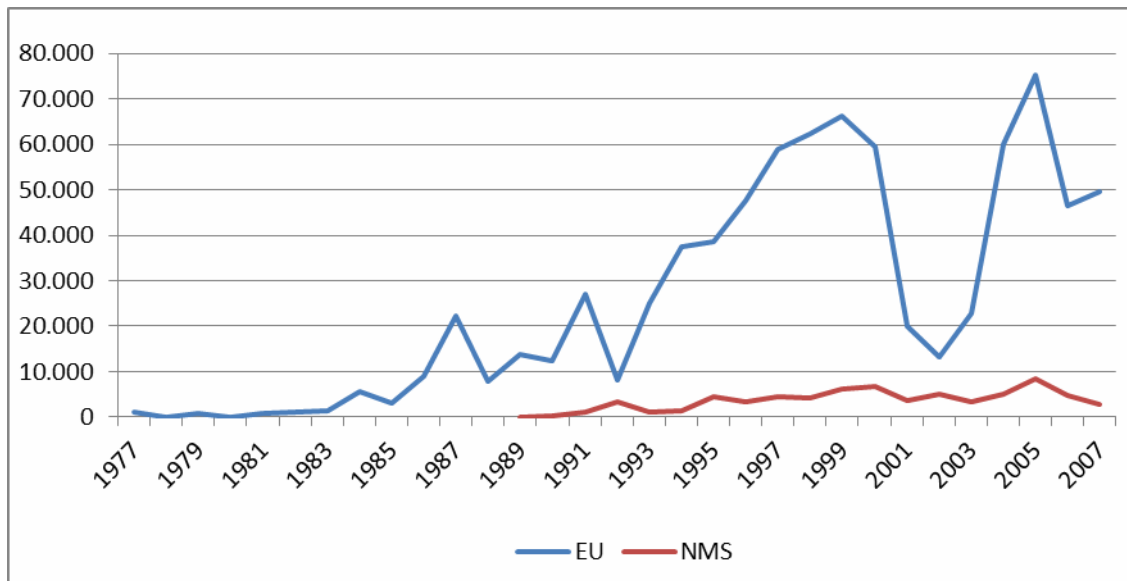
Consequently, the European Social Model was seen to generate a virtuous relationship between the potentially divergent forces of the market, social cohesion, and democracy. It embodied a trade-off between on the one hand the burden of taxation (on households and firms) necessitated by social expenditures on and benefits to both citizens and actors in the private market economy, particularly the increased economic security for the population which led to higher levels of investment in education and training, and on the other hand the lower levels of confrontation in labour relations, which in turn increased productivity and unleashed technical innovation. This highlighted the 'economic value of social policy'. A key element in this 'social contract' was the provision of Services of General Interest at low or zero cost to citizens. Right up to the 1980s, this was assumed by governments to entail public sector provision and the prevention of competition amongst public enterprises, which was thought likely to be wasteful and also potentially unfair to disadvantaged users.

Western European public services were therefore linked to social justice, even if they provided less efficiency than under a free market. Social services were provided to citizens across the whole social spectrum to maintain solidarity and cohesion. The model supposed the need for equal opportunity, and access to what were regarded as 'indispensable' goods, such as clean water, a non-polluted environment, safe energy, good infrastructure, high quality education and universal health care. Indeed, these goods and services 'of general interest' had become social 'rights' in the European welfare states during the second half of the 20<sup>th</sup> century.

### **1.3. History and timing of privatisation in Europe**

This pattern began to change in the early 1980s with the first privatisations, although the actual starting point varies across countries. Figure 1 shows that in the EU-15 privatisation began in the early 1980s (in the UK), and, after a slow start, increased rapidly through the 1990s. The bursting of the dotcom bubble saw a precipitate fall in privatisation from 1998 to 2002, but there was a rapid recovery thereafter, with 2005 providing a record year in privatisation history.

Figure 1 - Privatisation proceeds (US\$ million)



Note: 'EU' includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK. 'NMS' includes Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovenia.

Source: Privatisation Barometer Databank; own calculations in Privatisation and the European Social Model, 2009, Executive summary and final activity report')

Privatisation from the outset was considered to be a significant element of structural reforms and therefore central to the economic liberalisation packages which were introduced in the 1980s in order to reinvigorate European economies that had stagnated in the 1970s. In the early years, from the late 1970s to the late 1980s, privatisations were more closely aligned with conservative governments. However, from the 1990s, privatisations were central to reform agendas of governments of both the centre-left and centre-right. As this process evolved, new forms of privatisations were created and spread across Europe. Privatisation occurred initially in the most competitive sectors, such as manufacturing and banking, but by the 1990s also broke out in a number of other services, which, as largely outside of the influence of international competition, were regarded by many governments as ideal for privatisation, as there was less danger of privatisation leading to employment loss through market capture by international providers.

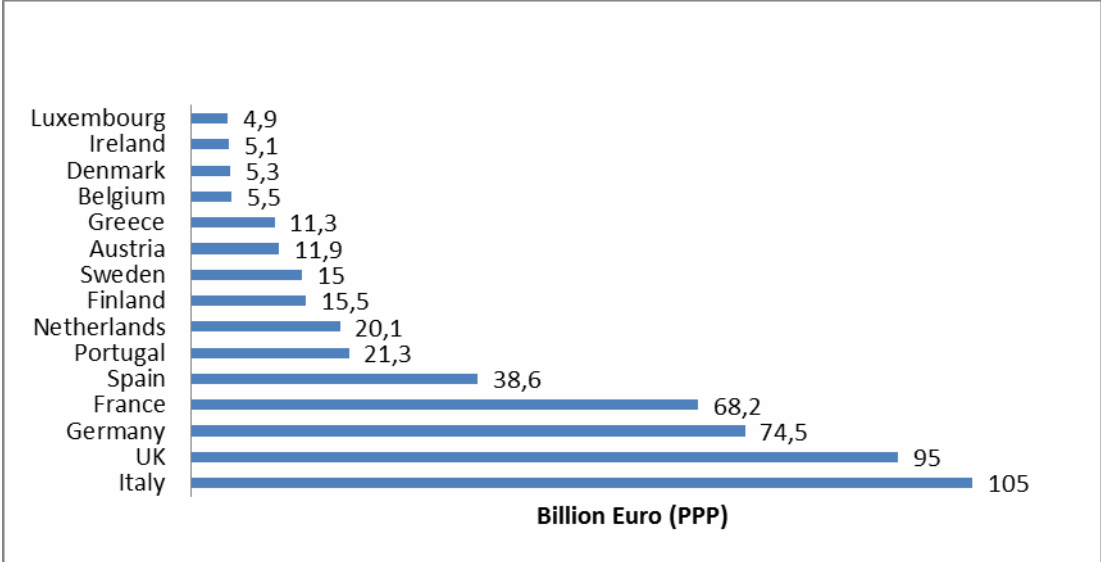
The pattern of privatisation in Central and Eastern European countries (CEE) differed significantly from that in the EU-15. It occurred following the collapse of the eastern bloc regimes and was a part of major economic and political transformation. Simultaneously with the establishment of democratic (multi-party) political systems, these countries generally sought to move from a planned economy to one based on market principles, which was seen to necessitate a process of liberalisation, deregulation and the privatisation of state-owned enterprises.

During the period 1990-2000, the privatisation proceeds of the EU-15 accounted for 45% of global receipts from privatisation, and CEE countries raised this share to 48%<sup>1</sup>. Figures 2 and 3 show that

<sup>1</sup> OECD – 'Recent privatisation trends', 2001, (<http://www.oecd.org/dataoecd/29/11/1939087.pdf>)

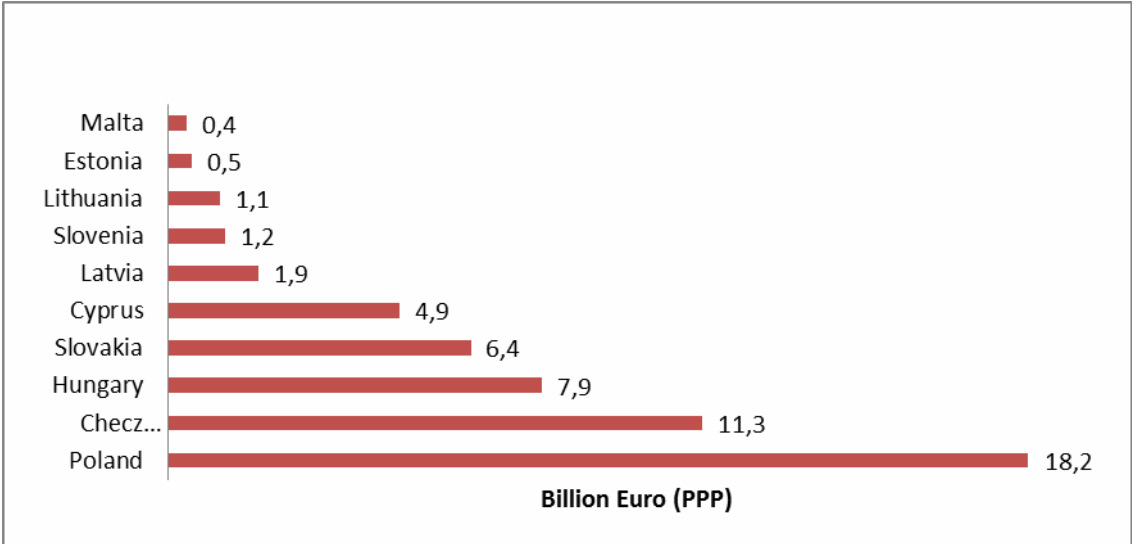
over the period 1977-2004, the privatisation revenues of the EU-15 member states amounted to €497 billion, while those of the new member states amounted to €54 billion. The nations with the highest privatisation revenues were France, Germany, the UK and Italy amongst the EU-15 and Poland and the Czech Republic amongst the CEE countries.

Figure 2 – EU 15 Privatisation proceeds 1977-2004



Source: V.P. Morano, 2005, 'The Future of Privatisation in Europe' in Privatisation and the European Social Model (PRESOM), Background and history of liberalisation and privatisation in the EU

Figure 3 - New Member State Privatisation Proceeds 1977-2004



Source: V.P. Morano, 2005, 'The Future of Privatisation in Europe' in Privatisation and the European Social Model (PRESOM), Background and history of liberalisation and privatisation in the EU

The EU does not formally have powers to become involved in issues of public administration, so it cannot recommend or impose privatisation. Nevertheless, it has played a major role in the privatisation process, especially with regard to the ongoing privatisation of Services of General Interest (SGI). It has engineered this role through the increasingly powerful conception of liberalisation and competition as key elements of the overarching framework for economic and social

activities provided by the EU Single Market. It has been the free market pressures created by the EU Single Market which have spurred privatisation in SGIs.

The EU describes SGIs as "market and non-market services which the public authorities class as being of general interest and subject to specific public service obligations". This broadly covers water, energy supply, communication, transport, health and social services, education and postal services. SGIs, because they fulfil basic needs, have to be provided by a government to its citizens, regardless of profitability on the open market. The criteria to be included within the 'public service obligations' generally relate to accessibility to the public, price affordability and quality.

SGIs constitute a key element of the EU economy, accounting for 26% of GDP and 30% of jobs across the 27 member states. As one of the main aims of the 'Lisbon Strategy', the EU's long-term strategic vision for 2000-2010, was to complete the internal market by breaking down national barriers in the area of services, SGIs were directly in the firing line of public service reform.

## **Chapter 2. Approaches to privatisation and liberalisation**

### **2.1. Rationale for and drivers of privatisation**

Following the economic turbulence of the 1970s oil shocks and the collapse of the Bretton Woods system, state-run enterprises were increasingly regarded as inefficient. Privatisation and liberalisation were seen as solutions that would improve the efficiency of service delivery, allowing lower cost production. These productivity gains were then supposed to translate into higher economic growth and societal wealth. It was also argued that introducing market elements into public services would promote individual (consumer) choice.

Another driver for privatisation was the belief that it would reduce public expenditure. This was important in the context of increased demand on public services, particularly due to demographic changes, such as higher birth rates combined with increasing life expectancy. Moreover, following the flotation of exchange rates governments were under pressure to maintain low public deficits and to decrease debt. Privatisation provided the short term incentive of bringing immediate revenue and the longer term benefits of continuing lower public expenditure on services.

Contributing to capital market integration was another argument presented in favour of privatisation. This was expected to occur as a consequence of the major release of funds from privatisation proceeds, and the privatisation of the European banking system. Its advantage was seen to be the distancing of government influence from resource allocation in the major utilities and other services, with the assumption that markets were more efficient in the allocation of credit. It was also claimed that privatisation would encourage a shareholder society, where individuals could share in the wealth created by privatized enterprises (and feel more ownership of the institutions of the capitalist economy and society). A further driver for the process was that it would reduce the political influence of trade unions, both by taking the state out of the picture (over which unions were assumed to have major influence) and by reducing the level of identification of citizens with the interests of the unions.

In terms of the legal and political context, government stability is generally regarded as a prerequisite for successful privatisation. Government political orientation also naturally plays a role – centre-right governments generally tend to be more positive towards market liberalisation and privatisation of public services than centre-left ones. Investors' confidence in the likely protection of their rights plays an important role in their inclination to buy shares. This confidence also shapes a government's choice of the market in which it decides to sell shares. Countries with more rigorous protection for minority shareholders tend to have lower concentrations of ownership and higher company valuations. Larger public enterprises are more likely to be privatised through a share issue on the stock market.

Expectations of post-privatisation performance are an important factor in deciding what privatisation methods are chosen, as they affect public perception of the likely success of the overall privatisation programme. In strategically important sectors, such as defence and network infrastructure industries, political lobbying can prevent transfers of ownerships being open to foreign investors.

## 2.2. Processes and types of privatisation

Confrontation with the role of the state as sponsor of social welfare can be regarded as a key stimulus to the start of the privatisation and liberalisation processes. While this occurred first in Western Europe, it also occurred in the CEEs, albeit rather later. The advancement of this process reflected not only anti-statist sentiment but also a weakening of industries and the increasing power of financial capital and its interests. Following the liberalisation of financial markets, the reshaping of financial capital was a critical driver of privatisation.

The cross-sectoral review represented by the three research projects reveals a range of different types of privatisation.

**Transfer of ownership from the state to the private sector** – this was the most common type of privatisation, particularly in the banking and industrial sectors. This took a variety of forms: at one end of the spectrum, the partial or total direct sales of state-owned organisations to a strategic investor, i.e. an existing corporation; at the other end of the spectrum, the sale of shares on an open exchange. The choice of form for this transfer of ownership was dependent on a range of factors: the revenues that government could expect from each method, the state of development of the capital market, the characteristics of the organisation to be privatised and the legal and political context. Direct sales were generally preferred where a capital market had not yet developed. However, governments have often been willing to sacrifice some potential revenue in an effort to develop nascent financial markets.

In the CEEs, due to insufficient domestic capital, transfers of ownership tended to assume forms such as: foreign direct investment, employee buy-outs, and/or voucher privatisation. *Voucher privatisation* was a method of privatisation mainly used in the early 1990s by CEE countries transitioning to market economies. This method involved citizens buying (at a nominal price) or being given a book of vouchers representing shares of state companies. This method was used in order to:

- quickly privatise large public enterprises;
- prevent them from being sold exclusively to foreign investors or incumbent management; and
- overcome the lack of functioning capital markets.

This helped to make privatisation more popular with citizens and also to make it politically irreversible. However, the record of voucher privatisation has been poor. It failed to provide privatised companies with levels of capital that they required. It failed to build a long-term shareholder society – small investors (e.g. managers in the companies concerned) often immediately sold shares for a quick capital gain. Also, since governments still generally retained effective control

over the banking sector, even companies which had been 'privatised' in this way faced continued budget constraints which weakened their ability to pursue innovative strategies.

**Progressive market opening and the 'unbundling' of different functions** took place in network industries. This was a process that facilitated future transfers of ownership, involving separating the different functions in a network so they could be undertaken by separate organisational units. In particular, state assets have often been sold in a number of (often complicated) financial deals, such as sale and leaseback schemes (mainly for property but also sometimes for expensive equipment, such as ICT systems) and public utility assets, such as pipelines and transmission systems, have been sold separately from the rights to provide services through these systems. These approaches have allowed the ownership of different value-adding components of the delivery chain to be separated out and operated differently, by different owners.

**The introduction of quasi-market based principles and administrative methods in public services.** This has made it easier for business to enter public services. The 'market' has been introduced in a number of ways as a part of those public service reforms often referred to generically as the 'New Public Management' of public services. This has included public-private partnerships, competitive tendering, user choice, the introduction of internal markets, and contracting out. This process has taken place most markedly in healthcare but it has been evident across the EU, at least occasionally, in most other services, too.

**Revision of economic framework rules**, e.g. in the case of pensions. In a number of countries, the overall framework of pension provision has been revised to reduce the central role of the state and increase individual responsibility. Often, pension reform has partially or wholly substituted a pay-as-you-go system, where the state guaranteed future pensions from its tax take, with 'funded' schemes, e.g. a private insurance system run on capitalisation of individual savings on an actuarial basis. Across Europe this process has been accompanied by moves to increase the age of retirement and reduce the benefits provided by public pensions. All of these revisions to pensions have made it easier to transfer pension obligations to new operating companies and/or to place a definite limit upon and reduce future pension obligations.

## Chapter 3. The economic impacts of privatisation and liberalisation

### 3.1. Has liberalisation created more competitive markets?

Liberalisation aims to create competitive markets, where many providers compete in integrated and easily accessible marketplaces. Competitive markets involve low levels of market concentration, preventing those providers with larger shares from exercising 'monopoly power', e.g. through building entry barriers or through the joint manipulation of prices and service quality, at the expense of the interests of the consumers of the industry.

In several sectors where liberalisation has been initiated or completed, the development of highly competitive markets has been only partially achieved – or not at all – in most of the countries studied. Liberalisation of public service sectors is generally expected to result in an increased number of providers. This has indeed generally been the case in those countries with sectors that had one nationalised monopoly provider prior to liberalisation, such as in Poland and the UK. In other sectors where this was not the case, there have been mixed results. Generally, in sectors and countries that had regional or local monopolies, the number of companies has decreased. This was the case, for example, in electricity generation in Germany, Belgium, and Sweden – the conversion of regional to national markets has reduced the number of suppliers in some countries, as larger companies have bought smaller competitors. In Germany there are now four instead of eight major generating companies. In Sweden and the UK the number of bus companies providing local public transport decreased due to liberalisation while in Austria and Germany the large number of bus companies is the result of government reluctance to increase competition.

Even in sectors where the number of providers has increased, this has not automatically led to strongly competitive markets. In several cases, although the number of companies has increased, the largest firms expanded their market share in the newly liberalised markets, so that competition was not promoted. This occurred, for example, in the German and Swedish electricity sectors. Even in the UK electricity sector there is high market concentration – although there are 70 British companies in the supply sector, six have more than a five per cent market share, and the three largest firms supply almost 65 percent of electricity consumed in the UK.

Similarly, there has been a limited change in concentration in the postal service sector across European countries. New competitors account for between seven per cent of the market in Sweden and Germany, four percent in the UK, two percent in Austria and Belgium, and one percent in Poland.

The Swedish and UK local public transport sectors have seen strong concentration processes taking hold following liberalisation. For example, of the six remaining major bus companies in the UK, three control more than 50 percent of the market. On a smaller scale, concentration has also occurred in Germany and Poland in the local public transport sector. It appears that even where liberalisation has removed national or regional monopolies, the resulting market structure typically has high or quite high degrees of market concentration.



Of course, market concentration is only one indicator of the intensity of competition. Further indicators include the number of markets, the kind of competition taking place (whether this is competition for market position, or competition for exclusive though temporary access to the market, e.g. through competitive tendering), and the degree of increase in customer choice (since greater levels of consumer choice should indicate higher levels of competition between suppliers). Table 1 presents an analysis that takes into account all of these indicators. The table shows that only a few sectors have shown a clear shift toward highly competitive market structures.

**Table 1 - Evolution towards more competitive market structures (2006)**

|                               | <b>Austria</b> | <b>Belgium</b> | <b>Germany</b>   | <b>Poland</b> | <b>Sweden</b>  | <b>UK</b>  |
|-------------------------------|----------------|----------------|--|---------------|--|--|
| <b>Postal Services</b>        | Limited        | Limited        | Rather limited (fully open from 2008 onwards)                                  | Very limited  | Moderate   | Rather limited   |
| <b>Electricity</b>            | Limited        | Very limited   | Limited (abolition of regional monopolies but concentration of main producers) | Moderate      | Moderate (high share of spot-market trading)               | Strong in generation; moderate in supply                   |
| <b>Local public transport</b> | Limited        | Very limited   | Rather limited   | Limited       | Strong but decreasing because of more market concentration | Strong but decreasing because of more market concentration |
| <b>Hospitals</b>              | Limited        | Limited        | Moderate   | Limited       | Very limited   | Very limited   |

Source: Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report..(Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more detail, see the country reports for each sector. Available to download from [www.pique.at](http://www.pique.at).)

**Has the process resulted in a change towards a more private ownership structure?**

Given the diverse nature of ownership structures before liberalisation, privatisation rarely entailed a shift from an entirely publicly owned to entirely privately owned sector. The UK was the only country of the six analysed that followed this strategy in some sectors – here, public sector electricity and local public transport sectors were fully privatised, having previously been fully publicly owned. However, this only applied to some of the sectors studied – the UK postal service remains in public ownership (though legislation is in progress to privatise the Royal Mail), and the hospital sector remains largely in public hands (although some hospital buildings are legally owned by private investors).

Privatisation doesn't always include a full transfer of ownership rights. In a number of cases, publicly owned companies have only partly been privatised, with the state retaining a majority or minority share. Whilst the British government typically sold public companies through initial public offerings, transferring all company shares to private investors, other countries were more cautious. In Austria and Poland, federal or regional governments retained large stakes in partly privatised electricity companies. In the postal sector, only Germany sold a majority stake of the former incumbent provider. Additionally, ownership can be shared between the public and private sectors through joint ventures and public-private partnerships.

Independent of ownership structure, liberalisation has resulted in a systematic shift in the legal form of public service companies. This has involved a switch from being part of public administration, often as autonomous 'public-law' companies to most being converted into private-law companies.

Table 2 provides a summary of changes in ownership structure in terms of market shares. It indicates that a clear shift from mostly public to predominantly private ownership took place in the UK and Swedish electricity and local public transport sectors, and the German postal and hospital sectors. There were also substantial increases in private ownership in the Austrian, and Belgian postal services and in Austrian, German, Polish, and Swedish electricity sectors. In most remaining sectors there was an increase in private ownership but public ownership remained dominant.

**Table 2 - Evolution towards a dominant private-ownership structure in four sectors (2006)**

|                               | <b>Austria</b>          | <b>Belgium</b>          | <b>Germany</b>                                       | <b>Poland</b>        | <b>Sweden</b>         | <b>UK</b>             |
|-------------------------------|-------------------------|-------------------------|--|----------------------|-----------------------|-----------------------|
| <b>Postal Services</b>        | Predominantly public ** | Predominantly public ** | Predominantly private (incumbent sold)               | Predominantly public | Predominantly public  | Predominantly public  |
|                               | Substantial increase    | Substantial increase    | Strong increase                                      | Marginal increase    | Limited increase      | Limited increase      |
| <b>Electricity</b>            | Predominantly public    | Predominantly private   | Predominantly private                                | Predominantly public | Predominantly private | Predominantly private |
|                               | Substantial increase    | Moderate increase       | Substantial increase (conversion of Eastern Germany) | Substantial increase | Substantial increase  | Very Strong increase  |
| <b>Local public transport</b> | Predominantly public    | Predominantly public    | Predominantly public                                 | Predominantly public | Predominantly private | Fully private         |
|                               | Limited increase        | Very limited increase   | Moderate increase                                    | Limited Increase     | Strong increase       | Very Strong increase  |
| <b>Hospitals</b>              | Predominantly public*   | Predominantly private*  | Public equals private*                               | Predominantly public | Predominantly public  | Predominantly public  |
|                               | Limited increase        | Moderate increase       | Strong increase                                      | Limited increase     | Very limited increase | Limited increase      |

\* Large or dominant share of non profit private hospitals

\*\* 49% of incumbent in private hands

Source: Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report. (Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more details, see the country reports for each sector. Available to download from [www.pique.at](http://www.pique.at))

Comparing Tables 1 and 2 it is clear that there is no causal relationship between private ownership and market concentration. One important finding is that the liberalisation processes in European

public services were more successful in changing ownership structures than in creating competitive market structures.

### **Changes in regulation**

Liberalisation and privatisation were often promoted and always accompanied by major regulatory changes. Prior to liberalisation, public ownership was the dominant form of regulation in most countries and sectors. Generally, the focus of regulation has shifted from governing the whole corporate decision-making process to managing the market, particularly through enabling competition. In some cases, to compensate for the loss of regulatory oversight there have been increasing efforts to control outcomes and to regulate particular aspects of the service supply chain.

More frequently outcomes have been left to market forces. In the electricity sector, prices in most countries have been left for the market to determine. A problem with this approach has been that liberalisation and privatisation have had modest success in creating highly competitive markets as analysis by the research projects has shown. Without adequate regulation and competitive forces, companies are free to set prices and service quality levels as they desire.

Unlike the electricity, local public transport, and hospital sectors the postal service sector has a universal service obligation made mandatory in EU countries by [Directive 97/67/EC](#). The most important task of national regulators in this sector is to specify and enforce this universal service obligation. Its objective has been to ensure that all citizens have 'easy access' to postal services. However, the detailed provisions have not prevented monopoly providers who are responsible for fulfilling the universal service obligation from closing down large parts of the post-office networks. Another inadequacy of the regulatory framework is that new competitors in the postal market are outside of the universal service obligation and are free to offer postal services on their own terms and prices. New competitors in the letter markets are usually regulated through licenses.

As the PIQUE report points out, the lack of universal service obligations in the electricity, local public transport, and hospital sectors in most of the EU member countries studied may reflect the absence of a countrywide service provider that can ensure all citizens are able to access the same level of service. If this were to change, providers in these sectors could be legally bound to maintain a minimum amount and quality of service that is easily accessible to citizen in all regions. As the authors of the PIQUE report hint, this is one policy recommendation which the European Union might consider with respect to public service obligations, as a complement to liberalisation policy.

Due to the only moderate success of liberalisation in enhancing competition, there are risks in leaving service provision to market forces. Rather than focusing on particular aspects of a supply chain, such as the ownership of specific companies within that chain, regulation could alternatively cover various aspects of service provision to ensure services are accessible, affordable, high quality, and sustainable. Therefore, as the liberalisation process evolves, governments need to consider how they will balance the design of their regulatory intervention, with regulatory bodies being provided with sufficient power to ensure compliance with the norms and standards which are desired.

## 3.2. How companies react to the liberalisation and privatisation of public services

Public service companies have frequently changed ownership through privatisation and through the subsequent mergers and acquisitions. In the electricity sector, of six companies studied in Belgium, Austria, Poland, and the UK, all but one changed ownership and now have predominantly foreign ownership. In the four postal service providers only one is still fully publicly owned.

Another response from former monopoly providers has been their investment outside of home markets and their diversification through investment into related business activities. This has been particularly common in the electricity and postal sectors. Postal companies have attempted to run logistical and postal services internationally (even globally), whilst also diversifying horizontally by combining mail delivery with delivery of other items like newspapers. Electricity companies have also diversified horizontally, often combining the provision of electricity and natural gas.

Companies in liberalized public service markets have allocated increasing resources to advertising and customer relations. This has extended the role and scope of call centre services but at the expense of walk-in customer service centres. Some of the companies studied in the electricity sector have resorted to new and somewhat aggressive sales techniques – indeed, one company has been fined for its attempts to persuade customers to change suppliers. Companies have also developed much more sophisticated customer differentiation. However, this has often favoured large customers who can negotiate specific terms at the expense of small customers, who are generally treated according to general standards and tariffs. In local public transport and hospital sectors, price competition has a limited role. Prices are often set by sector authorities. However, there is competition in these sectors, with providers attempting to undercut their competitor's tender bids (e.g. in terms of individual treatment costs in hospitals). Regardless of market situation and competition levels, all sectors report increasing cost pressures, with companies mostly responding through cost-cutting measures.

Most privatized companies have introduced extensive organizational changes, driven by regulatory requirements, the need to implement new technology and cost-cutting objectives. There have been two major tendencies documented in most of the studied companies. They are:

- the concentration of structures and activities; and
- the outsourcing of functions through contracting out or the creation of independent subsidiaries.

The creation of independent companies has been widespread in electricity companies, with regulators requiring providers to set up separate business units for generation, distribution and supply. As a result, several electricity companies have set up independent sales departments and call centres – one company was virtually split into two equal parts. Legal concerns about municipal transport systems' funding have meant that parts of the service have been converted into independent companies. This has sometimes created complicated business structures with cross-shareholding amongst various actors. In postal services, new competitors often rely on networks of subsidiaries and partners in areas where they have no delivery network. For example, in Germany a major competitor of the incumbent postal company was made up of 91 independent firms.

Companies have also deliberately exploited new regulations to escape public sector collective bargaining agreements with their workers. This was often under the pretext of growing competition but was generally driven by a search for lower labour costs. Companies have also outsourced work to contractors who can provide services more cheaply than the company could with its own staff. In postal services, monopoly providers have outsourced transportation between sorting and distribution centres to private haulage companies and, in several countries, have outsourced at least parts of their post office network. In hospitals an array of activities and functions has been outsourced – from cleaning and catering services to building maintenance and ICT. Local public transport outsourcing has mainly been focused on cleaning, security, catering, ticket inspection and vending machine operation. Outsourcing and creation of independent subsidiaries could be regarded as a form of decentralization. However, decentralization pure and simple, as a strategy to reduce costs, has rarely been pursued. More often public service companies have responded with centralization and concentration in order to make savings. This has involved closing walk-in customer relations centres and replacing them with centrally operated call centres. Postal companies have drastically cut the number of sorting and distribution centres. In Germany only 59 of the 700 pre-liberalisation sorting centres now remain, and the number of post outlets was reduced by 40 per cent since the liberalisation process began. In the hospital sector, concentration took the form of hospitals being merged or integrated into large hospital groups or departments which were previously spread out over several buildings and were subsequently centralized into one large facility.

The introduction of new ICT-based technology has played a major role in restructuring public service providers. In electricity, technology changed billing and administration, and companies' interaction with customers. In postal services ICT, has been used to reorganize delivery routes and track parcels and registered mail. In hospitals, the introduction of digital patient files has changed administrative work and led to a reorganization of the administrative system.

To reduce costs, public service providers in liberalised markets have generally decided to cut back on staff numbers. Changes in employment levels vary across sectors and countries. In electricity and postal services, considerable job losses, often combined with changes in employment status and forms of contract, occurred in incumbent monopolists. Case studies indicate that in electricity and postal services, outsourcing and creation of jobs by new competitors did not make up for job losses recorded by former monopoly suppliers. In the electricity sector, case studies reported employment reductions of between 25 and 50 percent following privatisation. Despite the scale of reduction of employment, compulsory layoffs were generally avoided – this was achieved through non-replacement of retirees, voluntary redundancy packages, and early retirement. Employment was generally reduced in maintenance and administration activities, whereas employment often expanded in trading, retailing, monitoring and auditing, and in ICT. The employment profile of these sectors therefore tended to shift from blue-collar to white-collar. Where job cuts were especially large, e.g. in the Belgian and UK electricity workforces, this led to frequent overtime for the remaining workforce.

The postal service sector saw substantial reduction in employment levels at incumbent monopolist companies after liberalisation and privatisation. In Austria, Belgium, Germany and Sweden, between 15 and 37 per cent of jobs were lost. It was also the case that reduced full-time employment levels

gave rise to marked increases of part-time and fixed-term jobs and other types of non-traditional employment, with the entry of new competitors accelerating this development.

Company restructuring and changed business strategies were accompanied with a reform of human-resource management (HRM). HRM policies refer to personnel development and training, management control and staff motivation. Before liberalisation and privatisation, HRM in some cases involved little more than administrating civil service employment regulations. Therefore some companies only introduced HRM departments or policies during privatisation and liberalisation. Since privatisation and liberalisation, payment systems have become more performance related. Promotion has been increasingly dependent on performance assessment rather than simply seniority. There have been cases where management has sought to increase its control through introducing systems where individual staff members have specific objectives. Changes to HRM systems have reinforced growing differences in employment conditions.

The hospitals studied put additional emphasis on HRM. The Belgian and Austrian cases reported the implementation of human resource development guidelines and greater training and job mobility opportunities. However, this typically involved unequal access. In the Austrian case, these activities were limited only to high-qualified core staff. In the UK case, where training had been made available to outsourced staff this occurred less frequently and the quality was lower. The German privatised hospital sector concentrated training activities into an area (diagnosis-related documentary work) that was seen as likely to lead to increased profits. Unequal access to training was also documented in the electricity industry. The Polish case reported the favouring of managers and younger employees, to the exclusion of older workers. In the UK example, due to cost cutting, privatisation had a negative effect on training provision resulting in a severe skills shortage.

In both the electricity and postal sectors a large part of HRM activities has been aimed at cutting employment through non-replacement of retired workers, voluntary retirement and redundancy payments. In the postal sector, pre-sorting and the use of sophisticated tracking devices has gone hand-in-hand with deskilling and downgrading of delivery jobs, turning previously skilled jobs into easily replaceable ones. The internal labour market of on-the-job training and structured promotions has lost its importance. This and the disappearing public sector ethos have had an effect on the forms of management control – payment through piecework rates and close surveillance have been increasing.

### **3.3. The impact of liberalisation and privatisation on labour relations**

Liberalisation and privatisation have had far-reaching consequences for the established labour relations regime (LRR). The creation of new markets and the transformation of public enterprises, in many cases, into profit maximisers placed these former public entities under strong competitive pressures. The electricity, postal services, and local public transport and health services/hospitals sectors are labour intensive with labour costs accounting for two-thirds of production costs. Consequently, reduction of labour costs was a core element in achieving increased competitiveness. To save on labour costs, liberalised and privatised companies have tried to withdraw from the traditional (more expensive) LRR of the public sector and establish new forms of regulation. The new LRRs often have no or only weak links to traditional LRR. This has included broad changes in collective bargaining, wage levels, and employment conditions.

The traditional labour relations regime of the public sector had five main characteristics.

1. **A relatively strong position of trade unions**, with trade union membership considerably higher than the average for private organisations in that country. Union strength ensured public sector workers reaped various additional benefits, in addition to their wages.
2. **A comparatively centralised collective bargaining structure**. This enabled trade unions to have a strong impact on norms and standards governing employment in the public sector.
3. **Relatively low degree of wage dispersion**. The public sector represented a source of good jobs for low- and medium-qualified workers. The absence of performance criteria had a significant effect on working conditions, which were seen as an integral component of a complex set of formal and informal rules that governed the provision of public services. These rules, among others things, were meant to ensure that economic pressure would not compromise the quality and security of services and that each client would get the same treatment.
4. **Long term nature of employment relationships and strong degree of employment stability**.
5. **The public sector was seen as an important instrument of employment policy**. Until the 1980s many European governments used the extension of public services to compensate for job losses in the private sector arising from the business cycle.

As a result, the traditional public sector LRR resulted in shorter, relatively stable and predictable working hours; high wage equality; high employment security; and lower retirement ages.

Liberalisation and privatisation of public services fundamentally challenged the traditional LRR in the public sector. Table 3 illustrates that competitive pressures, creating the need to reduce labour costs and working conditions, have been transferred to the workforce. Liberalisation has usually resulted in a two-tier system of stable bargaining structures within the incumbent firms. In comparison, new competitors have decentralised and fragmented bargaining structures with low coverage of their workforces. As a result they offer – and are able to profit from – lower employment standards. There is also a two tier system regarding union density (relatively high in former public firms but rather low in new competitor firms). Unions have insufficient organising power to push for collective agreements. Furthermore, newly liberalised markets often lack sector-wide regulation or coordination of labour issues that could mitigate or prevent competition on wage costs. Liberalisation has resulted in a growing fragmentation of the labour force within companies. The workforce has changed from being relatively homogenous to the development of a strong division between ‘old’ and ‘new’, and core and peripheral workers. In incumbent firms, long-standing employees remain covered by civil service statutes. More recently hired staff tend to be given private sector contracts. They have lower employment security, and lower salaries for the same job as they would under civil service regulation.

**Table 3 - Labour relations before and after liberalisation**

|                              | Public Sector LRR (before liberalisation) | LRR after liberalisation       |                 |
|------------------------------|---|--------------------------------|-----------------|
|                              |   | Incumbent (former monopolists) | New competitors |
| <b>Collective bargaining</b> | Centralised wage setting                  | Bargaining at company          | Decentralised,  |

|  |                                     |   |   |
|--|-------------------------------------|---|---|
|  |                                     | level   | fragmented or no agreements             |
| <b>Bargaining coverage</b>                         | High                                | High  | Low                                     |
| <b>Union density</b>                               | High                                | High  | Low                                     |
| <b>Work status</b>                                 | Civil servants and public employees | Decrease in civil servants and increase in private sector employees                                       | Private-sector employees, self-employed |
| <b>Workforce</b>                                   | Relatively homogeneous workforce    | Two-tier workforce (strong division between core and peripheral workers)                                  |   |
| <b>Job security</b>                                | High                                | Relatively high for the shrinking core workforce, increasing number of employees with temporary contracts | Low                                     |
| <b>Competition on wages and working conditions</b> | Low                                 | High  |   |

Source: Brandt, T., and Schulten, T. 2007, Liberalisation and privatisation of public services and the impact on labour relations. PIQUE Research Report.

The extent to which liberalisation and privatisation lead to competition on wages and labour costs with potentially negative effects on working and employment conditions depends on the degree of real market competition within a sector and the nature of national LRRs and their abilities to create sector-wide regulation on working conditions (see Table 4).

**Table 4 - Competition on labour costs in liberalised and privatised sectors**

| Country               | Sector          |             |                        |          |
|-----------------------|-----------------|-------------|------------------------|----------|
|                       | Postal Services | Electricity | Local Public Transport | Hospital |
| <b>Austria</b>        | Strong          | Low         | Moderate               | Moderate |
| <b>Belgium</b>        | Low             | Low         | Low                    | Low      |
| <b>Germany</b>        | Strong          | Moderate    | Strong                 | Moderate |
| <b>Poland</b>         | Moderate        | Low         | Strong                 | Low      |
| <b>Sweden</b>         | Low             | Low         | Moderate               | Low      |
| <b>United Kingdom</b> | Low             | Moderate    | Moderate               | Moderate |

Source: Brandt, T., and Schulten, T., Liberalisation and privatisation of public services and the impact on labour relations, 2007. PIQUE Research Report.

**Table 5 - Collective bargaining on labour costs in Postal, Electricity, Local Public Transport, and Hospital sectors**

| Postal sector      |   |                    |                               |                   |                    |                         |
|--------------------|---|--------------------|-------------------------------|-------------------|--------------------|-------------------------|
|                    | Austria   | Belgium            | Germany                       | Poland            | Sweden             | United Kingdom          |
| <b>Incumbent</b>   | Company agreement   | Company agreement  | Company agreement             | Company agreement | Company agreement  | Company agreement       |
| <b>Competitors</b> | Various sectoral and company agreements. No bargaining for self-employed deliverers | Sectoral agreement | No agreements; sectoral-level | No agreements     | Company agreements | Some company agreements |



|                                      |  |                                  |                                  |                                |                                  |                       |
|--------------------------------------|--|----------------------------------|----------------------------------|--------------------------------|----------------------------------|-----------------------|
|                                      |  |                                  | minimum wage regulation          |                                |                                  |                       |
| <b>Local public-transport sector</b> |  |                                  |                                  |                                |                                  |                       |
|                                      | <b>Austria</b>                                 | <b>Belgium</b>                   | <b>Germany</b>                   | <b>Poland</b>                  | <b>Sweden</b>                    | <b>United Kingdom</b> |
| <b>Incumbent</b>                     | Sectoral and company agreement                 | Company and sectoral agreements  | Sectoral and company agreement   | Company agreement              | Company and sectoral agreements  | Company agreements    |
| <b>Competitors</b>                   | Sectoral agreement                             |                                  | Company or no agreements         | Company or no agreements       | Company agreements               |                       |
| <b>Electricity sector</b>            |  |                                  |                                  |                                |                                  |                       |
|                                      | <b>Austria</b>                                 | <b>Belgium</b>                   | <b>Germany</b>                   | <b>Poland</b>                  | <b>Sweden</b>                    | <b>United Kingdom</b> |
| <b>Incumbent</b>                     | Unilateral state regulation                    | National agreements              | Sectoral and company agreement   | Sectoral and company agreement | Sectoral and company agreement   | Company agreements    |
| <b>Competitors</b>                   | Company and sector agreements                  | Company agreements               | Company agreements               | Sectoral and company agreement | Sectoral and company agreement   |                       |
| <b>Hospital sector</b>               |  |                                  |                                  |                                |                                  |                       |
|                                      | <b>Austria</b>                                 | <b>Belgium</b>                   | <b>Germany</b>                   | <b>Poland</b>                  | <b>Sweden</b>                    | <b>United Kingdom</b> |
| <b>Public hospitals</b>              | Unilateral state regulation/company agreements | National public sector agreement | National public sector agreement | Unilateral state regulation    | National public sector agreement | Company agreements    |
| <b>Private for profit hospitals</b>  | Company and sector agreements                  | -                                | Company or no agreements         | Company or no agreements       | Sectoral and company agreement   |                       |

Source: Brandt, T., and Schulten, T., 2007, Liberalisation and privatisation of public services and the impact on labour relations. PIQUE Research Report.

Table 5 gives an overview of competition around labour costs in liberalised and privatised sectors and existing differences between incumbents/public companies and new competitors. In countries with more centralised and comprehensive collective bargaining systems, such as Belgium and Sweden, the

degree of competition on labour costs is still rather low because strong sector-wide regulation and/or coordination ensures relatively homogenous wages and working standards. In countries such as Poland and the UK that have more decentralised bargaining systems, moderate or even strong competition on labour costs emerges in many sectors. In Germany, and to a lesser degree in Austria, liberalisation and privatisation contributed to significant decentralisation and fragmentation of collective bargaining. This resulted in moderate or event strong competition on labour costs.

The research projects appear to have found evidence to back up the strong beliefs of many employees that liberalisation and privatisation primarily threaten established standards and lead to a significant deterioration of pay levels and working conditions. This is particularly the case with the new competitors that have emerged following liberalisation. The trend towards decentralisation and fragmentation means that means that the power of collective bargaining to create a level playing field and to take wages and working conditions out of competition has been reduced. The PIQUE report suggests that, where a low wage economy is threatening the level of innovation and productivity in a sector, there may be a need for social re-regulation in liberalised and privatised sectors to avoid further downward competition on wages and to develop more innovation and quality focused model of competition.

### **Working conditions and work organisation**

Liberalisation and privatisation have, with few exceptions, led to an intensification of work. Workforces are expected to complete more tasks in less time than they were before the liberalisation and privatisation process. Management often dismiss this by arguing that workers in former public monopolies underperformed.

In electricity and postal services increasing workloads are linked to cuts in employment numbers. These cuts were so great that even the introduction of new technology and changes to work organisation cannot on their own account for the fact that a much smaller number of workers produce the same or even a greater amount of output. In postal services, workloads increased through extended delivery routes or increased number of delivery points served per hour. There is evidence that workers now struggle to complete these routes within current shifts. (Post deliverers also have no time nowadays to have conversations with residents, which was regarded as a social function and one which is increasingly being valued, with the growth across Europe of older people living alone, who suffer from loneliness and lack of social contact). In the electricity industry, employers frequently resort to overtime to compensate for increasingly tight staffing levels. Workers in some companies also complain about the growing level of bureaucratic tasks caused by compulsory demergers of electricity companies. Hospital workers suffer from a worsening patient-to-nurse ratio, and mounting administrative work caused by shorter average length of stay of patients and because of an increased transfer of administrative tasks to nurses. In local public transport, drivers complain about the elimination of slack time and shortening of breaks.

Increased workloads have often been combined with or been caused by changes to working hours. While management has often argued that flexible working hours increase dynamism and efficiency – through extending operating hours and coping with unforeseen demand – it is also clear that flexible working hours are part of efforts to reduce labour costs. In the postal, hospital and local transport sectors, flexible working hours are used to avoid the payment of costly overtime supplements.

Electricity companies frequently use overtime because labour costs make up a significantly smaller part of overall production costs compared to the other three sectors.

Technology played a significant role in changing working conditions. Use of new technology has the potential to increase productivity without worsening working conditions. In the electricity industry, the number of blue-collar workers has fallen for some years. The application of new technology combined with the growth in retailing, trade and ICT has meant jobs have become more mentally than physically demanding. However, the introduction of technology can have the opposite effect – in postal services fully automated sorting centres and use of GPS technology can remove the more interesting aspects of a post deliverer’s work. Given the increased amount of post they are expected to deliver, the role has become more monotonous and physically demanding. Another aspect of new technology is its potential to improve control over work processes and workers.

### 3.4. The impact on employment, productivity and service quality

The advocates of opening up SGI markets and shifting from public monopoly promised cheaper and better services, and that reduced prices would boost demand and create more jobs. However, the research undertaken indicates otherwise. An analysis of sector-level employment data shows a large number of jobs in network industries have been lost since liberalisation or privatisation. The electricity sector has experienced a substantial loss of employment since the mid-1990s – within the EU-15 total job losses amounted to 246,000 jobs between 1995 and 2004<sup>2</sup>. In relative terms the reduction between 1995 and 2004 amount to between a quarter and a third of previous employment levels. Table 6 shows that losses of 30 per cent and more were recorded in Germany and Sweden, between 20 and 30 per cent in Austria, Belgium and the UK. Poland had the smallest decrease of 9 percent.

Table 6 - Employment change in the electricity sector

|         | Eurostat-SBS*     | National data sources** | ECOTEC (1995-2004) |                |
|---------|-------------------|-------------------------|--------------------|----------------|
|         | Yearly averages % | Yearly averages %       | Yearly averages %  | Total Change % |
| Austria | -2.4              | -2.3                    | -2.6               | -24            |
| Belgium | -2.4              | -                       | -2.4               | -22            |
| Germany | -2.8              | -0.6                    | -3.7               | -34            |
| Poland  | -1.1              | -2.3***                 | -1                 | -9             |
| Sweden  | -0.8              | -1.4                    | -3.6               | -33            |
| UK      | -1.6              | -3                      | -3.1               | -28            |
| EU – 15 |                   |                         | -3.4               | -31            |

\*Eurostat-SBS : AU & BE: 1995-2005; PO & UK: 1996-2004; SE: 1997-2004; GE: 1998-2004.

\*\*National Data Sources: AU Labour Force Survey - 1995-2006; BE Data Warehouse Social Security – 1997-2004; GE: Labour Force Survey – 1995-2005; SE: Register based labour market statistics – 1995-2006; Poland: Central Statistical Office – 1996-2006; UK: Annual Business Inquiry – 1998-2005.

\*\*\*Electricity, gas, steam and hot water supply.

<sup>2</sup> ECOTEC (2007): The Impact of the Opening of Electricity and Gas Markets on Employment in the EU-27 and of key EU directives in the field of energy. Birmingham: ECOTEC Research & Consulting.

All countries with the exception of Poland have experienced an increase in part-time employment. However, in all countries the proportion of part-time workers in the electricity sector is still well below the percentage for each economy as a whole. Research has also revealed a shift in job patterns – a decline in technical and maintenance staff and an increase in legal, marketing and sales staff, as companies compete more aggressively for customers.

Table 7 shows that the postal sector has a strong tendency toward employment reductions since the mid 1990s but with differences amongst the countries studied. This involved falls in employment of between 20 and 8 percent in most countries, but with the UK bucking the trend through a 12 percent increase

**Table 7 - Employment change in postal services**

|         | <b>Eurostat-SBS*</b> | <b>National data sources**</b> | <b>National Sources**</b> |
|---------|----------------------|--------------------------------|---------------------------|
|         | Yearly averages %    | Yearly averages %              | Total change              |
| Austria | -3                   | -2                             | -15                       |
| Belgium | -1                   | -1                             | -8                        |
| Germany | +3.9                 | -1.3                           | -12                       |
| Poland  | -1.7                 | -1.2                           | -11                       |
| Sweden  | -2.3                 | -2.0                           | -20                       |
| UK      | +2.4                 | +1.7                           | +12                       |

\*Eurostat-SBS: AU 1998-2005; BE 1996-2005; GE 2001-2004; PO 1995-2005; SE 1993-2004; UK 1997-2004.

\*\*National sources: AU Labour Force Survey – 1995-2005; BE: Data Warehouse Social Security - 1997-

2004; GE Labour Force Survey – 1995-2005; PO: Central Statistical Office – 1996-2005; SE:

Register based labour market statistics – 1995-2006; UK: Annual Business Inquiry -1998-2005.

Source: Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report

Alongside cuts in employment, where data is available, there have been substantial increases in atypical forms of employment – part-time and marginal part-time (representing only a few hours work per week) employment. Table 8 shows that part-time employment has more than doubled in Germany since 1995. There have also been substantial increases in Belgium, the UK and Austria. Poland's increase came in the broader post and telecommunication sectors. In Germany in the former public service enterprise *Deutsche Post AG* the majority of the workforce is full time (33.3% are part-time and 4.1% marginal part-time). However, the majority of its new competitors' workforce is part-time (80%).

**Table 8 - Change in part-time employment (%) in postal services**

|  | <b>Part-time employment</b> |                 |
|--|-----------------------------|-----------------|
|  | Increase 1995/6 – 2004/5    | Change per year |
|  |                             |                 |

|         |     |      |
|---------|-----|------|
| Austria | 28  | 2.5  |
| Belgium | 50  | 7.1  |
| Germany | 109 | 10.9 |
| Poland* | 73  | 8.1  |
| UK      | 45  | 6.4  |

Source: Austria & Germany: Labour Force Survey; Belgium: Data Warehouse Social Security; Poland: Central Statistical Office (Employment in National Economy) UK: Annual Business Inquiry. \*Data for Poland refers to the Post and telecommunications sector.

Source: Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report.

Employment in local public transport has tended to show increases over the past ten years. Eurostat data indicates yearly employment growth of between 2 and 4.5 percent since the mid 1990s<sup>3</sup>. National data sources show a smaller increase that ranges between 0 and 3.5 percent<sup>4</sup>.

Employment growth in health care and social work has generally been positive, ranging from 17 percent to 36 percent since the mid-1990s. The exceptions are Sweden, where there was only a gradual employment increase over the ten years, and Poland, where it fell by 35 percent over the period. National data on hospital employment suggest the numbers were more or less stable in Austria, whilst they declined by 15 percent in Sweden between 1995 and 2005, declined 7 percent in Germany between 1995 and 2005, and declined in Poland by 6 percent between 2001 and 2005.

There are multiple drivers of employment growth, and though outsourcing has clearly had an impact on employment structure in public services, the positive employment effects of the resulting lower input prices on the wider economy are difficult to prove. Therefore all employment losses in the sectors under investigation cannot be wholly attributed to liberalisation and privatisation. However, it is possible to conclude that liberalisation and privatisation in these sectors have not led to employment growth as argued by liberalisation and privatisation supporters.

Labour productivity levels vary according to the movement of the level of value added and the number of hours or size of the workforce. Rising labour productivity can result from higher outputs from the same number of workers working the same number of hours, or the same level of outputs generated by workers in a smaller number of hours. Macro-data does not show clear long-term effects of liberalisation of public services on productivity. Factors such as growth of GDP and shift in technology appear more important in explaining long-term productivity development. However, comparisons of the different factors driving productivity growth reveal that, for some time after liberalisation and privatisation, productivity growth is driven by reduced labour input (lower numbers of workers) rather than expansion of output (greater service volume). The case studies in the reports reveal that productivity growth has rarely been an end in itself. It has rather been a by-product of a general attempt to cut production costs. Consequently productivity increases were frequently combined with other cost cutting strategies that led to a deterioration of employment and working conditions. These may also have had negative effects on service quality, especially where quality is dependent on key labour inputs (e.g. face-to-face customer communication) or where service quality is closely linked to the quality of work done by staff, as in the case of patient care.

Liberalisation and privatisation have had some positive, as well as negative, effects on service quality. Research in the reports has indicated improvements in quality through the introduction of new

<sup>3</sup> Austria 1995-2006; Belgium 1995-2005; Germany 2001-2005; Sweden 1996-2004; UK 1998-2005.

<sup>4</sup> Austria 1995-2006; Belgium 1997-2004; Germany 1995-2005; Sweden 1995-2006; UK 1998-2005.

technologies that have speeded up service processes, increased the accuracy of service delivery, provided better service responsiveness and extended availability of customer care.

However, improvements in quality have mainly been observed where they do not conflict with cost cutting (and employment reduction) strategies. Quality aspects demanding additional labour resources or dependent on high quality working conditions have generally been compromised due to liberalisation and privatisation. Examples of this have included: electricity companies setting up new and centrally operated customer call centres with extended operating hours, whilst simultaneously closing down local centres with face-to face interaction; postal companies delivering large parts of the mail more quickly but with waiting times in post offices increasing due to cut-backs in staff numbers; and in the electricity sector reduced investments in infrastructure because of cost cutting, which over the long term may negatively affect service quality.

In several cases, regulation had a significant impact on company reactions to liberalisation and privatisation and the outcome in terms of employment and quality. For example, the mandatory splitting up of the electricity supply chain allowed electricity companies to circumvent existing sector wage agreements by creating independent subsidiaries. Smarter regulation could have prevented the misuse of this requirement. Again, the strategy of new competitors in postal services to set low wages in order to cut costs could have been mitigated by regulation. The Swedish case study showed that, where employment regulation existed, competitors had to adopt alternative schemes compatible with adequate employment standards. Hospital case studies have also indicated that sufficient funding and the quality of funding are more important to their performance than whether they are publicly or privately owned.

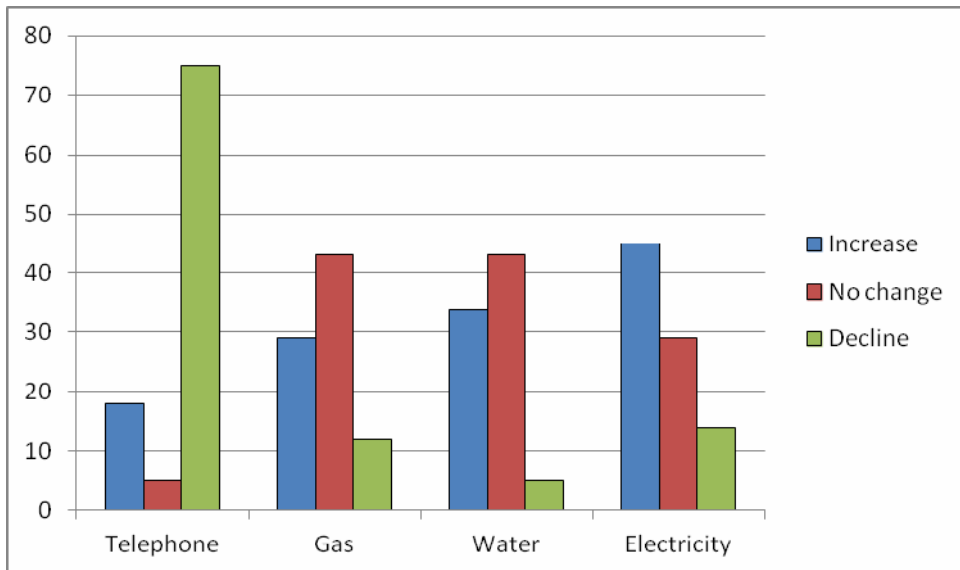
### **3.5. Valuation of privatisation in Europe by experts and citizens**

The UPP project surveyed 113 experts (managers and professional analysts) from 22 European countries on their judgements about privatisation's effects on consumer prices, wages, value of shares, employment, and quality consumer choice.

#### **Impact of privatisation on consumer prices**

The survey revealed that according to the experts, prices throughout Europe, except in the case of telecommunications services, have not significantly declined as a result of privatisation. Figure 4 indicates that a majority of the experts believed that energy prices have even risen above the level of the international market price after privatisation. This reveals that the popular claim that privatisation leads to falling prices for consumers has yet to be fulfilled in most of the utilities.

Figure 4 - Effects of privatisation on consumer prices in 22 EU countries (percentage)

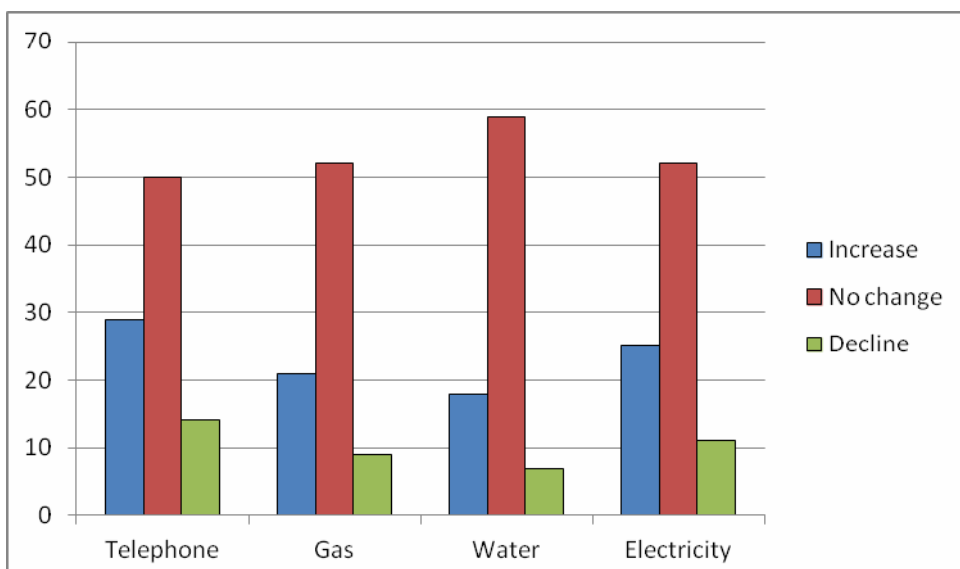


Source: Ifo Institute, European Expert Survey, Spring 2007 in UPP project, Nerb, G., Schoenherr, S., and Schroeder, B., Valuation of Privatisation in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews, 2008

### Impact on wages

When asked about the development of wages after privatisation around half of the experts stated privatisation had not resulted in a significant change. However, overall, more experts claimed that wages had risen rather than fallen. The exception in this case was Germany where more experts claimed that privatisation had resulted in a fall of wages in every sector of the utilities, particularly the telephone sector.

Figure 5 - Effects on wages in 22 EU countries (percentage)

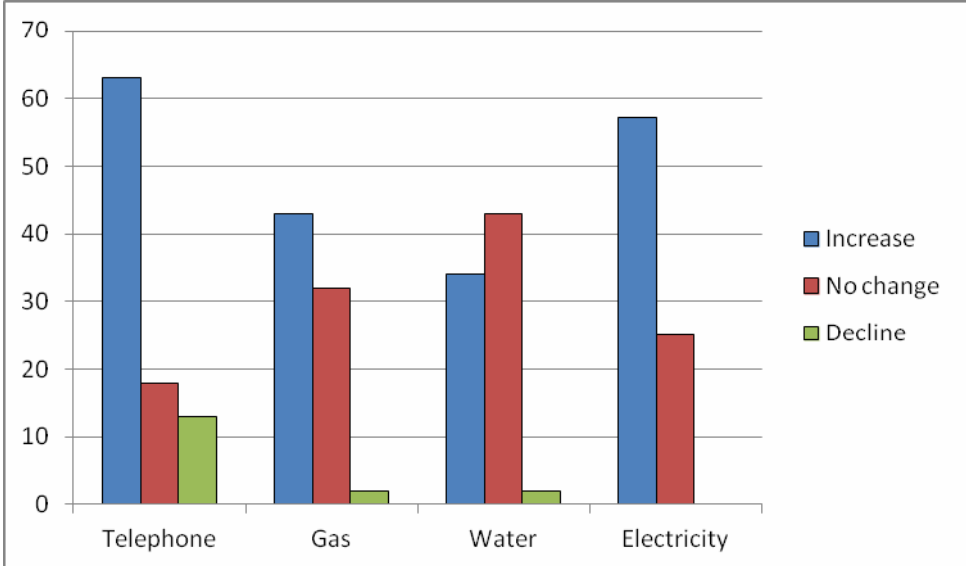


Source: Ifo Institute, European Expert Survey, Spring 2007 in UPP project, Nerb, G., Schoenherr, S., and Schroeder, B., Valuation of Privatisation in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews, 2008

**Value of shares**

Most experts believed that shares of former incumbent companies gained value due to privatisation. As the figure below shows this was especially the case in the telecommunication and energy sectors.

Figure 6 - Effect on value of shares in 22 EU countries (percentage)

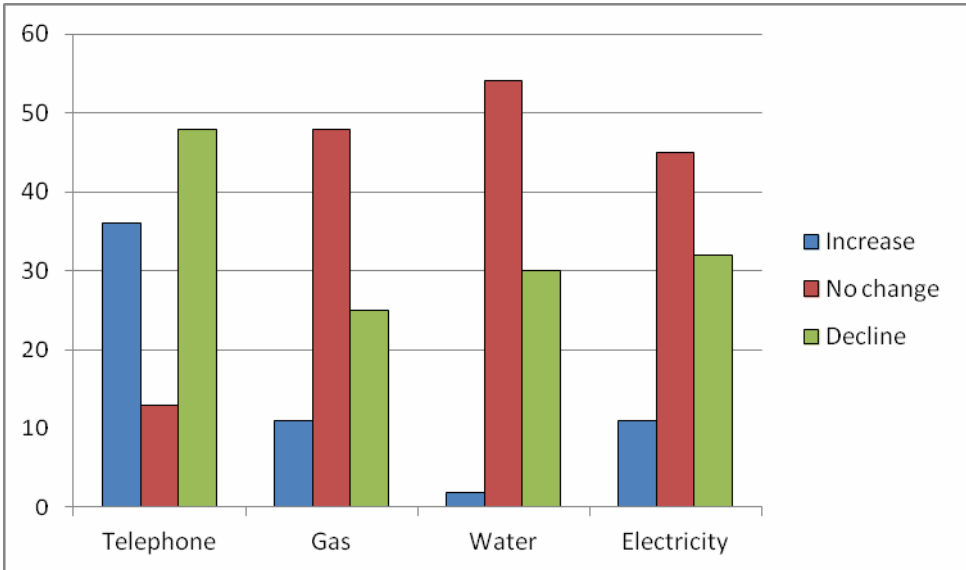


Source: Ifo Institute, European Expert Survey, Spring 2007 in UPP project, Nerb, G., Schoenherr, S., and Schroeder, B., Valuation of Privatisation in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews, 2008

**Impact on employment**

The experts had a relatively negative view on the impact of utility privatisation on employment. On balance, in all the EU member countries privatisation was believed to have led to a decline of employment. The telephone sector saw the biggest split in opinion where 48 percent of the experts claimed privatisation resulted in a decline of employment whilst 35 percent claimed that it had risen. In all other sectors there was a strong view that privatisation had no effect or led to a decline.

Figure 7 - Effect on employment in 22 EU countries (percentage)



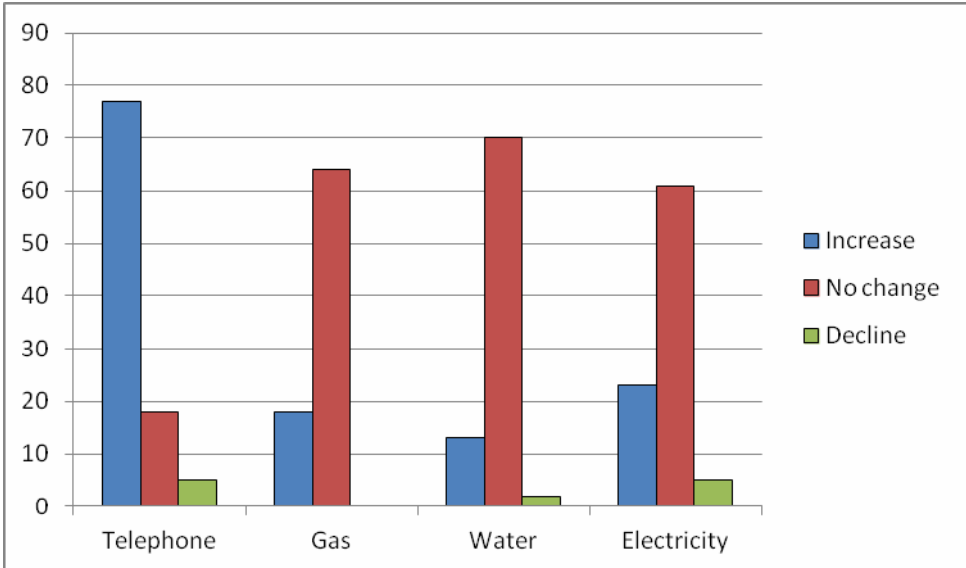


Source: Ifo Institute, European Expert Survey, Spring 2007 in UPP project, Nerb, G., Schoenherr, S., and Schroeder, B., Valuation of Privatisation in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews, 2008

**Impact on quality of consumer choice**

The experts had a positive view of the effects of privatisation on the quality of services and consumer choice in the telephone sector. However, more than 50 percent of the experts stated that quality has not improved in the gas, water and electricity sectors.

Figure 8 - Effect on quality of consumer choice in 22 EU countries (percentage)



Source: Ifo Institute, European Expert Survey, Spring 2007 in UPP project, Nerb, G., Schoenherr, S., and Schroeder, B., Valuation of Privatisation in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews, 2008

**3.6. Experts' viewpoints on the winners and losers of privatisation**

There was a division amongst experts in all the studied countries about the effects of privatisation on employment. A majority of experts from France, the UK, Germany, Italy, Austria, and Greece viewed privatisation as negatively affecting employees. This was because of a net loss of jobs, less job security, and longer working hours. A minority of experts believed that privatisation had been beneficial to employees. In France, a number of experts thought that some employees had gained from privatisation, as they had been offered the opportunity to buy shares at beneficial rates. In Spain, respondents stressed there was no reduction in workplaces, as privatised companies were growing and creating jobs. A German and Italian expert each argued that over the long-term privatisation would have positive employment results benefiting labour as a whole. Austria's focus on social partnership and consent, as the interviewees described, significantly improved the outcome of the privatisations for the employees. As a result, Austrian employees could not be considered to be losers of the privatisation efforts. Experts in both France and the UK mentioned that unions had lost a lot of influence in the course of privatisation. In Germany, experts criticized the German government's failure to actively compensate citizens for privatisation's negative effects. The German government has not created a universal fund to guarantee universal service provision, but instead is

simply giving public subsidies, e.g. in the public transport sector. Experts also warned that if the German railway system was privatised without adequate safeguards that taxpayers would lose out due to depressed investment in infrastructure.

There was a consensus among the experts that consumers had benefited from privatisation, especially due to price reductions in the telephone sector and the airline industry. However, Austrian experts believed that in the energy sector household consumers and SMEs lost out.

Privatisation was generally believed to have relieved pressure on government budgets. Managers were also believed to have gained from privatisation, with greater freedom in decision making processes, increased pay and ‘golden handshakes’, and greater opportunities. There was widespread belief that shareholders and the private business sector had benefited overall due to privatisation. In the UK the financial sector and large consultancies were highlighted as major beneficiaries. In Greece experts felt that big business had gained too much as a result of privatisation, which had been extremely detrimental to SMEs.

Polish experts bucked the trend – they nearly all agreed that privatisation was beneficial for the employees of privatized firms. In particular, they were believed to have gained from the allocation of free shares and the payment of higher wages. Moreover, in consequence of a ‘social pact’, investors and the unions negotiated employment guarantees. Moreover, redundant workers got ‘golden handshakes’, granting them very generous compensation. The experts believed that the losers in society were the workers who stayed in the public sector. Most of the respondents claimed that the public as a whole benefited substantially from the privatisation of formerly state-owned enterprises.

The PIQUE research project undertook a survey in the postal services, local public transport, and electricity supply sectors of privatized public services in Austria, Belgium, Germany, Poland, Sweden and the United Kingdom.

The survey sought to identify:

- Whether the services still served the public and what kinds of improvements were wanted.
- If there was public support for privatisation and liberalisation policies.
- Whether citizens want to choose between public services offered by competing providers or not.

Table 9 - Satisfaction with the Services: % fairly or very satisfied

| Quality     | AT  | BE  | DE  | PL  | SE  | UK  | Total |
|-------------|-----|-----|-----|-----|-----|-----|-------|
| Post        | 75% | 74% | 79% | 66% | 62% | 82% | 73%   |
| Transport   | 59% | 73% | 48% | 57% | 59% | 67% | 60%   |
| Electricity | 91% | 84% | 88% | 85% | 86% | 88% | 87%   |
| Price       | AT  | BE  | DE  | PL  | SE  | UK  | Total |
| Post        | 62% | 55% | 58% | 61% | 57% | 77% | 62%   |
| Transport   | 33% | 61% | 23% | 34% | 36% | 54% | 40%   |
| Electricity | 45% | 51% | 30% | 20% | 38% | 72% | 42%   |

Source: HIVA-K.U.Leuven, PIQUE survey data. In Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report

Table 9 indicates that in general satisfaction with prices is always lower than satisfaction with quality.

To gain greater insight into user satisfaction with the quality and price of public services, the survey examined which quality dimensions are important and which complaints were expressed in specific countries and sectors (table 10). The results indicated that time-related reliability issues in the postal service and local public transport sectors and quality of customer service in the electricity sector are often key quality priority areas.

**Table 10 - Important quality dimensions for improvement of public services**

| Postal Services  | Local public transport  | Electricity supply   |
|--|---|--|
| 1. Delivery time (AT, BE, PL)<br>2. Reliability (UK, BE)<br>3. Service Post Offices (SE) | 1. Timetable information (AT, BE, PL, UK)<br>2. Connection options (AT, BE, GE)<br>3. Punctuality (GE)<br>4. Passenger comfort (PL) | 1. Quality of customer service (BE, GE, SE, UK)<br>2. Reliability of supply (PL)<br>3. Harassment by competing suppliers (BE, UK). |

Source: HIVA-K.U.Leuven, PIQUE survey data in Hermann, C., and Flecker, J., Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report, 2009

### Attitudes on privatisation, liberalisation and universal service obligations of public services

In the postal service, local public transport and electricity sectors, there was very low support for total privatisation in the six countries. The results indicated that citizens still want a public sector component to public service provision. A large majority favoured a mix of both public and private involvement. There was a moderate level of support for liberalisation with a small majority of respondents (ranging from 40 percent and 60 percent) in favour of liberalisation in most countries. A very high number of the respondents were in favour of the existence of universal service measures in public services, as shown by table 11.

**Table 11 - Attitudes on universal service aspects**

|           | Postal Services                                  |   | Local public transport              |                              | Electricity                                |  |
|-----------|--|---|-------------------------------------|------------------------------|--|--|
|           | Universality - frequency/ generality of delivery | Universality - Post office in the neighbourhood | Reduced price for the less well-off | Every village must be served | Partly reduced price for the less well-off | Same price regardless of remote location |
| <b>AT</b> | 92%  | 54%   | 86%                                 | 84%                          | 77%  | 79%                                      |
| <b>BE</b> | 98%  | 64%   | 86%                                 | 89%                          | 84%  | 83%                                      |
| <b>DE</b> | 96%  | 61%   | 80%                                 | 84%                          | 66%  | 86%                                      |
| <b>PL</b> | 94%  | 42%   | 81%                                 | 89%                          | 69%  | 81%                                      |
| <b>SW</b> | 92%  | 49%   | 59%                                 | 69%                          | 37%  | 90%                                      |
| <b>UK</b> | 93%  | 80%   | 79%                                 | 91%                          | 58%  | 86%                                      |

Source: HIVA-K.U.Leuven, PIQUE survey data in Hermann, C., and Flecker, J., 2009, Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE) – Final Report.

The final part of the PIQUE survey dealt with whether citizens do or do not want choice in the three public services. The survey indicated that most respondents were not inclined towards having greater choice in the postal service, local public transport and electricity sectors. Poland proved to be an exception to this, in that there is public demand for having market and/or provider choice. The results indicate that consumerist attitudes tend to be found especially among better educated and more critical citizens, who are driven by the promise of cost reductions.

Throughout the survey there were clear social demarcations detected between the higher educated, higher income, and higher professional status citizens and those who were less educated, lower income, and of lower professional status. Socio-economic status is important to attitudes towards liberalisation, privatisation, and universal service obligations. The survey found that the higher a respondent's educational attainment or the more satisfied they were with their income, the more positive an attitude they had to competition. Worse-off citizens had less belief in the virtue of privatisation than those with higher income levels. Better-off respondents gave greater importance to the quality and value dimensions than to the price dimension. Interest in having choice is also socially determined – people who show the lowest satisfaction are also least interested in having choice in public services.

## Chapter 4. The political and social effects of privatisation: what it has meant for the European Social Model

The aim to establish citizen rights to SGEI (Services of General Economic Interest) has been part of the construction of a new political citizenship at supranational level in the EU. The EU has had historically more competence in SGEI, as they were mentioned in Article 90 of the Treaty of Rome (although not in relation to citizen rights but rather in relation to their place within competition law). The EU's role in relation to non-market SGEI, such as employment and social policy, has started to increase only in recent years, e.g. through 'soft' policies such as the Open Method of Coordination <sup>5</sup>.

The PRESOM research report argues that privatisation has mostly had negative social consequences. It focuses, in particular, on the findings documented above, that privatisation and liberalisation have tended to reduce employment, worsen labour conditions, put a downward pressure on wages, foster income inequality, and provide greater choice to those who can afford it than to those who cannot. This section summarises its findings, which are not corroborated in detail by the other two reports, and which are not fully backed up by empirical investigations.

The PRESOM report argues that in the hospital sector, marketization of healthcare provision has negatively affected employment conditions – especially amongst nurses and auxiliary personnel. The increasing political will towards providing 'patient choice' has undermined the public sector, as public healthcare providers tend to be funded largely on the basis of the workload they treat. 'Patient choice' promotes the choice of the individual at the cost of the stability of a system caring for the population as a whole. Also liberalisation has created something of a two-tier healthcare system, where 'patient choice' can be exercised more by those who can afford it, further undermining the notions of social solidarity inherent in public services.

It also argues that wherever liberalisation and privatisation of education occurred, particularly at tertiary level, it had negative connotations for social cohesion. It has damaged equality of opportunity, with students' prospects determined more by background than merit. In those cases, privatisation and liberalisation have resulted in a shift from a universal, integrating model, seeking to educate all citizens through state attempts to guarantee relatively equal opportunities, towards a more individualist, discriminatory, model where the market guarantees that some citizens, as consumers, can secure better educational services than others. However, the research here (in the PRESOM report) does not undertake a full cross-national comparison which would demonstrate the degree of polarization produced by these very differing models.

The PRESOM report also suggests that pension reform has meant the move again from a social model to a more individualistic model, and has therefore also negatively impacted upon social cohesion and accentuated poverty and income inequality amongst pensioners. Furthermore, women have been

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<sup>5</sup> Judith Clifton, Francisco Comin and Daniel Diaz Fuentes (2005), "Empowering Europe's citizens: Towards a Charter for Services of General Interest", *Public Management Review*, Fall.

more likely to suffer, as their employment has tended to have more periods of unemployment, and to be more flexible and insecure.

The PRESOM report sees the idea of a protective welfare state being increasingly replaced by the notion of a minimum enabling state. As such, it sees the privatisation and liberalisation process as having brought about the erosion of the Western European Social Model. Throughout this process, the principle of solidarity has been questioned and discredited by supporters of privatisation and liberalisation.

Policies implemented by governments of CEE countries have meant that the European Social Model has not been extended into Central and Eastern Europe. Liberalisation and privatisation policies there have dismantled welfare provisions, deregulated employment, and emphasized the partnership between state funding of public services and private firms. Most citizens in CEE countries have not rejected these reforms – the absence of resistance was largely because citizens had previously been frustrated by bureaucratic centralization, top-down statism, and poor quality public services under the authoritarian regimes that preceded transition.

The report suggests that privatisation and liberalisation have changed public services from being perceived as a social right into a market commodity. The change from ‘citizen’ to ‘consumer’ has reduced the emphasis in the public domain from social communication and organization to the striving for self-centred and divergent interests. Over the long term, this could mean that liberalisation, deregulation, and privatisation are damaging to social cohesion and the wider democratic system.

The PRESOM report argues that now fewer services are provided, financed, regulated and/or controlled by the state. This has often occurred alongside major cuts to social benefits, reinforcing economic and social insecurities. The weakening of redistributive mechanisms in welfare systems has been a factor in rising inequality within Europe (particularly Eastern Europe).

The PRESOM report concludes that, in general, privatisation and liberalisation of public organisations and services have reinforced rather than counteracted these rising inequalities. In network industries, no longer do all service users receive equal provision – for example, closures to local bus or rail services tend to impact more heavily on those with lower incomes. The high level of rural post office closures makes access to these services more expensive for people in rural areas. The extension of ‘choice’ which often accompanies privatisation is also not beneficial for the majority of citizens. Generally, a majority of citizens are not sufficiently knowledgeable to assess risks and select between different services. Privatisation can also have negative effects on the quality of those public goods and services that remain within the sphere of public provision. Since these services tend to be particularly targeted at citizens with the greatest needs, this further reinforces inequality, as services for the poor are more likely to become poor services. The removal of access to public services as a social right, available to all people, removes pressures towards high standards and efficient supply.

The report also suggests that privatisation may have reduced democratic accountability. When utility and public services were provided by the state, they were accountable to society through normal democratic processes. Where whole areas of government responsibility are transferred to the private sector, accountability is weakened, or even eliminated. There is a danger that reduced accountability can have particularly negative implications on the environment, where the investment

decisions of private entrepreneurs are driven by the need to maximize profits. However, the reports have not provided specific evidence of such negative environmental consequences to date.

The 2007-2011 financial and economic crises across most of Europe have indicated the dangers where accountability has decreased and highlighted the frequent inability of regulation to mitigate these losses.

Finally, the reports suggest that liberalisation and privatisation have shifted the relationship between the state, society and private interests, in a way that has seriously impacted on democratic participation. The withdrawal of the state has allowed private sector actors, with unaccountable and socially-excluding decision making processes, to take decisions on future developments that affect many citizens and the wider society. This, combined with a growing perception that the rationale of economic efficiency is coming to dominate the main resource allocation processes in Europe (and globally), eroding social and cultural forces, has led citizens increasingly to believe that they have lost control over developments in the quality of their lives. Important events and needs, central to the welfare of citizens across Europe, are now considered as issues to be decided by market processes, outside the purview of politics. It is possible – though evidence is still lacking – that this has contributed to increasing apathy and disengagement, and an erosion of political citizenship in significant numbers. Many people increasingly view the political process as remote and unpleasant. Participation in public decision making, the most effective means to ensure social objectives are adequately taken into account, is reduced by removal of key utilities from the public domain. Instead of citizens being able vocally to express their discontent about poor quality of public services, consumers often only have the option of ‘exit’ – moving to a different supplier to satisfy their needs. Even this remedy is only available for those with sufficient purchasing power and the flexibility to transfer between providers. Due to lower accountability on the part of private providers, citizens have fewer mechanisms for ‘throw[ing] the rascals out’ – a factor that has traditionally been argued to provide a major incentive for improving quality of service, although empirical evidence is lacking here.

## Chapter 5. Implications for the future to support successful policymaking

This section sets out the key implications for policymaking from the experience to date of the liberalisation and privatisation policy in relation to Services of General Interest (SGI) in the EU.

It focuses in particular on the key phases of the privatisation process, the market regulation processes which need to be in place and the impact of privatisation on the dimensions of employment, industrial relations, productivity and profitability, and service quality. Finally, the role of the public sector in a revitalized European Social Model is considered.

### ***Key phases of the privatisation process***

There are a number of clear lessons from the evidence base on the privatisation process in services of general interest.

First, the role of the state is still contested in relation to these services. Indeed, confrontation with the role of the state as sponsor of social welfare was a key stimulus to the start of the privatisation and liberalisation processes in many countries, first in Western Europe but then later in the CEE countries. This questioning of the role of the state reflected not only anti-statist sentiment, politically and in society more generally, but also the increasing power of financial capital and its interests, which championed the primacy of individualistic market-based decision-making over collective democratic decision-making. Following the liberalisation of financial markets, financial capital played a dominant role in the reconfiguration of services of general interest as profit-making entities, as indeed it had done in the reconfiguration of much of manufacturing and private services in the previous two decades.

This dominance of financial capital has had a number of major consequences for the way in which privatisation played out in practice:

- It has led to short-termism in the investment (and disinvestment) decisions in these services, with particular emphasis given to the short-term financial consequences of service strategies, e.g. by giving more weight to the reaction of capital markets to annual profit figures than to the underlying business for long-term investments.
- It has emphasised the returns to one stakeholder above all others, namely the funders of the new service entities, rather than customers, professional staff or managerial staff (except in so far as top managers benefited as holders of share options in their company).
- It has neglected the underlying 'service architecture' and strategic rationale of the industries, in favour of reconfigurations which would generate increased cash flow, e.g. through asset rationalisation and sales.



Second, the sequencing of key decisions on the road to liberalisation and privatisation is important. In all countries this road has involved the introduction of quasi-market based principles and administrative methods in public services, alongside transfer of some service operations between sectors. In particular, the New Public Management from the 1980s onwards became increasingly fashionable in Western European countries, later being taken up also by many CEE countries after 1990. This placed particular emphasis on user choice, the introduction of internal markets, competitive tendering, and contracting out. Many public-private partnerships, which became popular everywhere from the 1990s onwards, were also dominated by contract-type relationships (although some were more in the spirit of the new Public Governance paradigm which became influential from the mid-1990s). Each of these processes made it easier for the private sector (and, in many cases, the third sector) to bid to run public services, particularly in health care but a similar trend has been evident across the EU, at least occasionally, in most other services of general interest, too.

Third, the institutional set-up for privatisation has been very important to its subsequent trajectory. In particular, the labour law under which the new entities operate has shaped the subsequent history of labour relations and the funding arrangements (e.g. access to public sector subsidy) have determined the service's opportunities to make investment decisions to maintain high quality and cost-effective services. The research projects provide evidence suggesting that liberalisation and privatisation have threatened established employment standards and led to a significant deterioration of pay levels and working conditions, particularly in the new competitors that have emerged following liberalisation. Indeed, the PIQUE report suggests that low wages may be associated in some sectors with low innovation and productivity, suggesting the potential need for social re-regulation to develop more innovation and a quality-focused model of competition. Again, revisions of pension regulations for public service staff have made it easier to transfer pension obligations to new operating companies. This has increasingly been seen as an important advantage of privatisation.

Fourth, there are important decisions to be made in which methods of privatisation and liberalisation should be chosen. In advance, it is particularly important to have a soundly based forecast of post-privatisation performance, since this will affect public perception of the likely success of the overall privatisation programme and therefore the willingness to invest. Moreover, in strategically important sectors, such as defence and network infrastructure industries, political pressure can prevent transfers of ownerships being open to foreign investors and may require government to keep at least some stake (although nowadays rarely a 'golden share') in the new entity.

Forms of transfer of ownership have differed widely, dependent on a range of factors: the revenues they seem to offer to government, the state of development of the capital market, the characteristics of the organisation to be privatised and the legal and political context. Direct sales to a large company make financial sense where a capital market has not yet developed but this may undermine the drive for a competitive market – governments have therefore often been willing to sacrifice some potential revenue in an effort to develop nascent financial markets.

In the CEEs, due to insufficient domestic capital, transfers of ownership have tended to involve foreign direct investment, employee buy-outs, and/or voucher privatisation. Voucher privatisation was used in the 1990s in order to quickly privatise large public enterprises, prevent them from being sold exclusively to foreign investors or incumbent management, and overcome the lack of

functioning capital markets. This helped to make privatisation more popular with citizens and also to make it politically irreversible. However, the record of voucher privatisation has been poor - it failed to provide levels of capital required by the new companies, failed to build a long term shareholder society (since small investors often immediately sold shares for a quick capital gain) and meant that such companies faced continued budget constraints (as governments generally controlled bank lending) which weakened their ability to pursue innovative strategies.

A key enabler of privatisation was that, as markets were opened in network industries and different functions were 'unbundled', these different functions in the network could be undertaken by separate organisational units. In particular, state assets have often been sold in a number of (often complicated) financial deals, such as sale and leaseback schemes (mainly for property but also sometimes for expensive equipment, such as ICT systems) and public utility assets, such as pipelines and transmission systems, have been sold separately from the rights to provide services through these systems.

### ***Market regulation***

Frequently outcomes from privatisation have been left to market forces. Prices have often been left for the market to determine – in the electricity sector this was the case in most countries. However, the research projects have shown that liberalisation and privatisation have had only modest success in creating highly competitive markets. Without adequate regulation and competitive forces, companies are free to set prices and service quality levels as they desire – this has not been in keeping with the rationale of privatisation and liberalisation.

Moreover, investment, which is critical to long-term performance in all these industries, has not been satisfactorily included in the regulatory systems. In a number of countries, investment in infrastructure in the electricity sector was reduced because of cost cutting.

### ***Impacts of liberalisation and privatisation***

Here we consider the impacts in terms of employment, labour relations, productivity, profitability, service quality and price.

#### **Employment**

The advocates of opening up SGI markets and shifting from public monopoly promised cheaper and better services, and that reduced prices would boost demand and create more jobs. However, the research undertaken indicates otherwise. An analysis of sector level employment data shows a large number of jobs in network industries have been lost since liberalisation or privatisation. The electricity sector has experienced a substantial loss of employment since the mid-1990s – within the EU-15, total job losses amounted to 246,000 between 1995 and 2004. In relative terms, the reduction between 1995 and 2004 amounts to between a quarter and a third of previous employment levels, but changes in employment levels vary across sectors and countries.

In electricity and postal services, considerable job losses, often combined with changes in employment status and forms of contract, occurred in incumbent monopolists. Case studies indicate that in electricity and postal services, outsourcing and creation of jobs by new competitors did not make up for job losses recorded by former monopoly suppliers. In the electricity sector, case studies reported employment reductions of between 25 and 50 percent following privatisation. Despite the scale of reduction of employment, compulsory layoffs were generally avoided – this was achieved through non-replacement of retirees, voluntary redundancy packages, and early retirement. Employment was generally reduced in maintenance and administration activities, whereas employment often expanded in trading, retailing, monitoring and auditing, and in ICT. The employment profile of these sectors therefore tended to shift from blue-collar to white-collar. Moreover, there have been substantial increases in atypical forms of employment – part-time and marginal part time (representing only a few hours work per week) employment.

There are multiple drivers of employment growth, and though outsourcing has clearly had an impact on employment structure in public services, the positive employment effects of resulting lower input prices on the wider economy are difficult to prove. Therefore all employment losses in the sectors under investigation cannot be wholly attributed to liberalisation and privatisation. However, it seems clear that liberalisation and privatisation in SGI are unlikely to lead to employment growth, as often argued by liberalisation and privatisation supporters.

### Industrial relations

Liberalisation and privatisation have had far-reaching consequences for the established labour relations regime (LRR). The creation of new markets and the transformation of public enterprises, in many cases, into profit maximisers placed these former public entities under strong competitive pressures. To save on labour costs, liberalised and privatised companies have tried to withdraw from the traditional (more expensive) LRR of the public sector and establish new forms of regulation, including broad changes in collective bargaining, wage levels, and employment conditions.

Liberalisation and privatisation of public services has fundamentally challenged the traditional LRR in the public sector. Liberalisation has usually resulted in a two-tier system of stable bargaining structures within the incumbent firms. In comparison, new competitors have decentralised and fragmented bargaining structures, typically with low coverage of their workforces. As a result, they offer – and are able to profit from – lower employment standards. There is also a two tier system regarding union density (relatively high in former public firms but rather low in new competitor firms). Unions have generally had insufficient organising power to push for collective agreements. Furthermore, newly liberalised markets often lack sector-wide regulation or coordination of labour issues that could mitigate or prevent competition on wage costs. Liberalisation has resulted in a growing fragmentation of the labour force within companies. The workforce has changed from being relatively homogenous to the development of a strong division between ‘old’ and ‘new’, and core and peripheral workers. This division comes with major differences in pay and working conditions. In incumbent firms, long-standing employees remain covered by civil service statutes. More recently-hired staff tend to be given private sector contracts. They have lower employment security, and lower salaries for the same job as they would under civil service regulation.

The extent to which liberalisation and privatisation has led to competition on wages and labour costs with potentially negative effects on working and employment conditions depends on the degree of real market competition within a sector and the nature of national LRRs and their abilities to create sector-wide regulation on working conditions. In countries with more centralised and comprehensive collective bargaining systems, such as Belgium and Sweden, the degree of competition on labour costs is still rather low because strong sector-wide regulation and/or coordination ensures relatively homogenous wages and working standards. In countries such as Poland and the UK that have more decentralised bargaining systems, moderate or even strong competition on labour costs has emerged in many sectors. In Germany, and to a lesser degree in Austria, liberalisation and privatisation contributed to significant decentralisation and fragmentation of collective bargaining. This resulted in moderate or event strong competition on labour costs.

The research projects appear to have found evidence to back up the strong beliefs of many employees that liberalisation and privatisation primarily threaten established standards and lead to a significant deterioration of pay levels and working conditions. This is particularly the case with the new competitors that have emerged following liberalisation. The PIQUE report suggests that, where a low wage economy is threatening the level of innovation and productivity in a sector, there may be a need for social re-regulation in liberalised and privatised sectors to avoid further downward competition on wages and to develop more innovation and quality focused model of competition.

#### Productivity and profitability

Macro-data does not show clear long-term effects of liberalisation of public services on productivity. Factors such as growth of GDP and shift in technology appear to have been more important in explaining long-term productivity development.

However, comparisons of the different factors driving productivity growth reveal that, for some time after liberalisation and privatisation, productivity growth was driven by reduced labour input (lower numbers of workers) rather than expansion of output (greater service volume). The case studies in the reports reveal that productivity growth has rarely been an end in itself. It has rather been a by-product of a general attempt to cut production costs. Consequently, productivity increases were frequently combined with other cost cutting strategies that led to a deterioration of employment and working conditions, which may in turn have had negative effects on service quality, especially where quality is dependent on key labour inputs (e.g. face-to-face customer communication) or where service quality is closely linked to the quality of work done by staff, as in the case of patient care. However, the data is not clear on the extent to which this has actually happened.

#### Service quality

As just highlighted, cost-cutting strategies may have had negative effects on service quality, especially where quality is dependent on key labour inputs. However, liberalisation and privatisation have also had some positive effects on service quality, e.g. improvements in quality through the introduction of new technologies that have speeded up service processes, increased the accuracy of service delivery, provided better service responsiveness and extended availability of customer care.

However, improvements in quality have mainly been observed where they do not conflict with cost-cutting (and employment reduction) strategies. Quality aspects demanding additional labour resources or dependent on high quality working conditions have generally been compromised due to liberalisation and privatisation. Examples of this have included: electricity companies setting up new and centrally operated customer call centres with extended operating hours, whilst simultaneously closing down local centres with face-to face interaction; postal companies delivering large parts of the mail more quickly but with waiting times in post offices increasing due to cut-backs in staff numbers; and in the electricity sector reduced investments in infrastructure because of cost cutting, which over the long term may negatively affect service quality.

### The role of the public sector in a revitalized European Social Model

The PRESOM research report argues that privatisation has mostly had negative social consequences, particularly through reducing employment, worsening labour conditions, putting a downward pressure on wages, fostering income inequality, and providing greater choice to those who can afford it than to those who cannot. However, these findings are not corroborated in detail by the other two reports and not fully evidenced by empirical investigations.

Indeed, there is empirical evidence that privatisation can have both positive and negative effects, depending on the specific case. For example, there is wide agreement that there have been positive effects of privatisation. Of course, this is countered by cases such as UK rail privatisation and the failure of the network operator, Railtrack (Glaister, 2004<sup>6</sup>). Therefore, it is important for policy-makers to consider each specific case and to learn the lessons from European good and bad practices in privatisation.

Another observation is that attitudes towards privatisation have become more diverse. While two decades ago privatisation spread throughout Europe within a political climate of a general belief in free market forces and the rolling-back of the state, the financial crisis from 2008 has changed many views on liberalisation and privatisation. While some observers consider the lack of regulation and state control as one of the key causes of the financial bubble, others think that the lack of full privatisation, in particular, the unwillingness of governments to give up complete control of privatized public assets, has been a major part of the problem. While it is difficult to quantify attitudes to privatisation, the voices of the sceptics have certainly become louder.

The fact is that privatisation has currently lost its momentum, even though many EU member countries still have assets to sell to the private sector (unlike the case in the United Kingdom, which has privatized most of its SGIs except Postal Services). In some EU member countries there is even a rolling-back of privatisation in some sectors. One of the most prominent examples is the renationalization of some major British banks which are now in the majority ownership of taxpayers.

It is difficult to predict the future of liberalisation and privatisation in the current financial and economic climate. While weak stock markets make the sales of SGIs a relatively unattractive option

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<sup>6</sup> Stephen Glaister (2004), British Rail Privatisation Competition Destroyed By Politics, CRI Occasional Paper 23, Bath: Centre for the study of Regulated Industries, University of Bath.

at the moment, governments may be under pressure to sell assets for purely budgetary reasons and to demonstrate that they are tackling the issue of debt reduction. Obviously, this may help to relieve the pressure on tight public budgets momentarily but, if done unwisely, cases of privatisation failure may impose higher costs on the taxpayers in later years, when governments have to step back in to increase service quality or ensure equal access of citizens to SGIs.

The 2008-2011 financial and economic crises across most of Europe have also changed the views of EU member countries on the role of the state and the European Social Model. In particular, it has indicated the dangers that can occur where accountability has decreased and it has highlighted the frequent inability of regulators to mitigate losses where they occur. Since 2008 there has therefore been increasing public concern that deregulation may have gone too far and that new and more powerful mechanisms may be needed to enable citizens to hold SGIs to account.

While there continue to be different political views on the right size of the state, policymakers in EU member countries are starting to recognize that the role of the state has to change. As EU member countries are facing increased budget pressures, there is a need to rethink traditional ways of public service provision. This is aggravated by social challenges such as demographic change, migration and changing values among citizens. As European research on the role of citizens in public services<sup>7</sup> shows, most citizens no longer wish to be treated as a passive customer but want to have an active role in public services. The results of a European citizen survey carried out in five EU countries in 2008 shows that citizens already play a significant role in service delivery. This development changes the relationship between service users and service professionals, making service users less dependent, while, at the same time, giving them more responsibility. This has raised new interest in issues of co-production, a concept that is closely related to the inherent character of public (and indeed private sector) services. Co-production means the public sector and citizens making better use of each other's assets and resources to achieve better outcomes and improved efficiency. Furthermore, the relationship between the state and the private sector is changing. Increasingly, more collaborative governance structures are emerging as new public-private partnerships are being formed.

As a result, policymakers in EU member countries will have to achieve a new consensus on the shape of a European Social Model which responds to these changes. This debate will also be strongly influenced by current developments in Open Government. It is no longer sufficient that the state just guarantees the existence of public services - citizens also expect the state to provide transparency, accountability, participation and collaboration. Indeed, the Open Government Partnership enables civil society for the first time to influence public sector reforms, as civil society associations are now able to monitor progress on the Open Government agenda.

This means that the very nature of policy-making will change, as policy-makers increasingly need to consult with a wide range of stakeholders in ways which go beyond established lobbying approaches. As evaluations of public consultation show, most citizens are unlikely to be interested in general issues of privatisation and liberalisation. The value of the consultation for policy-makers increases if the consultation focuses on those citizens and organizations that know and care about a specific SGI.

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<sup>7</sup> Löffler, E. et al. (2008), "If you want to go fast, walk alone. If you want to go far, walk together"  
Citizens and the co-production of public services. Commissioned by Ministry of Budget, Public Finance and Public Services, France.

Clearly, these new developments raise a whole range of new research issues which will shape the research agenda on liberalisation and privatisation of SGIs.

## **Chapter 6. Implications for a new research agenda on services of general interest and the role of the public sector**

Privatisation and liberalisation will continue to stay high on the agenda of the research community. As the three EU research projects have shown, there is now a lot of economic analysis and survey data on the effects of liberalisation and privatisation of SGIs. However, what policy-makers are still missing is more practice-oriented research which provides them with guidelines based on scientific evidence to improve the decision-making process. This requires a more collaborative process of doing research on privatisation and liberalisation of SGIs.

In this new scenario, the research community should be encouraged to work in partnership with public decision-makers in order to ensure that the research process is shaped by issues relevant to practitioners. At the same time, public decision-makers need to be challenged by scientific evidence so that future national and EU policies on liberalisation and privatisation are more evidence-based and transparent, and can be better and more openly evaluated as they are implemented.

While this report has identified a number of areas where economic research might be taken further, filling in gaps and resolving disagreements in the three research projects reported here, there are other research areas in which further research is clearly needed. These include:

- Public and private governance implications of liberalisation and privatisation of SGIs.
- Participation of citizens and third-sector organization in the service delivery process, including the commissioning, design, delivery and evaluation of public services.
- Identification of success factors in privatisation in specific SGI cases as well as case studies of privatisation.

Little current research has explored the key public management and public governance issues in relation to liberalised and privatized SGIs. In particular, there have been few attempts to apply to SGIs the public management debate about how to operationalise public value, as opposed simply to measuring financial value. In public governance, there is increasing realization in many European public sectors that ‘the ends do not justify the means’, so that the way in which services are delivered may be as important as their end results. Service users – and indeed citizens generally – wish to be assured that the services paid for with public money are run in ways which are transparent, accountable, fair, in line with equalities concerns and sustainable. There needs to be more research on how liberalisation and privatisation have impacted on these dimensions of SGIs.

Secondly, the participation of citizens and third-sector organization in relation to commissioning, designing, delivering and evaluating SGIs is not simply about improving the service process or mobilizing cheap inputs from volunteers. It is at least as much about recognizing that full

participation may bring major gains in how the quality of service is perceived. Quality in services often occurs during service delivery, usually directly at the point of interaction between the customer and provider, rather than just at the end of the process. This means that customers do not evaluate service quality based solely on the outcomes (e.g. the success of a medical treatment in a hospital) - they also consider the process of service delivery (e.g. how friendly and responsive were the hospital medical staff and how comfortable and clean was the ward). Research is therefore needed into how different concepts of quality can be operationalised and aligned with data on customer satisfaction and perceptions of value for money.

Thirdly, much of the research to date on the contributory factors to success in privatisation has focused on the methods of moving from a state-owned to a privately owned industry. There needs to be much more research into identifying success factors in actually running specific SGIs, and how to overcome the barriers which newly privatized services face, particularly in terms of transforming organizational culture and establishing entrepreneurial attitudes and market-oriented processes.



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## Annex – Relevant EU funded projects

### **PIQUE – Privatisation of Public Services and the Impact on Quality, Employment and Productivity**

The PIQUE research project investigated the relationship between employment, productivity and the quality of public services in the process of liberalisation and privatisation. The project covered four sectors – electricity, postal services, local public transport and health services/hospitals – in six European countries – Austria, Belgium, Germany, Poland, Sweden and the UK. The sectors and countries were selected to represent a wide variety of sector- and country-specific peculiarities and the challenges typical of the liberalisation and privatisation of public services across Europe.

#### Project implementation

The project integrated insights from different dimensions that are usually researched separately (regulation, employment, productivity, quality) and did so by crossing national and sectoral boundaries. It also went into companies to assess the impact at the point of service delivery.

In the first phase, the project analysed liberalisation and privatisation processes in the sectors of electricity, postal services, healthcare and local transport in the six selected countries. Then it looked at how these processes impacted upon labour relations, the level and quality of employment as well as the evolution of productivity. Going into the companies of the sectors investigated researchers looked into restructuring processes at company level as well as their management. Taking the user's perspective, the project assessed the evolution of quality, accessibility and accountability of the service. Finally, the project looked at the broad picture integrating results from all dimensions of the project to make a comprehensive assessment of the effects of liberalisation and privatisation processes in services of general interest in Europe.

#### Project consortium

Project coordinator: Working Lives Research Centre, Austria

Project partners: London Metropolitan University, UK  
Warsaw University, Poland  
Catholic University of Leuven, Belgium  
Hans-Böckler Foundation, Germany  
Göteborg University, Sweden

Further information about PIQUE and all outcomes of the project can be found at: <http://www.pique.at/>.

## **UPP – Understanding Privatisation Policy: Political Economy and Welfare Effects**

The UPP research project analysed the record of privatisation of services of general interest in Europe with the aim of better understanding its outcomes for society, with a focus on consumers, taxpayers, stakeholders and employees. In particular the project concentrated on a systematic analysis of determinants, methods, and economic and social implications of the privatisation process.

### *Project implementation*

In order to establish a sound theoretical foundation to study the political and institutional incentives and constraints affecting privatisation, the project looked at first into the link between electoral rules, political preferences and privatisation activity. This enabled the researchers to understand the political economy of privatisation and the accompanying regulatory reform. At this stage, the project also drew a complete picture of privatisation processes in Europe including sectoral breakdown and the methods used.

Another main objective of the project was to analyse the complex interactions between private and public ownership and control of firms, with special reference to regulated markets and SGI. Researchers developed a theoretical framework and then analysed the evolution of ownership and control structures of privatised firms with the aim of identifying the optimal level of a government's stake in companies.

The project then concentrated on evaluating the welfare effect of privatisation on society with particular focus on four groups of stakeholders. Effects on consumers were evaluated through analyzing the impact on individual and household welfare under different policy regimes, with special reference to water supply, gas, electricity and telecommunications. Outcomes for taxpayers were analysed by studying the role of privatisation in stabilizing the current budget and in maintaining fiscal balance in the long-run both at the local and central level. Insights into the situation of shareholders were achieved through evaluating the stock market performance of European listed privatised firms in order to identify their risk-and-return characteristics. Finally, welfare of employees was investigated by looking into long term effects of privatisation on employment levels and wages.

### *Project consortium*

Project coordinator:      Fondazione Eni Enrico Mattei, Italy

Project partners:          Pompeu Fabra University, Spain  
University of Milan, Italy  
University of Amsterdam, Netherlands  
IFO Institute for Economic Research, Germany  
Institute for International and Security Affairs, Germany  
Charles University, Czech Republic  
University of Padua, Italy

Further information about UPP and all outcomes of the project can be found at:  
<http://www.privatizationbarometer.net/upp/>.

## **PRESOM – Privatisation and the European Social Model**

The PRESOM project aimed to mobilise and integrate European research capacities in a broad range of disciplines to assess the impact of privatisation and liberalisation in the EU on the emerging European Social Model (ESM). In analysing new constellations between the public and the private sector the project addressed one of the central problems of a knowledge-based society: the changing relationship between citizens and institutions – markets, firms and governments.

### Project implementation

The main objective of the project was to organise interdisciplinary communication between different scientific centres, social groups and political actors involved in the debate on privatisation and the European Social Model. The exchange of knowledge and opinions was structured alongside a number of different topics including the theory of liberalisation and privatisation and its history, as well as the impact of these processes on economic performance, social cohesion and political structures. The project also engaged in policy dialogue with different political actors, social partners and stakeholder groups focusing on the optimal combination of public and private sectors that would favour a strong Social Europe.

### Project consortium

Project coordinator: University of Dortmund, Germany

Project partners:

- Nicos Poulantzas Institute, Greece
- Working Lives Research Centre, Austria
- Institute for Economic Analysis and Informatics, Hungary
- University Paris-Nord 13, France
- CEPREMAP, France
- Vienna University of Technology, Austria
- Delft University of Technology, Netherlands
- University of Greenwich, UK
- Budapest Corvinus University, Hungary
- Belrin School of Economics, Germany
- University of Leeds, UK
- Poznan University of Economics, Poland
- Slovak Academy of Sciences, Slovakia
- University of Rome La Sapienza, Italy

Further information about PRESOM and all outcomes of the project can be found at:  
<http://www.raumplanung.tu-dortmund.de/irpud/presom/index.php?id=home>.

## **GRASP – Growth and sustainability policies for Europe**

The main purpose of this project is to address policy concerns associated with growth in an integrated analytical framework. This framework is built on the Schumpeterian growth approach developed by Philippe Aghion. It emphasizes quality-improving innovation in imperfectly competitive markets and suggests that optimal growth policy may depend on levels of technological (and financial) development and on seemingly unrelated yet relevant policies. The policies correspond to a multi-layered vision of policy drivers of growth.

### Project implementation

The five layers address gaps in current European research on growth: R&D (the Lisbon focus); structural economic reform; legal, institutional and organizational reforms; global commitments, and the fiscal policy. In particular, the structural economic reform layer aims to analyse the effective contribution of (or impediments due to) sectoral (infrastructure, environmental and education) and regional policies in key sectors for economic growth. The focus here lies on sectors, which are commonly considered important for economic growth and in which public policy issues play an important role such as education, health, infrastructure and environmental policy, energy and public transport and water.

### Project consortium

Project coordinator: Centre for Economic Policy Research, UK

Project partners: Free University of Brussels, Belgium  
Bocconi University, Italy  
German Institute for Economic Research, Germany  
University of Oslo, Norway  
Tilburg University, Netherlands

Further information about GRASP and all outcomes of the project can be found at:  
<http://grasp.cepr.org/>.

## **COCOPS – Coordinating for cohesion in the public sector of the future**

This project seeks to comparatively and quantitatively assess the impact of New Public Management-style reforms in European countries, drawing on a team of European public administration scholars from 11 universities in 10 countries. It analyses the impact of reforms in public management and public services that address citizens' service needs and social cohesion in Europe. Evaluating the extent and consequences of NPM's alleged fragmenting tendencies and the resulting need for coordination is a key part of assessing these impacts.

### Project implementation

In eight related international research activities, COCOPS will map and analyse innovative mechanisms in the public sector to improve social and policy coordination, especially when the public sector is facing the public crisis. The research will contribute to our understanding of the impact of NPM by integrating sectoral and national analyses, and to the development of future public sector reform strategies by drawing lessons from past experience, exploring trends and studying emerging public sector coordination practices. Among the research activities, the project will interview 3,000 European public managers in ten countries to gain insights into how public managers in Europe perceive the impact of public management-style reforms on public sector efficiency, effectiveness and economy (performance) as well as on public sector values, equity and professionalism. The project will also perform a 10-year longitudinal analysis on citizen satisfaction with liberalized public services. The purpose of this is to detect different trends in such longitudinal satisfaction and behaviour of different socio-economic groups to test the commonly held assumption that NPM-style reforms, such as the liberalisation of utilities and public transport, have led to a two-track public services. This assumption posits that especially well-educated, vocal and wealthy citizens have benefited from liberalisation, because they are able to loudly express voice and exercise choice, while the position of more vulnerable citizens vis-à-vis these services has weakened. The result would be a decline in social cohesion.

### Project consortium

Project coordinator: Erasmus University of Rotterdam, Netherlands

Project partners: Hertie School of Governance, Germany  
University of Exeter, UK  
Cardiff University, UK  
Tallinn University of Technology, Estonia  
Bocconi University, Italy  
Catholic University of Leuven, Belgium  
University of Bergen, Norway  
University of Cantabria, Spain  
Corvinus University, Hungary  
National Centre for Scientific Research, France

Further information about COCOPS and all outcomes of the project can be found at:  
<http://www.cocops.eu/>.