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Private Gain – Public Loss?

The Impacts of Privatisation and Liberalisation of Public Services in Europe.

Since the 1980´s, one of the most frequently implemented worldwide political and economic development strategies has been privatisation. Especially in the global South, but also in Eastern Europe and the OECD states, privatisation is often perceived as a panacea for all economic and political problems. While privatisation and liberalisation initially were implemented as reform strategies in sectors not related to public services, there has been a strong push for privatisation of basic services like electricity and water supply, education and social welfare systems in recent years. The IMF, World Bank, OECD, WTO and European Union (EU) are the most prominent international organisations pushing for privatisation and liberalisation. Likewise, national governments and especially private business groups such as Transnational Corporations (TNC´s) play a crucial role in these policies. Thus, Structural Adjustment Programs (SAP) - now referred to as Poverty Reduction Strategy Papers (PRSP) - conditional credits, multi- and bilateral trade and investment agreements (e.g. GATS) as well as national and supranational directives further the process of privatisation and liberalisation.

In accordance with the neo-liberal ideology this leads to a political environment primarily focused on efficiency and profit making. The apparent need to efficiently reform public services combined with a lack of public funds leads to the widespread belief that this reorganisation can only be successfully achieved through privatisation, thus ending the search for any alternative reform strategies.

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Neoliberal proponents argue that privatisation will enhance both efficiency and quality of services. They maintain that the regulation of private companies by the state “in the interest of the public” will guarantee a minimum of social justice. From this point of view, privatisation results in a win-win situation in which the state, private actors and the users - now seen as “customers” - all reap the benefits. Conversely, privatisation critics argue that the profit-oriented nature of private actors is opposed to the need for redistribution and to the usually very high investment costs in public services. Therefore, privatisation is stated to intensify social polarisation, to increase financial costs for public authorities and to diminish democratic influence on public service delivery. So far, the analysis of the effects of privatisation has mainly been focused on the global South. However, increasingly privatisation processes inside the European Union are studied and politically debated on. On the one hand this can be ascribed to progressive privatisation within European Union member states; on the other hand this is due to the EU or EU-commission actively promoting liberalisation and privatisation in its European and international policy. Systematic studies on the impacts of privatisation barely exist. However, a look at sector and country specific examples of European privatisation processes and their consequences helps to shed light on some general trends and highlights various blind spots in previous evaluations.

Public services and public interest

Public services like energy and water, transport, telecommunications, education and health care are the fundamental basis of democratic societies. *Unrestricted access to public services guarantees that basic rights are protected; this is particularly true for those users who otherwise would be excluded from using these services by excessive costs or exclusive rights of use*. Publicly organised and accessible services also ensure that tasks will be tackled that cannot only be accomplished by individuals (e.g. long-term-investment, issues of coordination). Therefore the meaning of '*public* service' has several dimensions that correspond to social equality and democratic control: *public consumption (non-exclusiveness), public decision making (democratic control and participation in decision making processes) and public distribution of benefits (access and availability for all)* (Martens/Hain 2002:13, Kaul 2003). Whether basic services are generated by the private or the public is the outcome of negotiation processes within societies – and therefore an inherently political decision. Underlying this decision is the definition of the 'public interest', which is defined by power structures and interests within society. Thus certain sectors of society can be excluded from participating in this process. This demonstrates how even publicly generated and democratically controlled service provision does not automatically guarantee equal and unrestricted access to basic services for all.

Due to the role of public services in society, privatisation involves changes that are closely linked to questions of social justice and citizenship, equal opportunity, and democratic participation. Hence, in an analysis of privatisation and liberalisation questions of social, socio-economic and political impacts need to be addressed. A list of criteria for such an analysis includes the following aspects:

Criteria for assessing

the impacts of privatisation and liberalisation

? Impacts on **market structures**: Is a public monopoly merely replaced by a private monopoly? Are the intended effects of competition thereby thwarted and the private companies' position of power protected and sustained?

? Impacts on **socio-economic security:** How do employment security and labour conditions develop? Is there an increase in precariousness?

? Effects on **access and distribution (supply guarantee):** How do prices and the service's quality develop? What are the socio-spatial effects and impacts on social equity, for gender specific, ecological and health issues?

? Effects on **economic efficiency:** how do business profits and financial costs for the public hand develop?

? Effects on **democratic control**: How do processes of public control, democratic participation and transparency (accountability, corruption) change in the course of privatisation and liberalisation?

The EU as a driving force of liberalisation

In many sectors of the service industry the EU is advocating liberalisation - within the EU as well as on an international level. In the 1990´s several EU-guidelines were issued prescribing the liberalisation of the telecommunications industry, postal services, and the transport system sectors. The aim of this policy is to create a single market within the EU in which service providers shall compete without being restricted by national laws. In the context of these guidelines of liberalisation many EU countries have implemented commercialisation, privatisation, and de-regulation as part of the liberalisation policies.

In principle, the EU stresses the "*unique significance of public services and their role as key elements in the European model of society,*" as well as its "*role in encouraging social and territorial cohesion*" (EU Kommission 2000:3, EU treaty: article 16). Public services are thereby declared to be the supporting pillar of so-called 'services of general economic interest' in the EU, to which *all* citizens should be granted equal access. For decades these have been provided by the state respectively local authorities in many countries, as the high costs of service provision were considered to be incommensurable with the profit interests of private companies. The contrast between public provision of services on the one hand and the policies of liberalisation on the other reveals that a radical transformation in EU politics has taken place: The former *public* provision of services with state regulation and public control stands in opposition to the model of a deregulated and often privatised supply of services promoted by liberalisation.

EU liberalisation regulations distinguish between various categories of services: In the *Green book on public services of general interest* (2003) the distinction is made between '*services of general interest'* (e.g. judiciary services and security services) and '*services of general economic interes*"'. The latter are services such as energy supply, telecommunications, and transport, which are of central significance for public life and economic development as a whole. Only for these services directives for liberalisation are issued by the EU. Instead of granting monopoly rights and exceptions to providers of public services, liberalisation aims to create competition between various suppliers. The EU's stance on ownership is basically neutral: Member states or local authorities can decide whether services are provided publicly or privately.

The EU does not provide mandatory guidelines in the education and social service sectors, nevertheless programmatic guidelines for reforming the national education systems and social services are being developed. Additionally, OECD policies propose de-regulation, liberalisation and privatisation and therefore play a decisive role in restructuring these sectors towards efficiency. Regional and multilateral liberalisation strategies of the EU thereby often go hand in hand. The single market strategy of the EU and the draft for service guidelines put forward by the EU commissioner Bolkestein in January 2004 in some aspects even go beyond the claims of liberalisation made by the contentious multilateral services agreement (GATS). *The European push towards liberalisation thereby principally questions previous rules of exception for public services as well as the present national scope of action* (Fritz 2004). This trend will be noticeably reinforced by the results of the European elections in 2004.

Impacts of privatisation and liberalisation

Experiences of privatisation and liberalisation in Europe vary greatly according to sector and country. Great Britain undoubtedly plays a special role in this process. With her aim of creating a "democracy of capital ownership", Margaret Thatcher launched a far-reaching programme of privatising public services and other business sectors in the 1980's. Apart from Britain, a far-reaching opening of the markets and privatisation in sectors such as railway transport, public transport, education, energy, and water supply has mainly taken place in the Scandinavian countries. *However, until now a full privatisation of railways and water services has only been implemented in Great Britain*. Despite EU attempts to "harmonise" the provisions of services for the general economic interest throughout Europe, there is a huge disparity in the present range of liberalisation and privatisation programmes. This is often due to unique traditions within individual countries and sectors, as well as to different power structures within society and politics. For example, whereas France proved hesitant to introduce an open market in the energy sector, Germany and Austria took a positive stance towards open markets and the participation of private investors in this sector. In contrast, water service delivery in France has been under responsibility of private businesses for about 150 years. These examples show that the stance on privatisation and liberalisation and strategies of carrying them out strongly diverge according to sector specific financial and political interests even within different countries.

Moreover, not only the scope of privatisation and liberalisation measures vary, but also their forms. These range from a full privatisation of public enterprises such as transferring public property to private property (e.g. British Rail), to the partial privatisation of a public company (e.g. Berlin water services), to the transferral of public duties to private companies that are publicly owned but formally privatised (Deutsche Bahn AG). In addition, public-private-partnership agreements (especially in education) as well as cross-border-leasing must be regarded as forms of privatisation. As the forms of privatisation vary greatly within the EU and the reforms were implemented at different times, studies about the impacts of privatisation and liberalisation of public services mainly focus on particular countries and sectors. What stands out is that particular social and political issues related to privatisation and liberalisation are not closely examined. Whereas studies commissioned by proponents of privatisation tend to concentrate on economic efficiency, price development, and improvements in quality of service in their analyses of effectiveness, research associated to issues of trade unionism and labour rights focuses on the effects of employment security and labour conditions. Other topics taken into account in current research are the changes of market structures, the economic consequences for public expenditure and service quality. Only few investigations critical of privatisation focus on questions concerning changes in democratic control and public influence. Gender specific studies and considerations of ecological consequences hardly exist at all and thus demonstrate blind spots of the analyses presently available.

However, with regard to the above mentioned social, socio-economic and political criteria, examples of negative impacts of privatisation and liberalisation can be sketched. Yet the causality between privatisation/liberalisation and the observed changes is not always clear-cut, especially since processes of commercialisation, liberalisation, and deregulation occur simultaneously and interact with each other.

Impacts on market structures: From state monopoly to private monopoly

A cross national and sector-wide trend towards market concentration and private oligopolies respectively duopolies emerges particularly in the network services such as energy provision, transport, telecommunications, and water supply. The intended effects of competition (to lower user costs) are thereby often put into question. In Great Britain for instance, the three largest bus companies operating locally own 50% of the entire market.

Similar developments can be observed in Denmark and Sweden (Andersen 2001). RWE and E.on dominate in supplying 60% of electricity in Germany (a duopoly). Here likewise, a concentration of businesses has taken place in the liberalised energy sector: Of nine companies previously supplying power only four have remained a few years after liberalisation (Eisig 2000:16). In many European countries the previously state owned but now formally privatised companies (e.g. in the railways DB, ÖBB, SNCF) have taken up the dominant position in the market. Strikingly, in the transport, energy, and water supply sectors, it is the international and transnational multi-utility companies (e.g. Veolia/Connex, E.on, RWE) which after only a few years have managed to secure control over the market. *According to the maxim "fit for the world market", European privatisation and liberalisation processes thereby proceed in the interests of transnational companies, which - in line with GATS - will in the future also want to safeguard their place in non-European markets.*

Socio-economic impacts:

Staff cuts and 'employment precariousness'

Within the network services massive staff reductions have occurred in most European countries in recent years. This often took place before actual privatisation, as can be seen by the example of DB AG, British Rail, ÖBB, and the former British water companies. In the process of restructuring, these formerly publicly owned companies introduced a policy of commercialisation which later became reinforced by privatisation. Results of the so called "socially acceptable staff cuts" for those still employed are longer working hours, increased overtime, fewer breaks, and in some cases (Great Britain) even a reduction in wages (Ruiters & Mast 2000 for the local transport sector). By outsourcing and the virtual abolition of civil service laws, which are obvious in the reforms of the Austrian railway system and developments in the German and British education systems, protective orders of employment legislation have been whittled away (official wage levels, employment security etc.). This also becomes apparent in the increase in short-term employment contracts and payments beneath a living wage. Last but not least, it has repercussions on industrial relations: In Sweden and Great Britain, as a result of the changes in employment politics caused by privatisation in the service industries, fragmentation and politically weakened trade union representation have occurred. Several studies describe this situation in Great Britain as being the intended result of a political project of deregulation and neo-liberal restructuring. Fundamental to this is that insecure employment conditions and price developments previous to and after shakeout are interrelated: Price reductions are thus financed by employment cut backs as well as precarious employment conditions, allowing for a more competitive position in the market.

Consequences for accessibility and service guarantee:

Cost development as a mirror of success?

Liberalisation, and in part privatisation, have led to a clear reduction in prices in some service sectors. This is apparent in the energy sectors of Great Britain and Germany as well as the local transport system in Scandinavia. However, a more detailed analysis reveals the truth about who benefits from these price cuts and to what extent long term price reductions can be observed. Electricity prices in Germany illustrate that the chasm is growing (Monstadt 2003: 36). While electricity prices for the industry sank by an average of 25%, households could only count on price reductions of about 9% until the year 2000. This reflects the industry's strong powers of negotiation. And in many cases price reductions are not long term: In Germany for instance electricity prices rose significantly in 2001, likewise in other European countries. A similar trend in prices is expected in the local transport sector in Sweden and Denmark. Initial price cuts – which were partly financed through staff cuts and aggravated working conditions –appear to be part of a "race to the bottom" in pursuit of securing a share of the market and "clients". *Once the distribution of market shares has been cemented (shakeout) the price curve often climbs way beyond the level prior to liberalisation/privatisation.*

Social polarisation, barriers to access and quality of services:

As an effect of commercialisation and privatisation of service delivery the access to public services for low income groups and socially disadvantaged groups often is not warranted. In some cases the accessibility of services could only been re-established by re-regulation through public authorities. Examples of this are the cutting off of water and electricity supply and the installation of 'pre-paid' water-meters for users who could not pay the user fee, placing the "decision" of access to water supply in the hands of the users in Great Britain. Similarly, within the education sector of Great Britain it also becomes evident that access to better equipped and respected schools (which are often privately sponsored) is denied to children of immigrants, the working class, and pupils with bad grades. Private suppliers' custom of "taking the pick of the bunch" (cherry picking) hereby becomes apparent: Schools compete for pupils with good results because they signify less work and are less cost intensive. The result is marginalisation, social and spatial segregation, and polarisation. Similar strategies of maximising profit and minimising costs by "taking their pick" can be seen in private businesses which focus on profitable routes and segments in the local transport network. Unprofitable, remote, and less frequented routes thus remain in public responsibility.

Proponents of privatisation argue that private service supply will improve service quality. The example of the privatisation of British water services apparently confirms this assumption, as water quality has clearly improved after privatisation even though it is still poor on a European comparison. Yet this quality improvement can be explained by the British government's investment cuts prior to privatisation (de-investment), resulting in British water quality that had rapidly deteriorated by the end of the 1980´s and was amongst the worst in the whole of Europe. Thus, after the privatisation of the water services, high investment in the infrastructure (pipe network) became indispensable and water quality improved (Bakker 2001).

Economic efficiency: private profits vs. high costs for the public hand

Privatisation does not necessarily relieve the public pocket, as is often argued by supporters of privatisation. Numerous examples clearly show that the privatisation of public services often leads to additional costs for public budgets and a long-term reduction in income. In Great Britain the sale of British Rail was dependent on the promise of long term state subsidies, an added incentive for prospective buyers. Just before Rail Track's (the network operator's) insolvency in 2001, the British government took over credit guarantees and authorised subsidies, 10 % of which the company paid out as dividends – thereby privatising public funds. Returning the railway system to state control in 2001 brought with it further costs for the British state (Wolmar 2001). In the railway sector as well as in the water and energy sectors (the latter being profitable sectors in many regions which cross subsidise other less profitable sectors) private reorganisation of public services is often linked to a cost intensive reorganisation of regulatory systems. The sales revenues of privatisation thus do not offset long term costs and losses in income for public revenue.
Peripheral service areas as well as cost intensive infrastructure facilities are abandoned and placed under public control, in line with "taking the pick of the bunch" (as above): For instance, private companies providing water in France concentrate primarily on urban areas, while water supplies in rural areas with their high investment costs are mostly provided by local authorities. In Great Britain there are growing demands from some private suppliers in the water sector to give up the cost intensive maintenance of the water system and take on the less risky and less cost intensive management instead (Bakker 2003).

Implications for democratic influence and control

The implications of the privatisation process of public services on questions of democratic control are difficult to grasp empirically. Particularly at the municipal level the first signs of a change in the influential power of various actors in the political decision making processes and redistribution mechanisms are becoming apparent. These are often caused by *creeping* privatisation: By transferring public companies to private corporations (Plc´s, Ltd´s etc.), *the sphere of influence of public actors is reduced* (Libbe et al. 2002). With the energy sector's liberalisation and the privatisation of municipal utilities, local authorities in Germany lose important funds for cross-subsidies to the local public transport systems. The liberalisation and privatisation of the energy sector has also had an indirect impact on the private providers' investment strategies in the water sector, as private companies can also gain access to the water provision services via the energy sector in municipal multi-utility companies.

Another example illustrating changes in local authorities' influence is the Grenoble corruption scandal, which led to the re-nationalisation of local water supplies (Hall/Lobina 2001): In 1989 privatisation was pushed forward by the mayor of Grenoble and a private company obtained a franchise for 25 years. In 1994 several franchise agreements were officially inspected and in the Grenobles case it was discovered that the mayor had received financial backing from the mother corporation for his election campaign. This case highlights the potential loss of control for public actors vis-à-vis private corporations. The structural inequalities between transnational corporations and local authorities (whose technical knowledge and capacities are limited) hamper public control and limit the democratic scope of action. Furthermore, due to the growing influence of private actors, which also manifests itself in the growing popularity of public-private-partnerships (PPP), political priorities are redefined particularly in areas where political negotiation processes within societies are influenced by private profit interests – as in the case of education and culture.

Conclusion

The studies on the impacts of privatisation reveal tendencies that cross sectors and borders as well as tendencies specific to certain sectors and countries. Especially in the development of private monopoly structures, ascending price curves and strategic staff cuts can be observed in diverse sectors of various European countries. Implications for supply guarantee, the quality of services, social effects, and loss of democratic influence have until now been described as country and sector specific. The trends highlighted here illustrate that public services in Europe are undergoing a fundamental transformation which touches on various dimensions of the '*public'* (availability, democratic regulation, and access) thereby essentially changing the character of public service provision.

In many respects the fears and critical assessments of those opposing privatisation are confirmed: The focus on efficiency and profits results in commercialisation, liberalisation and privatisation of basic services in the EU. Thus, social and socio-economic security in the European Union is no longer guaranteed for all citizens. In

place of social cohesion, a social chasm develops, as privatisation and liberalisation of public services create winners and losers on various levels: while some users profit from the privatisation of education and health care due to social or financial privileges, others are excluded from basic services. While private companies and trans-national corporations increasingly gain influence on political negotiations via informal and obscure processes, the potentials of public, politically defined control, as well as of democratic influence are being restricted in the course of privatisation and liberalisation. And while the profits from the generation of formerly public services accumulate in the pockets of private providers, public authorities face growing budget deficits. The enforcement of privatisation of public services therefore leads to a '*private gain and public loss*'.

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