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# Private Gain – Public Loss?

CONSEQUENCES OF THE PRIVATISATION OF PUBLIC SERVICES IN EUROPE.

Since the 1980's, the political and economic strategy worldwide has been one of privatisation. Particularly in the southern hemisphere and in the OECD states, privatisation is perceived as the neo-liberal cure for all economic and political problems. This has resulted in ever increasing pressures on the public services responsible for supplying water, electricity, telecommunications, education, as well as social welfare programmes. The main agents of privatisation are organisations such as the IMF, the World Bank, OECD, WTO, as well as national governments, private business groups such as transnational corporations (TNC's), and the EU's Strategic Action Programmes (SAP) now called Poverty Reduction Strategic Papers (PRSP). Conditional credits, multi- and bilateral trade, investment agreements e.g. GATS, as well as national and supranational directives all enforce privatisation and liberalisation at various levels.

In accordance with neo-liberal ideology this leads to the creation of a politics primarily oriented on the criteria of efficiency. The need to reform public services combined with financial difficulties and a lack of public funds leads many to the belief that private enterprises should be responsible for such organization, thus ending the search for any alternative reform strategies.

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Proponents of privatisation argue that it will ensure a better quality of service. The regulation of private companies by the State acts »in the interest of the public« thereby guaranteeing a minimum of social equity. From this point of view privatisation results in a win-win situation, from which the State, private actors, and the user- »client« profit in equal measure. On the other hand

privatisation critics argue that the profit oriented nature of private actors stands in opposition to the need for redistribution and often results in excessively high investment costs in many of the public service industries. Intensified social polarisation, high financial costs for public establishments, and diminished democratic influence are often claimed to be consequences of privatisation. Until now analyses of privatisation concentrated primarily on the countries in the south. However, privatisation processes within the European Union are increasingly becoming the object of political debate. On the one hand this can be ascribed to progressive privatisation within European Union member states, on the other to the active role of the EU or EU-commission promoting liberalisation and privatisation in international policy. Systematic analyses of the consequences of privatisation rarely exist. A look at sector and country specific analyses of European privatisation processes and their consequences sheds light on general trends, while at the same time highlighting the blind spots in previous evaluations.

## Public services and public interest

Public services are symbolic of the democratic participation of all human beings in society's development. Unrestricted access to public services guarantees that basic rights are protected in particular for those who otherwise would be excluded from using these services by excessive costs or exclusive rights of use. They also undertake those essential social tasks which the individual alone is not able to carry out (long term investment, problems of coordination). What is »public« takes on dimensions of social equality and democratic control: public consumption (universal availability), public decision making (democratic control and participation in decision making processes) and public provision (access for all) (Mart-ens/Hain 2002:13, Kaul 2001).

Whether the service industry is created by the private or the public is the result of public negotiation and is therefore a political decision. Underlying this decision is often a definition of »public interest«, which itself is defined by power relationships and interests within society, resulting in the exclusion of certain sectors of society not represented within this »public interest«. Therefore even publicly generated and democratically controlled services do not automatically guarantee socially equal and unrestricted access. Due to their individual character the privatisation of public services involves changes that are closely linked to questions of social equality, equal opportunities, and democratic structural possibilities. With this in mind an analysis of the consequences of privatisation and liberalisation from the perspective of the social, socio-economic, and political is of fundamental significance. A list of criteria is required for such an analysis to be carried out including the following points:

### **The EU as an agent of liberalisation**

In many sectors of the service industry the EU is the central actor advocating liberalisation within the EU as well as on an international level. In the 1990's several EU-guide-lines were issued prescribing the liberalisation of the telecommunications industry, postal services, and the transport system sectors, with the aim of creating a single European market in order to enable the unrestricted and competitive provision of services across borders. The guidelines of liberalisation were presented in such a context that encouraged many EU countries to implement commercialisation, privatisation, and deregulation as part of a broader liberalisation policy. 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 commission 200:3, EU treaty article 16).

Public services are thereby the supporting pillar of so-called »services of general and economic interest« in the EU, to which all citizens should be granted equal access. For decades these were provided by the state in many countries. The aim of equal provision for all citizens proved to be a hurdle for private providers due to high costs and a lack of profitable prospects. From this public provision of services on the one hand and the described policies of liberalisation on the other, a radical transformation in EU politics becomes apparent: 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) a distinction is made between »Services of general interest« (eg. judiciary services and security services) and »services of general economic interest«. The latter are services such as the supply of energy, telecommunications, and transport, which are of central significance for public life and economic development as a whole. Only for these services are guidelines for liberalisation issued by the EU. Instead of monopoly rights and exceptions for providers of public services, liberalisation aims to create competition between various suppliers. The EU 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 developments in reforms of national education systems and social services are developing in line with market economics. OECD policies of deregulation, liberalisation, and privatisation, play a decisive role in efficiently restructuring these sectors.

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 go beyond promoting liberalisation as propounded by the contentious multilateral services agreement: GATS. The European push towards liberalisation thereby principally calls into question previous rules of exception for public services, as well as the present national scope for action (Fritz 2004). This trend will be noticeably reinforced by the results of the European elections.

### **Consequences of privatisation and liberalisation**

Experiences of Privatisation and liberalisation in Europe vary according to sector and country. Great Britain plays

<b>Criteria for assessing the consequences of privatisation and liberalisation</b>
<ul style="list-style-type: none"> <li>• Consequences for market structures: is public monopoly merely replaced by private monopoly and are the targeted effects of competition thereby thwarted and private actors position of power protected?</li> <li>• Effect on socio-economic security: how do employment security and the conditions of employment develop? (Precariousness)?</li> <li>• Effect on access and distribution (Supply guarantee): assessment of price development, regional impact and implications for gender specific, ecological and health issues?</li> <li>• Effect on economic efficiency: how do service quality, business profits and consequent financial costs for the public purse develop?</li> </ul>

a special role in this process. With the aim of creating a »democracy of capital ownership«, Margaret Thatcher launched an extensive program of privatisation in public services and other business sectors in the 1980's. An extensive opening of the markets and privatisation in sectors such as railway transport, public transport, education, energy, and water supply has only really occurred in the Scandinavian countries. However, until now a complete privatisation of the railways and water services has only occurred 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 histories and traditions within individual countries and sectors, as well as different power relationships 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 toward open markets and the participation of private investors in this sector. On the other hand the supply of water in France has for 150 years been under the responsibility of private business. These examples demonstrate the positions to and strategies of privatisation and liberalisation of individual countries strongly diverge according to sector specific financial and political interests.

It is not only the scope of privatisation and liberalisation measures that vary, but also the forms. These range from a total 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 or a privately legal publically limited company (Deutsche Bahn AG). In addition, public-private-partnership agreements must be regarded as being forms of privatisation (e.g. in education) as well as cross border leasing. Studies into the consequences of privatisation and liberalisation of public services are only available for particular countries and sectors depending on the differences in range, the time of realisation and the type of privatisation. What stands out is that particular sectors of society are not chosen as central themes. Whereas proponents of privatisation tend to concentrate on economic efficiency, price development, and improvements in quality of service in their analyses of effectiveness, the trade union research focuses on the effects of employment security and working conditions. Other topics which are taken into account in research are the development of market structures, the economic consequences for public expenditure, and the uninterrupted service to the public. A few investigations critical of privatisation concentrate on questions concerning changes in democratic control

and public influence. Gender specific examinations and considerations of ecological consequences hardly exist and demonstrate blind spots of analyses. Through the use of examples the above mentioned social, socio-economic and political questions allow for a multitude of criticisms of the consequences of privately provided services. The cause and effect of privatisation and the observed changes are not always clear-cut, especially since processes of commercialisation, liberalisation, and deregulation occur simultaneously and interact.

### **Consequences for market structure: From state monopoly to private monopoly**

A nationwide trend throughout all sectors towards market concentration and private oligopoly and duopoly emerges particularly in the network services such as energy provision, transportation, telecommunications, and water supply. The target of engendering competition (lower user costs) is 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 course of liberalising the energy sector: Of nine companies previously supplying power only four remain a few years after liberalisation (Eisig 2000:16). In many European countries it is the previously state owned but now legally privately owned distributors (e.g. in the railways DB, ÖBB, SNCF) which 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 which after only a few years have managed to secure control over the market (e.g. Veolia/Connex, E.on, RWE). 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 consequences:**

#### **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 public 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 a reduction in wages (Ruiters&Mast 2000 for the local transport sector). By outsourcing and the virtual abolition of civil service laws, which are apparent 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, Denmark, 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 has 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 inter-related: 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 mirror of success?**

Liberalisation, and in part privatisation, have led to a clear reduction in prices in a few of the 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/degree long term price reductions can be observed. Electricity prices in Germany illustrate that the chasm is growing. (Monstadt 2003: 36). While prices within the electric industry sank by an average of 25%, households could only count on price reductions of about 9% until the year 2000. This reflects the relatively low economical individual gain as well as the industry's strong powers of negotiation. In many cases price reductions are not long term: For instance in Germany electricity prices rose significantly in 2001, likewise in other European countries similar trends in prices are expected in the local transport sector in Sweden and Denmark. Initial price cuts, which were partly financed through staff cuts and aggravated working conditions, create what appears to be 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 service**

The commercialisation and privatisation of services often leads to limited access for those citizens with lower incomes. In several cases this can only be redressed by an appropriate state regulation of private suppliers. An example is Great Britain, where water and electricity supplies are cut off for those unable to pay, and where the installation of pre-paid water counters has taken place, placing the »decision« of access to water supplies in the hands of the user. 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« hereby becomes apparent: Schools compete for pupils with good grades 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 are abandoned, and thus unavailable to the public sector. Proponents of privatisation argue that there is an improvement in the quality of services when services are supplied by private business. The example of the British water supply apparently confirms this, as the water quality clearly improved after privatisation even though it is still poor on a European comparison. This quality improvement can be explained by the British government's investment cuts prior to privatisation, 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. After the privatisation of the water services, high investment in the infrastructure (pipe network) became indispensable and water quality improved (Bakker 2001).

#### **Economic efficiency: profit vs. high costs**

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. After Rail Track's (the network operator) 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 consequential 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 several private suppliers in the water sector to give up the cost intensive maintenance and expansion of the water system and take on the less risky and 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 and possibilities of influence 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 2003). With the energy sector's liberalisation and the privatisation of municipal utilities, local authorities in Germany lose important funds for cross subsidising local public transport systems. The liberalisation and privatisation of the energy sector has also had an indirect impact on the investment of private providers in the water sector, as these 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 corp-

orations. 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), content and priorities are redefined particularly in areas where the society's negotiation processes are replaced by private profit interests- as in the case of education and culture.

#### **Conclusion**

The available analyses and studies on the consequences of privatisation reveal specific tendencies and trends that span 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 reaches 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 privatisation opponents are confirmed: By concentrating on private profit logic as a result of commercialisation, liberalisation and privatisation, the social and socio-economic security in European Union countries is no longer guaranteed for all. In place of social cohesion, a social chasm develops. Privatisation and liberalisation of public services creates 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 certain services. While private companies and transnational corporations increasingly gain influence over social treaties via informal and obscure processes, the possibilities of public, politically defined control, as well as democratic influence is restricted. And while the profits from the generation of public services accumulate in the pockets of private providers, public authorities face growing budget deficits. The enforcement of privatisation in public services leads to the principle: »private gain – public loss«.

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