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NEWSLETTER 2

PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON QUALITY, EMPLOYMENT AND PRODUCITIVITY (PIQUE)

VARIETIES AND VARIATIONS OF PUBLIC SERVICE LIBERALISATION AND PRIVATISATION

One of the main objectives of the first year of the PIQUE project (see the Editorial, Page 3) was the production of 24 sector studies outlining the process of liberalisation and privatisation in the four sectors – electricity, local public transport, post and health services/hospitals – and six countries – Austria, Belgium, Germany, Poland, Sweden and the UK – under investigation. Based on these studies (available to download from www.pique.at), the project then drew a series of conclusions with respect to processes of liberalisation and privatisation of public services in Europe and new forms of regulation.

INTRODUCTION OF COMPETITION

While liberalisation has often led to the abolition of national or regional monopolies, the result is not necessarily the emergence of highly competitive market structures. Instead, competition in liberalised public service markets is often distorted by high market concentration. In our sample, we only found two cases – electricity in Poland and the UK – in which market structures shifted from a monopoly to a relatively low degree of market concentration. In contrast, at least in one sector liberalisation had the opposite effect, causing a shift from a relatively low to a relatively high degree of market concentration. The respective sector is local public transport in Sweden. A high level of market concentration, however, does not prevent there being fierce competition between several providers in certain sectors and submarkets, as can be seen from unaddressed mail delivery in Germany.

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- Covers 4 sectors (electricity, postal services, local public transport, health/hospitals) and 6 countries (AT, BE, GE, PO, SE, UK)
- Assesses different forms of liberalisation and privatisation and ensuing company strategies
- Explores the impact on employment, working conditions, labour relations, productivity and service quality
- Involves stakeholders and discusses results in a series of workshops and a final conference

Taking other factors into account (e.g. the number of markets and kinds of competition), we found the emergence of highly competitive market structures in the electricity sector in Poland and the UK and in local public transport in the UK and in Sweden. Moderate progress towards more competitive markets was made in the postal services sector in Sweden, Germany and the UK, in local public transport in Germany and Poland and in electricity in Sweden but progress was limited in the remaining sectors, including all four sectors in Austria and Belgium, postal services except for Sweden and the hospital sector except for Germany.

CHANGES IN OWNERSHIP STRUCTURES

Liberalisation was often accompanied by a change in ownership structures. Ownership changed from a predominantly public to a predominantly private structure in the electricity and local public transport sectors in the UK and in postal services and the hospital sector in Germany. A substantial increase in private ownership can also be found in Austrian and Belgian postal services and in the electricity sector in Austria, Germany, Poland and Sweden. Most of the remaining sectors have seen an increase in private ownership but with a limited effect on overall ownership structures. Hence, our analysis shows that while liberalisation was rather modest with respect to the establishment of highly competitive market structures, it was more successful in changing ownership structures and in increasing the proportion of private ownership.

NEW FORMS OF REGULATION

Before liberalisation, the dominant form of regulation was public ownership. In all of the 24 sectors included in our analysis there was some form of public ownership. In addition, the state exerted considerable influence over private providers by overseeing investment plans, coordinating and securing supply and approving prices. Regulation, in short, governed the whole process of service provision. With liberalisation, the focus of regulation shifted from governing the entire process to regulating certain aspects of the service supply chain or to partially controlling outcome. In this connection, independent regulatory authorities, licences and contracts have become important regulatory instruments. In the electricity sector, for instance, regulation now focuses on the segments of transmission and distribution whereas generation and supply are largely left to market mechanisms.

While in the electricity sector regulation thus has been limited to certain segments of the supply chain, in postal services the adoption of the universal service obligation has put increasing emphasis on controlling outcome. However, companies without a universal service obligation are free to offer services at their own terms and prices. In local public transport, regulation also increasingly focuses on controlling outcome as regional transport authorities tender more and more services in temporary contracts. The tendering organisations have created new control instruments and procedures to make sure that contractors meet their responsibilities. At the same time, the introduction of public tendering entails as shift from licences to contracts.

In sum, with liberalisation the objective of regulation shifted from overseeing the process of service provision to enabling competition. In certain market segments the loss of regulatory oversight has been compensated for by increasing efforts to control outcome. More often, however, outcome is left to the 'free play' of market forces. This raises questions on the impact of liberalisation and privatisation on employment, productivity and service quality – issues that the project is currently investigating.

Christoph Hermann, FORBA and Koen Verhoest, KU Leuven.

Christoph Hermann, FORBA, and Koen Verhoest, K. U. Leuven

The full report, "Varieties and Variations of Public-Service Liberalisation and Privatisation in Europe", is now available to download from www.pique.at/Reports and publications

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The PIQUE Newsletter is published electronically at irregular intervals throughout the project.
To receive the electronic PIQUE Newsletter and email project updates please register at www.pique.at

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EDITORIAL

The PIQUE project has almost reached half-time (the project runs from June 2006 to May 2009). In the first 18 months we have accomplished a number of research objectives: In addition to the 24 sector studies compiled by the national teams on liberalisation and privatisation in the six countries involved (see Page 1), a synthesis report based on these reports was drawn up on the varieties of liberalisation and privatisation (discussed in more detail on Pages 1&2). Another element of the PIQUE study investigated the impact of liberalisation and privatisation processes on labour relations (see Pages 3&4). Currently, members of the PIQUE team are working on an assessment of the impact of liberalisation and privatisation on employment while our British colleagues are investigating the consequences for productivity. The results will be put on the PIQUE website (www.pique.at) in the coming weeks and months.In a next step, the project will now focus on the company case studies for which managers, works council representatives and workers will be interviewed on the consequences and challenges of liberalisation and privatisation for the delivery of public services. Simultaneously, a large-scale representative survey is underway in the countries covered by the project asking consumers about the impact on service quality.
During the first 18 months of the project, PIQUE results have been disseminated in numerous articles, book chapters and papers given at meetings and conferences in, amongst others, Berlin, Brussels, Manchester, Marburg, Montreal and Vienna. Some of these are available to download from the project website at www.pique.at.

THE IMPACT OF PRIVATISATION AND LIBERALISATION OF PUBLIC SERVICES ON LABOUR RELATIONS

Despite major differences in labour relations in the past there were some general characteristics that are typical for collective bargaining structures in the public sector in most European countries. These include high levels of union membership, extensive bargaining coverage and relatively homogenous employment and working conditions, even if in several cases bargaining was based on informal processes. These characteristics have been increasingly put into question with the liberalisation and privatisation of public services. The PIQUE project has analysed the impact of liberalisation and privatisation on labour relations in the four sectors and six countries under investigation. The general finding is an increasing fragmentation of the bargaining structure and subsequently employment conditions within the former monopoly suppliers (especially between employees with and without civil servant status) as well as between the former monopoly suppliers and the new competitors.
In several sectors and countries, new competitors are covered by no or different collective agreements and profit from lower employment standards (lower wages and longer or more flexible working hours). Due to this lack of a level playing field, competition in these sectors threatens to start a downward spiral with the result that some providers use wage dumping as a method to increase their competitiveness. On the other hand, our findings show that some countries and sectors are more successful in establishing equal employment conditions. These are some of the sector-specific findings:

POSTAL SERVICES

The former state-owned postal companies are typically no longer part of the public sector agreements. Instead, the former monopoly providers now have their own company agreements. Labour relations in the newly established postal companies vary from country to country: While collective bargaining at sectoral level is relatively strong in Belgium and Sweden, all other countries have a rather fragmented bargaining structure with agreements at company level only or no agreements at all. Without sectoral regulation there is a strong potential for wage dumping. Such practices can be found in Germany, where employees with the new competitors have substantially lower wages and more flexible working hours, but also in Austria, where a major part of the workforce with the new competitors are self-employed and therefore lack the coverage of any form of employment standards or protection.

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ELECTRICITY

Compared to the other sectors, in the electricity sector changes in bargaining structures were rather modest. These changes are mostly the result of the outsourcing of certain services. In addition, there is a tendency that wages differentials increase with wages being still comparably high in the production segments but lacking behind in the retail part of the electricity supply chain. In sum, however, bargaining structures remain largely intact and bargaining coverage is still extensive.

LOCAL PUBLIC TRANSPORT

In local public transport liberalisation and privatisation has also led to a fragmentation of bargaining structures and strong differences between public and private providers. In addition, however, there are also growing differences within public companies with new entrants offered worse employment conditions than the more senior staff. However, Belgium and Sweden have at least maintained comprehensive collective agreements at the sectoral level.

HOSPITAL SECTOR

The hospital sector has seen a wave of contracting out, frequently accompanied by a deterioration of wages and working conditions for the workers providing outsourced tasks. However, labour relations in public hospitals are usually still part of the public sector labour relations regime. There are sectoral agreements for private hospitals in Austria, Belgium and Sweden. In the other countries private hospitals are either covered by company agreements or not covered at all. Depending on the national labour market situation wages and working conditions in private hospitals can be either lower or higher than in public clinics.

Thorsten Schulten, Torsten Brandt, WSI

The full report is now available to download from www.pique.at/Reports and publications

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