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

Liberalisation, privatisation and regulation in the Swedish postal services sector

Monica Andersson, Christer Thörnqvist, Department of Work Science, Göteborg University

Country report on liberalisation and privatisation processes and forms of regulation

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Department of Work Science
Göteborgs Universitet
P.O. Box 705
40530 Göteborg
SWEDEN

ABSTRACT

The only part of postal services that was monopolized before the liberalization was the letter market. This branch was however a total, legally guaranteed state monopoly. The opening-up of the postal market took place between 1992 and 1994, when the Swedish Post Office was both transformed into a independent, but still state-owned company and also exposed to competition. The dominant role of the transformed company, Posten AB, has however remained and it today holds approximately 93 per cent of the letter market. The only private competitor worth mentioning is CityMail with about 6.5 per cent of the market, while all other actors taken together count for no more than half a per cent. During a short period of the liberalization process, from January 1993 to March 1994, the postal market was in a legal limbo, which according to some commentators had a lasting impact on the fluctuating number of very small actors. Today there are no legal limits that differ postal services from any other industry. Quality, price, accessibility etc. are regulated by legislation and all guiding EC law clauses are inaugurated into the relevant Swedish laws and decrees. Somewhat paradoxically, the Swedish state itself has been the by far most important actor in the liberalization process, in electricity as well as in postal services. This is due to the strong political consensus about the need for productivity increases in the public sector. Other stakeholders did not press for changes, but rather entered the markets after the Swedish government(s) had paved the way. If one head actor should be highlighted, it is no doubt the centre-right government that was in office between 1991 and 1994, but the preceding Social Democratic government had facilitated, not opposed, such a move, and the Social Democratic government that came into power in 1994 did nothing to reverse the process. Yet, in postal services it is barely possible to talk of any serious changes after the liberalization, either in the letter market or in the distribution of other postal items that were open for private enterprises even before 1993.

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1. MARKET STRUCTURE

1.1. Market structure before the liberalization process[1]

The postal system is one of the oldest governmental bodies in Sweden. It origins from the need for reliable intelligence transport during the Thirty Years' War in the 1620s and the first statutes for the Swedish Post Office bears the date 20 February 1636. Hence, it was a more than 350 years long history of public administration that was brought to an end in March 1994, when the Post Office was unbundled and transformed into a company: *Posten AB*. The company was still public-owned, though. Ever since 1946, when some local distributors were legally excluded from the market, the postal market had been a total state monopoly.

The postal market in Sweden is defined as the *distribution of items of mail*. In practice this means that the producer is the company that distributes letters, and the customer is the one who pays for the service. In the most common, narrow sense, this definition excludes distribution of newspapers, advertising brochures and deliveries sent by hand, but the demarcation is not written in stone. Before liberalization, there was thus a sharp dividing-line between 'letters' and 'parcels'; it was only the distribution of items of mail that weighed less than two kilos that was deregulated. Heavier items, as well as newspapers etc., have always been open for distribution by private entrepreneurs. An important distinction between post encompassed by the monopoly and post open for free entrepreneurs was whether the sent item was 'written' or 'printed'; i.e., something that was mass duplicated in one way or another was open for private distribution, while items directed to a single, individual receiver were solely a matter for the Post Office's transports. The judicial distinction between the two forms of items was never tried in court, though (Löfström 2003; SOU 2005 # 4: 397-98).[2]

1.2. Market structure after the liberalization process

In 2005, there was a public investigation, *Regelutredningen*, of the effects for consumers from privatization and liberalization in six formerly sheltered markets. The investigation found it hard to differentiate the effects of liberalization and privatization

[1] In the following, we do not make any sharp distinction between 'privatization' and 'liberalization', since the processes overlapped more or less to 100 per cent both in reality and in political discourse. Since the only actor on the market before the liberalization, the Swedish Post Office, was transformed into a company, Posten AB, that is still 100 per cent state-owned, the term 'privatization' is in fact a bit dubious in this case. At large we do however of course concur with the definition made in the PIQUE guidelines presented by Verhoest and Sys (2006), i.e. that liberalization is 'the opening-up of markets for competing providers regardless of who owns the competing companies', while privatization is 'the existence of some privately owned shares in public service providers'.

[2] We shall briefly return to the size of the parcel market in section 3 about ownership below.

from the effects of technological development in postal services; this because the substitute competition from other forms of communication, in particular electronic distribution, has increased in the period after the liberalization. Still Regelutredningen argued that the competition has had an overall positive effect on the letter market in Sweden. The empirical evidence for this conclusion is however weak. The number of competitors in the business has varied considerably, but seems to now have stabilized at slightly below 40. In 2004 there were 35 competitors. Yet, there is only one *significant* competitor to Posten AB on the letter market, namely the company *CityMail*, and also that competition is rather limited. In 2003, that is, ten years after the liberalization took off in practice, Posten AB still held 92.9 per cent of the total market shares. CityMail held 6.6 per cent and other competitors together 0.5 per cent. The figures do however not tell the whole truth; CityMail actually reaches 40 per cent of all addressees in Sweden. In the words of Regelutredningen, the extreme domination of Posten AB is a result of four main factors: 1) the company is efficient and therefore manages well even when it is competition-exposed; 2) the letter market bears the mark of a ‘natural’ monopoly, partly because of Sweden’s highly rural and sparsely populated character; 3) there are high ‘entrance barriers’ to the market; and 4) Posten AB had used its dominant position to exclude competitors with ‘competitively disgusting means’. Nor did Regelutredningen see any opening for a recent change of the competitive situation (SOU 2005 # 4: 418-22). Why the means for competition were ‘competitively disgusting’ is not very clearly expressed.

Be that as it may, the *thinking* within the organization of Posten AB changed dramatically over years of the liberalization process (Löfström 2003). On the surface, it is perhaps true that not much has happened. The only change that directly affects people’s everyday life is the closing-down of all post offices; today there are only small ‘postal stores’ for economic transactions, while sending and receiving items too big for a mailbox, buying stamps and envelopes, and so on are now handled by supermarkets and convenience stores.

A thorough study by Carina Löfström (2003) has however showed a great deal of activities beneath the surface, activities that are both a result of, and a mover for new ways of thinking, but with little bearing on the actual, organizational outcome. Management repeatedly initiated new reforms, but did not see what changes (or lack of changes) that had already occurred. A major difficulty was to integrate new ideas with old habits; ideas did not ‘travel’ well within the organization, Löfström concluded. In other words, Posten AB more and more took the shape of a private enterprise and was thought of as a private business, but still it worked in a similar way as before the liberalization.

Regelutredningen was more optimistic than Löfström and also more positive that the changes had effect.[3] A rebalancing of the price structure had taken place,

[3] Regelutredningen does not comment on Löfström’s research. This is somewhat confusing, since Löfström’s study is a Ph.D. dissertation published two years before the expiration of Regelutredningen’s investigation and thus should be known to the people affiliated Regelutredningen.

Regelutredningen claimed, which in turn had meant increased efficiency, since prices become fairer, but also that the price differences between the competition-exposed parts of the letter market and those not exposed to competition had become remarkably large. Regelutredningen further claimed that the increased competition, though limited, had put pressure on Posten AB to improve the efficiency of its operations. The main argument for this statement was that the number of letters forwarded per employee in Posten AB increased substantially between 1993 and 2000, which could be mainly attributed to the conversion of the Post Office into an independent company.

It is difficult at this stage of our research to take sides for either Regelutredningen or Löfström, partly because they measure different aspects of 'efficiency'. In the case of Regelutredningen, the mission was first of all to investigate the effects of the liberalization process on consumer prices, but implicitly this also meant to show a positive result. Swedish so-called public investigations ('SOUs') are seldom as neutral and free from meddling politicians as they seem at first sight. Regelutredningen did not manage to find the positive results on consumer prices and other benefits as it was supposed to find, just excuses for why there were not any. The investigation covered six different industries, all very important parts of the Swedish infrastructure and all markets that were opened-up during the liberalization drive in the 1990, and the findings where notably negative in all cases but telecom.

Regarding postal services, Regelutredningen found that productivity had, as mentioned, increased. The other 'positive' effect it found was that market concentration had 'decreased'. Since one owner, the state, had 100 per cent of the market before the liberalization, this is yet a rather trite statement. Naturally a change from 100 per cent to about 93 per cent is a decrease, but how important is it in practice? The other investigated parameters hint that there had not been any positive effects from the 'increased' competition. Consumer prices increased more than the general price trend, the produced volume decreased and so did employment and incomes in relation to trade and industry at large. Profitability remained relatively unchanged, while Regelutredningen did not find it possible to tell whether the accessibility had become better or worse (SOU 2005 # 4: 48). Accessibility is an important item according to the regulation of postal services (see section 2 below) and therefore it is a bit confusing why such a costly and elaborated public investigation as Regelutredningen was not able to evaluate it. Regelutredningen found several arguments why the liberalization had not given the supposed results, which we hope to return to at later stages of the PIQUE project. It is notable that all explanation drew from the idea that there was something wrong in *how* the liberalization process had been carried out; nobody ever put forth the proposition that there might be any fundamental flaws in the whole idea of liberalization and privatization. Despite that the head of the investigation was a famous economist that works for the Swedish Trade Union Confederation (LO) and despite that several critical economists have questioned the theoretical coherence of the neo-classical theory that 'perfect market competition' is better for consumers that a monopoly (cf. Keen 2004: 97-107).

1.3. *Steps and processes of liberalization and privatization*

As in most formerly state monopolies, the liberalization process was launched by the centre-right government that was in office 1991-94, but the previous Social Democratic government had facilitated the transformation. A Government Bill (1990/91 # 87) was the first move towards liberalization, but still there was a strong belief among leading social democrats that a breaking-up of the 'natural' post monopoly would only lead to rising costs, for society as well as for the individual consumer. After the shift in government in autumn 1991, the centre-right coalition soon presented a new Government Bill (1992/93 # 132) arguing that both the judicial and the cost problems with replacing the monopoly were just temporary technicalities and that opening for competition should soon show beneficial to the customers in several ways. The Bill was passed in January 1993 by the government, but did not come into force until March the next year, which meant that the first steps towards privatization and liberalization was actually taken in a legal limbo. In March 1994, Posten AB was also formally reshaped as a joint-stock company, owned to 100 per cent by the state. An important new distinction was that Posten AB should not in any way be subsidized by the state; it should bear its own costs and compete on an open market. This lead in 2002 to the formation of an independent company within Posten AB, *Svensk kassaservice AB*, to handle all financial transactions. Svensk kassaservice was subsidized by the state and thus had to be independent of the competition-exposed Posten AB. Ever since Sweden's entry into the European Union in January 1995, the EC legislation has been an important guiding line for the regulation of the post market(s). For instance, the new directive (67/97/EC) that came into force in 1998 was immediately inaugurated into Swedish law. In fact the mentioned Government Bill 1992/93 # 132 from the centre-right government had already meant a serious adaptation to EU standards, even though Sweden had not officially decided to join the union at the time.

To summarize on the liberalization of the postal services, the move is illustrated in table 1:

Table 1: The Swedish postal market before and after the liberalization

	Market shares before the process of liberalization (before January 1993)	Market shares after the liberalization process (after March 1994). Data from 2005
Letter post market	Swedish Post Office (100 %)	Posten AB (92.9 %) CityMail (6.6 %) Approx. 35 minor firms (0.5 %)
Parcels; newspapers, leaflets etc.; CEP-market (Courier, Express mail, Postal packages) (unlicensed area)	Swedish Post Office; Numerous small firms.	Posten AB Approx. 260-70 small firms.

'Numerous small firms' in the second row is not very telling, but we have not been able to satisfactory cover the market either before or after the mid-1990s. Yet, we shall briefly return to the issue in section 3 below.

2. REGULATION

When Posten AB was formed in 1994, it should, as mentioned above, compete with private entrepreneurs in a free market without any benefits guaranteed by the state. On the other hand, the new company had to take over most of the Swedish Post Office's obligations; unlike the 'free' competitors, Posten AB *has* to provide daily services to the whole Swedish population. This means that Posten AB must be prepared to distribute post, to and from, 4.5 million households and 900,000 companies five days a week. In practice it means 20 million items of mail per day.

2.1. Instruments of regulation

Posten AB's, but also the Swedish government's obligations are regulated in five different laws and decrees.[4] All guiding directive from EC legislation have been inaugurated in these five laws/decrees and the preparatory works (see section 1.3 above) origins from both Social Democratic and centre-right governments. The fields for regulation before, during and after the liberalization are shown in table 2.

Table 2: The fields for regulation in the Swedish postal market before, during and after the liberalization

Before the process of liberalization	During the process of liberalization	After the process of liberalization
Legal monopoly for letters Price regulation Quality regulation	A judicial limbo regarding accepted distributors of mail from January 1993 to March 1994	Universal Service Obligations Quality regulation Price regulation Access to 'a rich variety of postal services' Access for handicapped people to postal servi

2.2. Regulatory actor(s)

The governmental body that shall control whether Posten AB fulfils its obligations or not is *Post- och telestyrelsen*, the Post and Telecommunication Board, PTS. The guidelines for PTS are decided by the Swedish parliament and directed through annual so-called 'Regulation letters' (*Regleringsbrev*) from the Swedish government. According to these letters, PTS is responsible for regulation of postal services, electronic communication, other IT features and financial transactions in those fields. PTS has further responsibilities in case of unexpected catastrophes or war. Since Sweden has not been to war for almost 200 years, the latter has thus only been hypothetical. The overarching aim for PTS is to give all people access to an infrastructure that is both

[4] The five laws and the decrees are: Postlag (1993:1684); Postförordning (1993:1709); Förordning (2003:767) om finansiering av Post- och telestyrelsernas verksamhet; Lag (2001:1276) om grundläggande kassaservice; and Förordning (1997:401) med instruktion för Post- och telestyrelsen.

long-term sustainable and sound from a national finance perspective and to all services connected to this infrastructure. When it comes to postal services, the specific targets are to control quality, that prises remains reasonable and that a rich variety of services is retained. An even more specific aim is to guarantee postal services for handicapped people (*Regleringsbrev för budgetåret 2006…*).

One precursor to PTS was *Telestyrelsen* (the Telecommunication Board), formed in July 1992 by a merger of two other governmental bodies from the former telecommunication authorities. On the same day as the Swedish Post Office was officially reshaped into Posten AB, all its authorities and responsibilities were taken over by *Telestyrelsen*, which now changed its name to *Post- och telestyrelsen*, i.e. PTS. At the same date the new Post Act (*Postlagen* 1993:1684) came into force (PTS homepage, http://www.pts.se).

3. OWNERSHIP RELATIONS

As showed above, the ownership relations in the postal service sector has not changed much due to the liberalization and privatization process. The ownership of letter distribution companies is very simple and is summarized in table 3.

Table 3: Ownership in the Swedish letter market (2005)

Companies licensed as mail operators	ownership	Market shares
Posten AB	100 per cent public-owned	92.9 %
CityMail AB	100 per cent private-owned	6.6 %
Appr. 35-40 small firms	100 per cent private-owned	0.5 %

The ownership of the other forms of postal services, parcels, newspapers, leaflets and other postal items, is however a much more difficult issue and as mentioned under table 1 above we have not been able to sort this out. Yet, hopefully this is of less importance, since parcels etc. was never a part of the liberalization process in Sweden. In total, there exist about 260-270 companies concerned with the distribution of postal items of some kind. According to Posten AB's own homepage, it is 'market leading' in all categories, but that is of course a very tendentious source.

The publications from the statistical body responsible for the collection of data on postal services, the Sika institute (www.sika-institute.se) does not separate Posten AB's figures from the other competitors.[5] According to Sika, the total number of employed in any postal services (letters and parcels etc.) was 39,459 people in 2005. Posten AB had some 30,000 employees in January 2007 according to the company's homepage. A rough approximation would thus be that private companies, free from Posten AB, would

[5] ***To the PIQUE members:*** such separated data are usually available from all Swedish statistical authorities connected to Statistics Sweden – which Sika is – but not for free. In other words, if it might be of later interest in the project, we may approach Sika to hear the costs, but since parcels were not part of the liberalization process, we would prefer to wait to see if it is useful first.

make up for about one third of the number of employed in all postal services. The share seems a bit high, though, considering the small average size of the private companies and should thus be taken carefully. Moreover, the number of employed is a poor proxy for ownership and market value. The number of enterprises concerned with delivery and courier services was, according to the Sika institute, 208 in 2005. All companies were however small in size: 193 firms had nine or less employees, 15 had 10-49 employees and none had more than 50 employees. Further there were at the same time 24 enterprises in distribution of newspapers. Seven of these were micro-firms, i.e. nine or less employees, but the remaining 17 companies all had 50 or more employees.

4. ROLE OF GOVERNMENT AND STAKEHOLDERS

It is barely possible, at least not relevant, to talk of any stakeholders outside the political establishment and the big political parties that should have been driving. The Swedish Employers' Confederation (SAF, from 2000 the Swedish Confederation of Enterprise, SN) was as always in favour of the opening-up of sheltered markets, but there were no strong lobbying for the transformation; neither was it necessary, due to the political consensus, nor were there any important private companies eager to take over parts of the letter market. Moreover, very few protests were heard from trade unions or other social movements.

The idea of an opening of the sheltered markets for competition, not only the postal services, but at large, was first brought up in the 1980s, under a social democratic government. Yet, the idea was not really put into practice until a new, centre-right government came in office in 1991. The ideological foundation for the marketization was the bourgeois[6] parties' joint campaign programme before the general election 1991. The programme was strongly influenced by neo-liberal thoughts and the whole campaign was carried through holding out the bright prospects of a new, liberal society based on individual freedom, private entrepreneurship and low taxes. All remains of the classical Swedish welfare state were declared outmoded by the bourgeois parties and therefore obstacles to renewal and vitalization. When the bourgeois coalition won the election there was consequently a well paved road for the privatization of public property. Yet, when the Social Democratic Party got back in office three years later, after the general election in 1994, the new government did nothing to reverse the process (Lindvall 2004).

Still, Regelutredningen, argued that the process was also to a very large extent characterized by many small changes which step by step transformed the infrastructural markets; it is, according to the investigation, not correct to knit the changes together

[6] It is usual that the centre-right parties, which all refer to themselves as 'bourgeois' (*borgerliga*) form a joint coalition in the election campaigns. The parties are the Conservatives (*Moderaterna*), the Liberals (*Folkpartiet*), the Agrarians (*Centern*) and the Christian-Democrats (*Kristdemokraterna*). It must be emphasized that while the term 'bourgeois' in some countries might be politically charged, i.e. thought of as a part of Marxist jargon, the Swedish direct translation '*borgerlig*' is totally neutral and only descriptive, used by followers as well as political opponents.

solely with the 1991-94 Government and there are no actual government bills or parliamentary decisions that can be pin-pointed as the start for the liberalization in general; the reforms were rather ‘muddling through’ the old system little by little (SOU 2005 # 4: 150-52). Furthermore, the reforms also took off during the biggest economic crisis in Swedish post-war history and Regelutredningen emphasized the crisis as a main driving force behind the reforms, a force more important than ideology. When the reforms were launched in the early 1990s, Sweden had, Regelutredningen argued, for more than a decade suffered from high inflation, low economic growth, low productivity and low national savings. The reasons for a reformation were therefore more pragmatic than ideological (SOU 2005 # 4: 152-54).

Be that as it may, all reforms *did* actually take off during the bourgeois government in the early 1990s. Even the ‘pragmatism’ pointed out by Regelutredningen had its ideological roots; it was still a highly ideological statement that the best solution of the problem was liberalization and privatization. The idea of the self-regulating market is not an unquestionable empirical finding, it is a statement impregnated with ideological values based on neo-classical, microeconomic theory which in turn is a precondition for neo-liberal politics (cf. Keen 2004). Such a politics was driven by the bourgeois government 1991-94, but had been more difficult for a Social Democratic government to carry through, no matter if the Social Democrats had liked it or not.

The growing costs for public services had been noted as a problem ever since the oil crises in the 1970s, but the problem got more vividly discussed in the 1980s, when the Swedish economy obviously suffered from decreasing productivity. In the words of Lars Pålsson Syll (2001: 76-78), the mid-1970s was an important historical turning-point, since economists successively replaced politicians, social workers, medical service experts etc. as the dominating agents in the public welfare discourse. Based on neo-classical microeconomics, those economists began arguing that the public sector should be run after the same principles as a company is run, and that former ‘clients’ or ‘patients’ should instead be treated as well-informed ‘customers’. These ideas spread rapidly and in 1989 the Social Democratic government launched a public investigation of the weak productivity, an investigation that was finished two years later. The main task for the investigation group, led by the right-wing neo-classical economist Assar Lindbeck, was to analyze manufacturing and services in the private sector, but public services were also discussed (SOU 1991 # 82). Ever since, this so-called ‘productivity investigation’ has been highly influential for the political debate in Sweden, and it is also a very salient feature of the take-over of the public welfare discourse by economists, pointed out by Pålsson Syll. Theoretically it was so deeply rooted in neo-classic microeconomics that it denied any fundamental differences between manufacturing and services; measures to increase productivity in private-owned manufacturing companies should also be applicable to public sector services.

The investigation therefore pin-pointed the public ownership itself, too strong reliance on tax funding, outmoded hierarchic management organizations, and most of all, lack of competition as the main hindrances to productivity increases in the public sector in general and in health care in particular. To turn the productivity back on track again, it recommended cost cuttings and exposure of sheltered businesses to competition as the best measures (SOU 1991 # 82: 335-42). Many of the fundamental ideas of the public investigation were repeated three years later in a special investigation from the ministry of finance of the long-term productivity development in the Swedish public sector (*Finansdepartementet* 1994).

As we have seen in this paper, the monopoly in the letter market was too strong to be seriously challenged by private interests. Yet, the new company, Posten AB, picked up the thinking, jargon and behaviour of any private-owned firm in any industry. If the business activities have really changed to the better or the worse is obviously still very much a matter of discussion and we hope to be able to return to the issue later on during the PIQUE project.

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