



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

POLICY RECOMMENDATIONS

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INTRODUCTION

The European Commission in various documents stresses the role of affordable high-quality public services, or, in EC terminology, services of general interest, for the well being of European citizens and the prosperity of European businesses. In the 2004 *White Paper on Services of General Interest*¹, the Commission states that 'Community policies have significantly contributed to improving the quality, choice and efficiency of a number of services of general interest. The Commission remains of the view that the objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest are compatible. Indeed, the creation of an internal market has significantly contributed to an improvement in efficiency, making a number of services of general interest more affordable.'

The findings of the three-year research project 'Privatisation of Public Services and the Impact on Quality, Employment and Productivity' (PIQUE) show that the reality is more complex and that consequences of liberalisation and privatisation of public services are contentious and partly contradictory. Instead of a clear improvement as expected by the Commission, the project has found improvements in some aspects (e.g. the introduction of new technology that enhances productivity) but deterioration in others (e.g. certain quality aspects). In the same vein, some groups of customers (e.g. large businesses) may have indeed profited from the restructuring of public services while for others (e.g. households) the situation has clearly worsened.

What emerges as a conclusion from the diverse picture of the effects of liberalisation and privatisation is that the provision of public services in Europe should not be left to the free play of market forces. Instead there is a need for proper regulation of the various aspects of the supply process in order to make sure that services are indeed accessible and affordable to all citizens, and that not only some but all quality aspects are improved. Such regulation, however, should not only protect consumers but also public-sector workers, whose working conditions have often deteriorated and whose jobs have, in some cases, become truly precarious. High-quality services not least depend on high-quality jobs.

We understand the following Draft Policy Recommendations from the PIQUE project as a modest contribution by academics based on their research findings to improve the regulatory framework governing the provision of public services in Europe.

1. MARKET REGULATION

Liberalisation aims at building competitive market structures, in which many providers compete with each other in an integrated and easily accessible market. The PIQUE research findings show that the evolution towards highly competitive market structures has not or only very partially been achieved in most sectors and countries under investigation. In most of the sectors and countries there is less competition, or the competition is less intense, as could be expected. As a first prerequisite for competition, one might expect an increase in the number of providers in the newly liberalised public-service sectors. However, the findings show that the number of companies has not generally increased and, in some sectors and countries, has even decreased. What is more, even an increase in the number of supplier companies has not necessarily enhanced competition, as market concentration has remained high or has even increased.

1 http://ec.europa.eu/services_general_interest/white_en.htm.



Overall, out the 24 cases of public-service sectors in different countries, only four (electricity in Poland and the UK and local public transport in the UK and in Sweden) show strong competition and a few others show some progress towards competitive markets, while in the majority of cases the progress is very limited.

In contrast to building competitive markets, the liberalisation process was more successful in changing ownership structures and in expanding the share of private ownership. While before liberalisation, public ownership was the dominant form of regulation in most countries and sectors, liberalisation and privatisation processes have amplified differences in the regulatory regimes. In very general terms, the focus of regulation has shifted from governing the entire process of service provision to regulating only particular aspects of the service supply chain or to partially controlling outcome. General trends also include the establishment of formally independent regulatory authorities with varying degrees of autonomy and powers to discipline or coordinate market participants, the granting of licences and the signing of contracts. While there is a universal service obligation for the universal services providers in the postal sector, and some similar regulations exist for certain suppliers in some countries, we have found many public-service providers that are not subjected to any comparable public-service commitments. By contrast, the PIQUE survey has shown that European citizens strongly support the notion that public services should be universal.

Notwithstanding the general deficiencies of public-sector markets (e.g. the tendency to create oligopolies or information discrepancies) that require a high level of public control, the same survey has shown that there is no clear link between the degree of competition and private ownership on the one hand and consumers' satisfaction with service provision on the other. Consumers, while generally reluctant to support full privatisation of public-service industries, are as satisfied or dissatisfied in sectors with many competing private providers as in sectors with one dominating public supplier. Hence liberalisation and privatisation, alone does not guarantee accessible, affordable high-quality public services. From our company case-study findings we assume that it is regulation that makes the difference.

RECOMMENDATIONS:

- The European Union and its Member States should put more emphasis on monitoring the provision of public services and rigorously and without prejudice evaluate the impacts of liberalisation and privatisation. The knowledge and experience of consumer protection groups and organisations should be used to establish adequate institutions and processes. Both monitoring and evaluation should include independent experts from a variety of academic disciplines because impacts are not only economic. The output of monitoring and evaluation activities should feed in regulation policies and enable policy makers to make informed decisions about the future of public services in Europe.
- The European Union should consider making public-service obligations an overarching principle of its regulation policies, rather than leaving it to the Member States to make sure that citizens have access to affordable high-quality public services. This does not mean that all service providers must be subjected to the same service obligations, but is not enough that only one company per sector and country operates in the public interest. Regulation must make sure that providers operate on similar terms and conditions and that no group of providers is advantaged over others.
- A directive that clarifies the nature and role of public services in Europe would certainly be helpful to develop specific sets of public service obligations and to differentiate public services from private services.
- Leaving the regulation of service provision to the forces of the market bears risks because, among other things, the liberalisation process was only modestly successful with respect to



enhancing competition. Instead of focusing on particular aspects of the supply chain, regulation should cover various aspects of service provision in order to make sure that services are easily accessible, affordable and of high quality and to ensure they will remain so for future generations (which requires an adequate amount of investments). Regulation should guarantee equal conditions for all, in terms of access, quality and price.

- The independent regulatory bodies which in several sectors have been established during the liberalisation and privatisation processes must operate on the interest of the various stakeholders involved in the process of delivering public services (including citizens/consumers, workers, companies and public authorities) not only for particular groups. Their work must be fully transparent and there should be a possibility for the various stakeholders to hold them accountable for their decisions.
- Regulatory bodies should not only focus on enabling competition but put more emphasis on the protection of consumers and public sector workers. For that matter regulatory bodies should receive the necessary powers to intervene in the market if necessary.
- In order to broaden the perspective of public service regulation, consumer protection organisations, trade unions, and other stakeholders should have a say in regulation matters and should be empowered to exert influence on national regulation authorities.
- Given the increasingly European dimension of public sectors markets, cooperation between national regulatory institutions should be advanced. In some sectors the creation of European regulatory bodies should be envisaged.
- If the aim to provide sustained, affordable, accessible and high-quality services to all citizens cannot be achieved under the conditions of changed ownership structures and new forms or market regulation, alternative measures to be taken into consideration should include a return to public ownership, with high levels of accountability and opportunities for citizens' participation as well as performance-oriented incentives for high quality and affordable services.

2. EMPLOYMENT

Liberalisation and privatisation have been primarily associated with job reductions rather than employment creation. At the same time, employment within the target sectors has become increasingly part-time, while the number of self-employed and perhaps also temporary workers has increased. The reason for this is that cost cutting has become the main strategy companies adopt in response to the liberalisation of markets. In labour intensive services, this obviously mainly leads to attempts to reduce labour costs by reducing employment levels, even though, in most of the cases, direct layoffs are avoided. Other consequences include lower wages and the spread of precarious employment in some sectors and countries. Most obviously in postal services sectors in Germany and Austria, liberalisation is leading to the emergence of new low-wage sectors that put social standards under pressure and add to the number of working poor. This, in turn, can result in higher costs for public authorities forced to top up wages below the poverty threshold with welfare benefit payments.

As a consequence of restructuring and changes in work organisation, the workforce employed in public-service sectors is becoming increasingly polarised, both in terms of forms of employment and working conditions.

Company restructuring and changing business strategies have gone hand in hand with a reform of human-resource management. Some companies only introduced special HRM departments and policies during the process of liberalisation and privatisation (while before they only had payroll-



accounting departments). As a result, training was partly enforced, even though usually not for their entire workforces. In other areas, however, training efforts were cut as a direct consequence of privatisation and the restructuring of work. As a consequence, access to training in liberalised public services is very imbalanced.

RECOMMENDATIONS:

- The liberalisation of public services should be regulated in ways to make companies compete mainly on quality while the focus on cost cutting by means of wage dumping needs to be avoided. Key instruments to achieve this include socially responsible tendering, the linking of tendering to the existence of collective agreements and the introduction of sector minimum wages or other minimum standards. In short: A level playing field in terms of employment conditions should be in place when markets are opened to competition. Employment forms that cannot be subjected to regulation such as self-employment should be avoided.
- There is a need to avoid the erosion of national employment regulation. Therefore, measures should be taken to ensure the quality of employment as envisaged by recent EU directives on postal services and transport². Such measures should not only exist on paper but should be implemented and compliance should be assured as part of a general public service monitoring process.
- One of the main aims is to safeguard employment and to avoid understaffing, which, for instance, is widespread in hospitals. Active labour-market measures are needed to support workers who are made redundant through voluntary layoff schemes. Human-resource pools and other adjustment measures should be monitored by independent bodies with regards to effectiveness and human dignity.
- Measures need to be taken to ensure more equal access to training and lifelong learning for different groups of workers in public services.

3. INDUSTRIAL RELATIONS

Liberalisation and privatisation have far-reaching consequences for established labour relations. The creation of new markets and the transformation of former public entities into profit-oriented organisations put companies under significant competitive pressure. Since many of the sectors concerned, such as postal services, public transport and hospitals, are labour-intensive, with labour costs making up two thirds of the total production costs, the reduction of labour costs is a core element in improving competitiveness. Labour costs can be reduced either by rationalising production processes (substituting machines for workers) or by lowering wages, extending working hours or using cheaper forms of employment. In order to save labour costs, companies have tried to withdraw from the traditional, more expensive public-sector labour relations and set up new forms of wage setting. As a result, we have seen the emergence of new labour relations. This includes far-reaching changes in collective bargaining, wage levels and employment conditions.

2 Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf; Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:315:0001:0013:EN:PDF>.



Regarding collective bargaining, liberalisation has usually led to a two-tier system with relatively stable bargaining structures at the level of the incumbent and a rather decentralised and fragmented bargaining structure with low bargaining coverage at the level of the new competitors. Positive exceptions are found in Sweden and Belgium, where labour-relation systems are in place that offer high degrees of coverage and coordination. The two-tier systems correspond with union-density levels that are relatively high within the former public monopolists but often rather low within the new competing companies. So unions often simply do not have the organisational power to push for new collective agreements. Following this, the newly liberalised markets often lack any sector-wide regulation or coordination of labour issues that might limit or even prevent competition on wage costs. This lack of a level playing field regarding social conditions usually means a competitive disadvantage for the incumbent monopolists, who have higher social standards.

Liberalisation and privatisation has not only led to a decentralisation and fragmentation of collective bargaining at the sector level but has also resulted in a growing fragmentation of labour regulation within companies. Whereas under public-sector labour relations, the employees were treated as a relatively homogeneous workforce, within privatised companies there is a growing division between 'old' and 'new' employees and between the core and peripheral workforce. Additional segmentations result from outsourcing practices, which typically increase in the course of liberalisation and privatisation and often mean that the workers affected are covered by new collective agreements, or even no agreement at all.

Overall, because of the fragmentation of labour relations and increasing discrepancies in wages levels and employment conditions, a level playing field is missing. Wage differentials just serve to act as incentives to compete on labour costs and are thus likely to bring about a 'race to the bottom'.

RECOMMENDATIONS:

- In general, the liberalisation process needs to be complemented by policies aiming at social cohesion not only in the area of access to affordable high-quality services but also in the field of employment regulation and collective bargaining.
- Market regulation needs to be complemented by social clauses which ensure acceptable employment conditions in order to make sure liberalisation does not result in a 'race to the bottom' or contradict the Lisbon goal of better jobs. The EU regulation on public transport of 2007, for example, includes provisions, according to which public authorities are free to impose certain social standards in order to 'ensure transparent and comparable terms of competition between operators and to avert the risk of social dumping'³. Similarly, the EU directive on postal services explicitly stresses that 'social considerations should be taken into due account when preparing the opening up of the postal market.'⁴ In this context, the introduction of a minimum wage in the postal sector in Germany can be mentioned as a positive example. Moreover, according to the EU directive on public procurement, public authorities are always free to define certain social standards in public tenders⁵. To ensure a

3 Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:315:0001:0013:EN:PDF>, 17.

4 Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf, 16.

5 Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (30.04.2004), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0018:EN:NOT>



level playing field in liberalised public services, it seems necessary to turn this option into an obligation for Member States.

- In industrial relations, the main aim should be to avoid low-wage competition and to ensure a level playing field. Measures must be taken to effectively 'avert the risk of social dumping' (EC Reg. 1370/2007). The PIQUE research findings not only confirm that there is such a risk but also show that social dumping is actually taking place in some sectors and countries. The averting of 'social dumping' should be a major objective of the regulatory bodies that have been established in course of the liberalisation and privatisation processes.
- To reach a level playing field and to avoid social dumping, competing companies need to be covered by the same labour-relation regimes, including minimum standards. In this context, regulation needs to cover the whole value chain while collective agreements must be extended to fully cover all companies in a sector.
- Labour regulation in the newly liberalised markets could take the form of statutory minimum standards complemented by autonomous bargaining by the social partners. Both minimum standards and collective bargaining require coordination at a European level.
- There is a need to regularly monitor labour relations and working conditions in public services. Such monitoring should be based on clear aims, and its results should directly inform policy making at European and national levels.
- Contrary to recent rulings by the European Court of Justice, there is a need to ensure that economic freedom does not take priority over social protection.

4. PRODUCTIVITY AND SERVICE QUALITY

While a long-term analysis of productivity trends in the sectors studied for the PIQUE project was not conclusive, there is some evidence that public-service companies temporarily respond to liberalisation and privatisation by taking greater recourse to employment cuts in order to boost productivity. This is confirmed by the company case studies, which show that similar outputs are produced by significantly smaller workforces or that, as in the case of some hospitals and local public-transport providers, ever-greater demands are handled by the same number of workers.

However, productivity increases have rarely been an objective in themselves in the restructuring processes following liberalisation and privatisation. Instead, productivity gains are the by-product of a general attempt to cut production costs. This has two consequences: first, public-service providers in liberalised markets often combine an increase in productivity with the lowering of labour costs by paying lower wages or using atypical forms of employment (often in combination with outsourcing and the creation of independent subsidiaries). Second, many cases showed improvements in quality through productivity measures, such as speeding up processes, using new technology or enhancing responsiveness in customer care.

However, measures to enhance quality have only been observed where they do not conflict with the aim of cutting costs and employment. Quite on the contrary, quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation. Hence, for instance, electricity providers may extend the operating hours of their centrally operated call centres while at the same time they close down the traditional walk-in centres, where customer could talk to agents face-to-face. In postal services, the incumbents have put substantial effort into speeding up the delivery process. At the same time, however, they have significantly reduced the number of post offices and the number of agents working in the post offices, making it more difficult and time-consuming for private customers to use their services. The tension between increasing productivity and improving service quality is particularly apparent in hospitals and local public transport as both sectors are highly labour-intensive services. In some cases a negative impact on quality may become apparent only in the



long term. Lower investment in network infrastructures, for instance, may, in the long term, lead to a deterioration of the network quality and therefore jeopardize the security of supply.

The PIQUE survey has shown that consumers, while generally satisfied with the quality of service provision, disagree about various quality aspects, indicating that there is substantial room for improvement. Case-study research, on the other hand, has shown that public-service companies in liberalised markets improve quality very selectively. They also introduce different prices for different groups of consumers. This partly explains the widespread reservation against competition and the simultaneous strong support for choice. Hence, public-service regulations should make sure that consumers have a stronger say in determining the nature and different qualities of public services, while it should not be assumed that competition ensures that consumers get what they expect.

RECOMMENDATIONS:

- Regulation is required to oblige companies in liberalised and privatised public-service markets to invest in greater efficiency and higher quality instead of cutting wages and using atypical forms of employment.
- Regulation should also make sure that there is sufficient funding for public-service companies in order to allow them to provide high-quality services.
- In those sectors where there are no equivalent measures in place, an encompassing catalogue of quality criteria should be developed and enforced (as part of a universal service obligation) in order to stop companies from compromising quality for cost-cutting. Such catalogues should apply to all providers in a public-service sector and specifically emphasise labour-intensive quality aspects. Compliance with the quality criteria listed in the catalogue should be monitored on a continuous base.
- Consumers need to be empowered to monitor and influence the various quality aspects of public services in order to make sure that consumers have a greater say in public-service delivery. Consumer protection organisations have a vast experience in protecting consumer rights. 'Best practices' from consumer protection activities should be used to empower public service users. In addition other forms of participation such as public-service quality advisory boards should be installed in order to make sure that users' voices are already heard in planning processes.
- Regulation should not only focus on actual quality standards. Regulation should ensure sufficiently high levels of investment in order to prevent negative long-term effects on service quality. Where this is not already the case, the ensuring of sufficient levels of investment should become a main task of the regulatory bodies.



PROJECT INFORMATION

The PIQUE project ('Privatisation of Public Services and the Impact on Quality, Employment and Productivity') explores the impact of liberalisation and privatisation strategies in public services on employment, working conditions, labour relations, productivity and service quality. Focussing on the sectors of postal services, local public transport, electricity and healthcare/hospitals, the research covers six European countries: Austria, Belgium, Germany, Poland, Sweden and the UK.



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The project website offers news and detailed information on the project as well as a newsletter and project reports and publications to download.