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POLICY PAPER 1

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

VARIETIES AND VARIATIONS OF PUBLIC SERVICE LIBERALISATION AND PRIVATISATION

Christoph Hermann, Forschungs- und Beratungsstelle Arbeitswelt, Vienna
Koen Verhoest, Katholieke Universiteit Leuven, Instituut voor de Overheid

This paper is the first of four Policy Papers to be produced for the EU-funded research project PIQUE (Privatisation of Public Services and the Impact on Quality, Employment and Productivity). It is based on the synthesis report on 24 sector studies on liberalisation and privatisation processes and forms of regulation carried out during the first phase of the project for the sectors of electricity, postal services, local public transport and healthcare/hospitals in the six countries involved in the project. Both the full-length report and the 24 sector studies are available to download from www.pique.at.

1. PROCESSES OF LIBERALISATION AND PRIVATISATION

Liberalisation and privatisation can be expected to have profoundly altered the structure of public-service sectors in Europe and new regulations imposed by European sector directives must have created pressure for Member States to converge to a common model of governing the now liberalised public service markets and companies. If we look at the four sectors covered in the PIQUE Project – electricity, postal services, local public transport and health care – there are certainly strong indicators for change and for convergence, but similarly striking are the continuous differences both in the structure as well as in the regulation of public services in the six countries included in our comparison – Austria, Belgium, Germany, Sweden, Poland and the UK.

Differences already emerge if we look at the timeframe of the liberalisation and privatisation processes. In several sectors the timeframe reaches from the late 1980s to the present (an exception in this regard are postal services where liberalisation did not start before the early 1990s). In three out of the four sectors, the UK was the country where liberalisation started first, often coupled with privatisation. This may not surprise given the legacy of the Thatcher government, which profoundly changed Britain in the early 1980s. Interestingly, however, the UK was often followed by Sweden, where a conservative government ruling the country from 1991 to 1994 initiated a number of radical public-sector reforms. As a result, the UK and Sweden were typically ahead of the liberalisation time frame set by the respective European Directives (in those sectors where such Directives were adopted). Poland also experienced an early process of liberalisation due to political change in the late 1980s and the shift from a planned to a market economy. However, in Poland liberalisation and privatisation processes evolved rather slowly lagging behind rather than preceding the respective EU regulation.

In the remaining three countries – Austria, Belgium and Germany – liberalisation processes were mostly induced externally and followed more or less the time frame set by the European Union starting in the late 1990s, with reforms in electricity and postal services, with the important qualification that all three countries forged ahead in partly privatising their national postal companies after 2000. Interestingly, in the two sectors without an EU Directive establishing a common liberalisation roadmap, local public transport and health care, the situation was not so much different. Here, too, the UK and Sweden were running ahead of the other countries, although the reform of the Swedish health-care sector was much less radical than in the UK and Germany. In the remaining four countries, liberalisation and privatisation processes in local public transport and health care started comparably late and they are far from being completed. In the case of health care, furthermore, changes are better described as economisation, as in most countries there is hardly any competition between hospitals and only in one country was privatisation carried out systematically and at a substantial level.

2. TOWARDS MORE COMPETITIVE MARKET STRUCTURES?

Liberalisation aims at building competitive market structures, in which many providers compete with each other on an integrated and easily accessible market. Competitive market structures imply low levels of market concentration, since providers with large market shares have the possibility to build up entry barriers for new competitors by manipulating prices and the quality of services. Although in several sectors a formal liberalisation process has been initiated or completed, the evolution towards highly competitive market structures has not or only very partially been achieved in most sectors and countries studied. As liberalisation is intended to enhance competition, one might expect an increase in the number of providers in the newly liberalised public-service sectors. This is certainly the case in countries and sectors where there was only one provider before liberalisation. But experience shows that this is not necessarily the case, for in the other sectors liberalisation had mixed effects.

A decrease in the number of companies is particularly noticeable in sectors and countries in which regional or local monopolies were prevalent. In electricity generation, for example, the conversion of regional to national markets has led to a reduction of the number of suppliers in some countries as larger companies have bought up their smaller competitors (and the number can be expected to fall further if the objective of creating a European-wide market is ever to be met).[1] In Germany there are now four instead of eight major generating companies. As a result of these concentration processes, the number of network transmission and distribution operators has also decreased. Even the number of companies active in supply has declined, as 200 municipal companies have disappeared from the market. In Belgium the country’s largest electricity corporation also took over the retail business of some of the municipalities with which it previously had formed joint public-private companies. In Sweden, too, a number of local electricity companies, which had previously cooperated with state-owned Vattenfallsverket in regional ‘clubs’, were taken over by large foreign-owned corporations, which entered the

1 For some countries, statistics may show an increase in the number of generating companies but this is mainly the result of an increase in small eco-electricity producers. As these can only survive due to heavy subsidies they are not considered here as relevant competitors.

market after liberalisation. In Sweden and the UK, furthermore, the number of bus companies providing local public transport has also decreased as a result of liberalisation, while in Austria and Germany the large number of companies in this sector is the result of the reluctance to increase competition.

In other sectors and market segments, liberalisation led to an increase in the number of providers. As mentioned above, in Poland and the UK this was not difficult given the fact that there was only one provider before liberalisation. But Poland stands out as it has an unusual large number of suppliers in electricity generation and several hundred independent companies have obtained a licence for electricity trading (yet there are signs that Poland is in the middle of a consolidation process which will end with a significantly reduced number of providers). Since liberalisation, there are also large numbers of providers in parcels and express services although it is sometimes not clear if they are independent companies or self-employed deliverers. The number of companies in the letter market has also increased, mostly in the sub-markets, direct mail and newspaper delivery, but to a much lesser extent than in the parcels and express mail market. In fact, so far only a few meaningful competitors have emerged to challenge the position of the former monopoly suppliers.

Even in those sectors where the number of providers has grown, this has not automatically resulted in strongly competitive market structures. Instead, in several cases although the total number of companies has increased the largest companies were at the same time able to expand their market shares in the newly liberalised markets. This was the case in electricity in Germany and Sweden, while in Austria and Belgium there were already high degrees of market concentration before liberalisation. Even in Poland and the UK, market concentration in the electricity industry is considerable. Out of the 70 British companies in the supply segment, six have a market share of more than five per cent and the three largest firms supply almost 65 per cent of electricity consumed in the UK. In the letter market, concentration has decreased but only for a few per cent. The new competitors account for between seven per cent of the market in Sweden and Germany, four per cent in the UK, two per cent in Austria and Belgium and only one per cent in Poland. Even in package and express services, the number of companies with significant market shares is limited. Instead, many of the new companies are national branches of large international express mail services.

Sweden and the UK have also experienced strong concentration processes in local public transport. In Sweden there are nine major bus companies left, while in Britain there are six, with three of them controlling more than 50 per cent of the market (whereas in Germany there are more than 2,000 and in Austria more than 500 independent providers in local public transport). An interesting finding in this connection is also that the number of companies may first increase as a result of liberalisation, but with the growth of competition smaller companies are taken over by larger ones. This is precisely the experience in local public transport in Sweden. On a much smaller scale, concentration processes can also be seen in local public transport in Germany and Poland, whereas in Austria and Belgium concentration in regional transport has always been rather high. In sum, even if liberalisation has led to the abolition of national or regional monopolies – the exception is local public transport in Belgium where there are still regional monopolies – the resulting market structures are typically characterised by very high or rather high degrees of market concentration. Hence what often happened was a shift from regional monopolies to national oligopolies.

The number of providers and their market shares, i.e. the degree of market concentration, is only one indicator of the intensity of competition in newly liberalised public service markets. Further elements that impact on competitive market structures include the number of markets and the kind of competition - competition for or in the market – as well as the extension of customer choice.[2] Taking into account all these elements, we developed a map of the evolution towards more competitive market structures in the countries and sectors included in this analysis. The results are presented in Table 1.

Table 1: Evolution towards more competitive market structures

	Austria	Belgium	Germany	Poland	Sweden	UK
Postal services: letter and direct mail market	Limited	Limited	Rather limited (fully open from 2008 onwards)	Very limited	Moderate	Rather limited
Electricity	Limited	Very limited	Limited (abolition of regional monopolies but concentration of main producers)	**Strong**	Moderate (high share of spot-market trading)	**Strong** in generation; moderate in supply
Local public transport	Limited	Very limited	Rather limited	Limited	**Strong** but decreasing because of more market concentration	**Strong** but decreasing because of more market concentration
Hospitals	Limited	Limited	Moderate	Limited	Very limited	Very limited

Source: PIQUE sector reports. Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more detail, see the country reports for each sector. Available to download from www.pique.at.

According to the countries and sectors covered in the PIQUE project only a few sectors show a clear shift towards highly competitive market structures. As can be seen in table 2, Poland and the UK have highly competitive markets in electricity and the UK and Sweden in local public transport. Moderate progress towards more competitive markets was made in Sweden, the UK and Germany in postal services, in Germany and Poland in local public transport and in Sweden in electricity, but progress was rather limited, limited or very limited in the remaining sectors including all three sectors in Austria and Belgium, postal services except for Sweden and the hospital sector except for Germany.

3. TOWARDS MORE PRIVATE OWNERSHIP STRUCTURES?

Public services are usually associated with public ownership. In reality, however, ownership structures are much more diverse, including public and private companies, and in the health-care sector even private not for profit providers. Privatisation entails a shift of ownership from public to private asset holders. Given the diverse ownership structures before liberalisation, it should not be surprising that privatisation rarely entailed a shift from an entirely publicly owned to an entirely privately owned sector. In fact, the UK was the only country in our sample that partly followed this rather extreme path. In electricity and local public transport, all providers are now in private hands, while the Royal Mail is still a hundred per cent publicly owned and the

[2] Competition in the market describes a situation where two or more companies compete for markets shares, whereas competition for the market means that two or more companies compete for an exclusive although temporary access to the market. The latter frequently takes the form of competitive tendering and is relatively common in local public transport.

hospital sector is also still largely in public hands, even if some of the new hospital buildings are legally owned by private investors. More frequently, instead, liberalisation entailed a shift from a full or predominantly public to a predominantly private ownership structure on the market.

Examples are the electricity sector and local public transport in Sweden, letter mail in Germany and in several countries the parcel and express mail services. Furthermore, a number of countries have experimented with hospital privatisation, but only in Germany was this policy applied systematically. The standard mail services in five of the six countries are still predominantly publicly owned (the exception is Germany where the majority shares of the incumbent has been sold to private investors), as is local public transport in four countries (exceptions are Sweden and the UK) and electricity in two countries (Austria and Poland). Austria and Poland are the only countries where public companies still play a dominant role in all four sectors, while in the other four countries at least two sectors are predominantly in public hands. Even in the privatisation-prone UK, postal services and hospitals are still mostly publicly owned.

Privatisation does not always have to include a full transfer of ownership rights. In a number of cases, instead, publicly owned companies have only been partly privatised, with the state maintaining a majority or minority share of the assets. This can take the form of selling ownership rights to a strategic partner, e.g. a foreign company active in the same sector or business segment, or through offering company shares on the stock market. While the British government typically divested public companies in initial public offerings, transferring all company shares to private investors, other countries were much more cautious. In Austria and Poland the federal or regional governments have still considerable stakes in partly privatised electricity companies. In Austria, existing legislation forbids the federal government to liquidate its majority share in the country's largest electricity generator, the Verbund Gesellschaft. In the postal sector, only Germany has sold a majority share of the former monopoly provider, Deutsche Post, while in Austria and Belgium the state has retained half of the stakes and a majority of the voting rights in the post incumbents.

In addition to part privatisations, ownership can also be shared between the public and private sector in joint ventures or public private partnerships. Such joint ownership can be found in electricity distribution in Belgium, where the leading private electricity company until recently operated local distribution networks in cooperation with municipalities (resulting in joint public-private companies), or in local public transport in Germany, where some communities have invited the private sector to invest in their municipal transport operators.

Independently of the ownership structure, liberalisation has caused a systematic shift in the legal form of public-service companies. While previously part of the public administration and then autonomous public companies, most of them have been converted into private-law companies (either as a holding, a joint-stock-company or a limited-liability corporation).

Table 2 summarises changes in ownership structure in terms of market shares. A clear shift from a predominantly public to a predominantly private ownership structure took place in the UK and Sweden in electricity and local public transport and in Germany in postal services and the hospital sector. Furthermore, a substantial increase can be found in postal services in Austria and Belgium and in electricity in Austria, Germany, Poland and Sweden. In Belgium there was also a moderate increase in private ownership in the hospital sector but this is limited to the growing share of private not-for-profit hospitals. In most of the remaining sectors, there was an increase in private ownership but with a limited effect on overall ownership structures.

Table 2: Evolution towards a dominant private-ownership structure in four sectors

	Austria	Belgium	Germany	Poland	Sweden	UK
Postal services (letter market)	Predominantly public **	Predominantly public **	Predominantly private (incumbent sold)	Predominantly public	Predominantly public	Predominantly public
	Substantial increase	*Substantial increase*	**Strong increase**	Marginal increase	Limited increase	Limited increase
Electricity	Predominantly public	Predominantly private	Predominantly private	Predominantly public	Predominantly private	Predominantly private
	Substantial increase	Moderate increase	Substantial increase (conversion of Eastern Germany)	Substantial increase	Substantial increase	**Very strong increase**
Local public transport	Predominantly public	Predominantly public	Predominantly public	Predominantly public	Predominantly private	Fully private
	Limited increase	Very limited increase	Moderate increase	Limited increase	**Strong increase**	**Very strong increase**
Hospitals	Predominantly public*	Predominantly private*	Public equals private*	Predominantly public	Predominantly public	Predominantly public
	Limited increase	Moderate increase	**Strong increase**	Limited increase	Very limited increase	Limited increase

* Large or dominant share of non profit private hospitals

** 49% of incumbent in private hands

Source: PIQUE sector reports. Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more details, see the country reports for each sector. Available to download from www.pique.at.

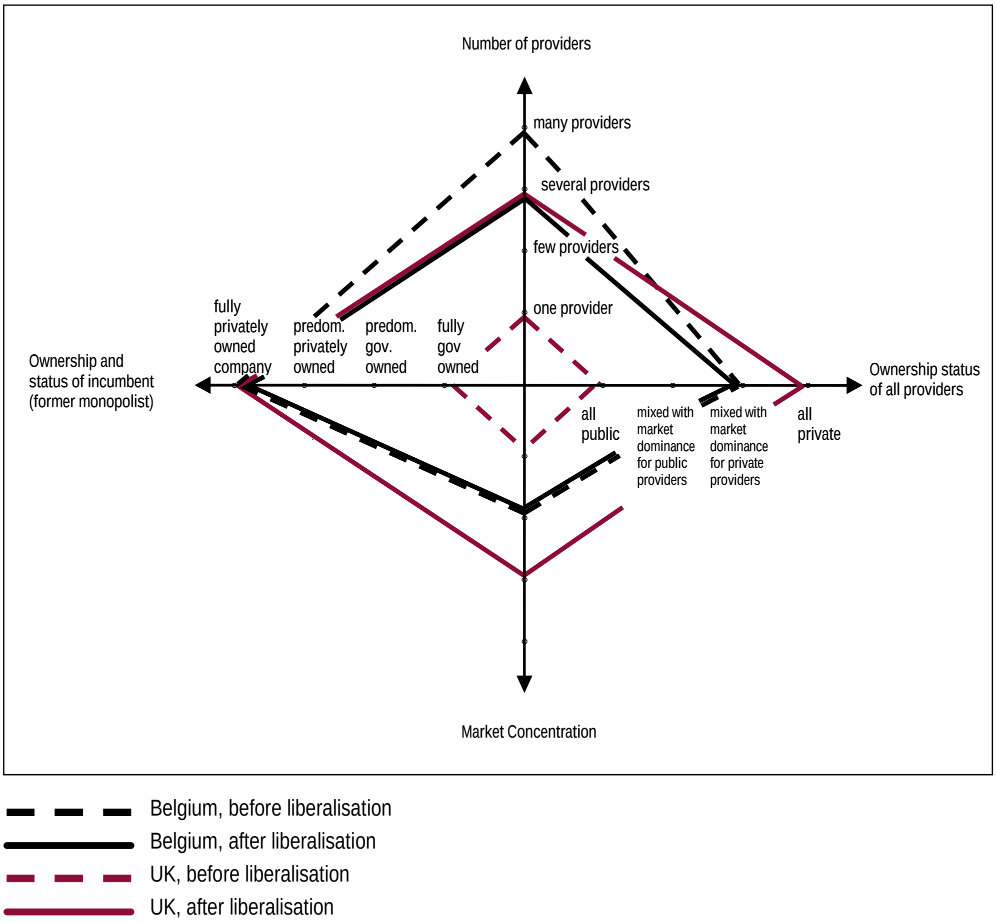
3.1. Privatisation instead of liberalisation?

Comparing market and ownership structures (Tables 1 and 2) it becomes clear that there is no straightforward causal relationship between private ownership and market concentration. Instead we can find high degrees of market concentration in predominantly publicly owned sectors such as local public transport in Austria and in predominantly privately owned sectors such as electricity in Belgium. In fact it is hard to detect any general patterns that could explain the differences. What can nevertheless be concluded from the rather complex picture is that in the two cases in which we had a predominantly private ownership structure before liberalisation – electricity in Belgium and Germany – market concentration has further accelerated. Conversely, in the two countries with nationalised electricity industries before liberalisation – Poland and the UK – the authorities were more successful in restraining private capital interests.[3] Another important finding is that the liberalisation processes in European public services were more successful with regard to changing ownership structures than creating competitive market structures. Whereas five out of the 24 sectors included in our sample have

[3] In a recent European Commission Staff Working Document accompanying the legislative package on the internal market for electricity and gas (SEC (2007) 1179) the Commission assumes ownership unbundling is the main reason that explains the different market structures in the European Union. Countries with ownership unbundling, according to this conclusion, have lower market concentration and hence more intense competition in their electricity markets. Yet the evidence given by the Commission to support this assumption is rather weak. The Commission randomly selects eight countries with legal unbundling and compares them to ten countries with ownership unbundling. It furthermore takes the market share of the largest company as indicator. This already shows that in seven out of the ten countries with legal unbundling the largest company still accounts for more than 50 per cent of the market. If it were to take the market share of the three largest companies, the picture would change insofar as in number of countries with ownership unbundling market concentration would also reach more than 80 or 90 per cent. Yet the table also shows that Poland and Sweden stand out as the countries with the lowest market concentration.

seen a strong or very strong increase in private ownership, only three-and-a-half sectors (the half sector being electricity supply) have shown a strong evolution towards competitive market structures.

Graph 1: Electricity sectors Belgium and the UK before and after liberalisation



The graph illustrates how the UK shifted from a state-owned monopoly to a fairly competitive market with several providers all privately owned. Belgium always had a predominantly private ownership structure and a high market concentration, while the number of providers actually decreased.

4. FORMS OF REGULATION

Liberalisation and privatisation was often promoted and always accompanied by major changes in the regulatory systems (in the case of Swedish post, the regulatory framework was actually reformed after the introduction of competition). 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 whole process of service provision to regulating 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. In addition, there are a number of new instruments that are applied more specifically in one or two sectors included in our sample. One of these is the universal service obligation.

4.1. From state ownership to enabling competition

The electricity sector is a case in point. Regulation no longer includes planning and investment, and end-consumer prices are now freely set by the electricity suppliers, except for Belgium and Poland where electricity companies are partly still subject to planning and price control. Instead, the focus of regulation has been narrowed to the transmission and distribution segment of the electricity supply chain. Here, new regulations introduced by the two European electricity directives, which were transposed into national law, first called for the functional and then legal unbundling of the network systems from other supply-chain activities. While functional unbundling required the network operators to establish independent accounting systems for their network operations, legal unbundling means that network operations are carried out by a legally independent company, which nevertheless can be owned by a parent company with business activities in generation and supply. Unbundling is important for the authorities to determine the costs of operating the networks, which may otherwise be used by the network operators to cross-subsidise their other business activities (which again may disadvantage competitors in generation or supply).

After unbundling, the transmission and distribution operators were required to grant access to competing firms. In most countries, the terms of access were regulated by the newly established regulatory bodies. Only Germany, which initially asked its network operators only for functional unbundling, opted for the possibility to find a solution based on negotiations between the parties involved. Meanwhile Germany has also introduced legal unbundling and regulated third-party access. In two countries in our sample (Sweden and UK) the transmission-network operators have not only been legally unbundled, but they are also owned by independent companies, and in the Swedish case the independent operator is state-owned (whereas in the remaining three countries transmission networks are run by electricity companies that are either active in generation or in sale or in both). Ownership unbundling did not take place in distribution. Distribution-network operators with few exceptions are also active in other supply-chain segments.

Part of regulating third-party access is the establishment of network tariffs. This is increasingly done ex-ante instead of ex-post. The reason is that, by giving the network operators the possibility to save the difference between the projected and the real costs, the new regulation creates specific incentives to reduce production costs (exceptions are Belgium, which has maintained an ex-post assessment process, and Germany, which is expected to switch to an ex-ante system by 2008). Hence while wholesale and retail prices are increasingly determined by supply and demand – obstacles in this regard include the continuous dominance of long-term contracts between generating and supplying companies – network tariffs are still subjected to strong and increasingly sophisticated regulation. This has not happened by coincidence. Instead, the regulation of terms and conditions of third-party access to transmission and distribution networks, including the establishment of network tariffs, is seen as crucial to enable competition in the areas of generation and supply.

Yet the ability to enhance competition greatly depends on the regulatory powers of the responsible institutions, which in the new regulatory regime are the newly created electricity regulators. In this respect there are substantial differences between the six countries under investigation. While the British regulator Ofgem has repeatedly imposed large fines on electricity companies for uncompetitive behaviour, the Austrian regulator has problems receiving the necessary information from the market participants and the fines it can impose on infringing companies are rather insignificant.

4.2. Universal service obligation

Postal services have also experienced the creation of new semi-independent regulatory authorities but in most cases with less regulatory powers and a closer relationship with the responsible governmental departments. Only the British regulator, Postcom, has made itself a name for imposing a fine on the incumbent, the Royal Mail, for uncompetitive behaviour, and only the German regulator has put strong pressure on the former monopoly provider to lower prices in the reserved area. The Austrian regulator, in contrast, willingly approved the incumbent's application to raise prices for standard mail. Most countries in our sample have some form of price control for letters – only the Polish Poczta Polska is free to set its own prices while they must somehow relate to real costs – but the procedures vary considerably. Austria, Germany and the UK have switched to ex-ante price regulation, while in Belgium and Sweden providers are allowed to increase prices in line with the growth of the consumer price index, with the Belgium incumbent being allowed to add a small supplement.

In Belgium, Germany, Sweden and the UK the regulator has also the responsibility for regulating access to the incumbent's internal services by competing companies (e.g. letter sorting), but the most important task is to specify and control the universal service obligation. Belgian electricity companies are subject to a number of public-service obligations and the regional transport operator in Flanders is required to meet a number of minimum standards such as minimum frequency of services and maximum distances between bus stops, but in our sample it is only in postal services that the establishment of a universal service obligation is part of the European sector directive and therefore mandatory in all countries. The universal service obligation is imposed by legislation or as a specific postal licence held by the universal service provider. Belgium again stands out, as here the universal service obligation is part of a management contract between La Poste/De Post and the Belgian government.

The objective of the universal service obligation is to make sure that all citizens have "easy access" to postal services. First Postal Directive lists a number of general principles but leaves it to the member sates to define the scope of the universal service obligation. In four out of the six countries the universal service obligation includes detailed provisions on the number and distribution of postal outlets. Austria and Sweden lack such specifications but in both countries the universal service providers need approval by the government or the regulator if they want to close a post office. However, the detailed provisions have not prevented the former monopoly providers, which in all countries are responsible for the fulfilment of the universal service obligation, from closing down a substantial part of their post-office networks. In Austria and Germany the universal service providers have shut down about 40 per cent of their post offices in recent years, while the Swedish incumbent has outsourced the respective services to private sector partners. Of the 2,475 postal outlets in Sweden, only 436 are still run by Posten AB.

4.3. Licences and contracts

While the universal service obligations impose a rather detailed control regime, companies outside the universal service are free to offer postal services at their own terms and prices. So far only the former monopoly suppliers are subject to the general service obligation while the new competitors in letter markets usually have licences (the exception here is Austria where new companies only have to submit a document in which they explain how they intend to establish deposit facilities and arrange redress and complaint procedures). Licences are also issued in the electricity sector and here especially for providers in the supply markets, whereas generators and transmission- and distribution-network operators have to meet a number of technical standards to receive a permit for operating their facilities.

In the electricity and postal sectors, licences are typically granted on a permanent basis. In local public transport, in contrast, liberalisation has led to a shift from permanent to temporary licences and contracts. Exceptions are the UK, where bus companies outside London have permanent non-exclusive licences and are free to choose the routes they want to operate. Permanent exclusive licences until recently have existed in Austria and Germany but, following the 2005 Communication of the European Commission on the Regulation of Public Passenger Transport, exclusive-licences for bus services must be renewed after eight years. At the same time, the transport authorities, which since the mid 1980s have been set up in Austria, Germany and Sweden to coordinate different means of transport and different transport providers in a particular region, have started to put temporary contracts for particular routes or bundles of routes out to tender.

Yet while in Sweden a radical shift to the tendering system was put into practice in the second half of the 1980s – Sweden is therefore often considered as role model for the other countries – in Austria and Germany some areas and routes have been subject to tendering procedures while others are still served by companies with route-specific licences. The result is a mixed system with a long-term tendency towards competitive tendering. In Germany authorities have even started to put regional railway services out to tender. Apart from Sweden, Greater London, with about 7.5 million inhabitants, has also introduced a city-wide tendering system in which Transport London puts individual routes out to tender with competing private bus companies.

Making the cheapest bid is ultimately the most important reason for being awarded a contract, but quality issues like the technical equipment and general condition of the bus fleet and the experience of drivers also play a role. In some cases, past performance is also taken into consideration by transport authorities when awarding new contracts, but tendering must be in line with public procurement legislation. One consequence of the shift to a tendering regime is that efforts to control outcome have greatly increased.

In Belgium, contracts also play a crucial role in regulating local public transport. Yet in contrast to the above contracts, these are not put out to tender. Instead, they are management contracts concluded between the regional governments and the regional transport providers. As such, the regional governments give the regional operators exclusive access to the transport markets in their respective areas. On the other hand, management contracts impose a number of duties on the contractors, including the above-mentioned survey on passenger satisfaction. Yet while the regional providers enjoy exclusive access to the regional transport markets, they themselves use competitive tendering to outsource parts of the services to private bus companies.

Tendering and outsourcing have also become increasingly important instruments in the regulation of the hospital sector. Yet while in the UK an independent health-care regulator has been established, health care differs from the other three sectors included in this analysis insofar as regulation in health care has remained comprehensive, including a large number of technical and professional standards. Most changes in the regulatory framework have taken place in the financing of hospitals rather than in the provision of treatments – although changes in financing of course had an impact on care provision.

There are three major trends that can be observed in one or the other form in the six countries under investigation. First, the share of private health-care funding has increased through the growing share of private health insurance and the introduction of co-payments, which can be understood as specific form of user-fee. Secondly, due to the growing split between health-care funding and provision, funding organisations are increasingly acting as purchasers, amplifying pressure on hospitals to deliver services at the lowest possible costs. In this respect the introduction of flat-rate reimbursement rates for operations which are paid by the funding organisations independently of the real costs of the treatments (so-called DRG systems) has created special incentives to release patients as quickly as possible from the hospitals. Hospitals responded to these developments by creating internal markets with prices attached to the various treatments, which are then charged to other departments or divisions in the same hospital.

5. CONCLUSION

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. One example is electricity prices which in most countries are now determined by market forces rather than government intervention. This is problematic insofar as our analysis has shown that, in terms of the creation of highly competitive market structures, the outcome of liberalisation and privatisation was rather modest to say the least. In the absence of comprehensive regulation and competitive markets, the companies have gained freedom to set prices and service quality at their own discretion. This is the more problematic as liberalisation was actually much more successful in changing ownership structures and in expanding the share of private ownership.

While there is a universal service obligation in the postal sector the other three sectors included in our analysis lack such a commitment. Perhaps these sectors for historic reasons have not a countrywide provider that can make sure that all citizens have access to the respective service, but as public service providers they could nevertheless be legally required to maintain a minimum amount and quality of services easily accessible for citizens in a particular region or locality. The Belgian (regional) government(s) imposes such requirements to service providers through a number of public service obligations. Even local public transport is regulated in this way in the Flemish region, mainly because social and environmental policy objectives. However, rather than leaving it to the Member States to make sure that citizens have access to affordable high-quality public services, the European Union should consider making public service obligations an overarching principle of its liberalisation policies. For this matter, a directive that clarifies the nature and role of public services in Europe would certainly be helpful.

Because the liberalisation process was only modestly successful with respect to enhancing competition, it bears certain risks to leave service provision only to the market. 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 they will remain in this state for future generations (which requires a minimum amount of investments). If the liberalisation process is to be taken further, member states should not only aim for a more balanced regulation, but they should grant their regulatory bodies sufficient power to enforce compliance to such regulatory norms and standards, including the power to sanction non-compliers and incumbents. However, such strong regulatory bodies both need sufficient mutual coordination as well as sound accountability arrangements.

PIQUE, February 2008

PROJECT INFORMATION

The PIQUE project (“Privatisation of Public Services and the Impact on Quality, Employment and Productivity”)is within the 6th Framework programme of the European Commission’s DG Research and 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.

PARTNERS

AUSTRIA	Forschungs- und Beratungsstelle Arbeitswelt (FORBA), www.forba.at
BELGIUM	K. U. Leuven, Hoger Instituut voor de Arbeid (HIVA), www.hiva.be
	K. U. Leuven, Instituut voor de Overheid, www.soc.kuleuven.be/io/eng
GERMANY	Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung (WSI), www.wsi.de
POLAND	Universytet Warszawski, Instytut Socjologii, www.uw.edu.pl
SWEDEN	Göteborgs Universitet, Institutionen för Arbetsvetenskap, www.gu.se
UNITED KINGDOM	Working Lives Research Institute, London Metropolitan University, www.workinglives.org

COORDINATION

Forschungs- und Beratungsstelle Arbeitswelt (FORBA)

Working Life Research Centre

Aspernbrückengasse 4/5, A 1020 Wien

Tel.: +43-1-21 24 700

Fax: +43-1-21 24 700-77

office@forba.at, www.forba.at

CONTACT AND FURTHER INFORMATION

www.pique.at **pique@forba.at**

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