



European  
Research Area

# EUROPEAN POLICY BRIEF



## Privatisation and Liberalisation of Public Services – Improving the Regulatory Framework

Policy implications of PIQUE, an EU-funded research project investigating the impact of privatisation of public services on quality, employment and productivity

*Findings based on research in four public service sectors – electricity, postal services, local public transport and health services/hospitals – and six countries – Austria, Belgium, Germany, Poland, Sweden and the United Kingdom.*

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## INTRODUCTION

### Objectives of the Research

Recent decades have seen a wave of liberalisation and privatisation of public services in Europe. The impact of these processes on price development and on the compliance of privatisation with specific quality standards has been evaluated. However, there was little evidence on the impact on employment and productivity in a cross-country and cross-sector perspective.

PIQUE aimed at investigating the relationship between employment, productivity and the quality of public services in the process of liberalisation and privatisation in a cross-country and cross-sector perspective. Both sectors and countries have been selected because they represent a wide variety of sector- and country-specific peculiarities and the challenges typical of the liberalisation and privatisation of public services across Europe.

Affordable high-quality public services are an important component of the European Social Model. The objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest have so far been regarded as compatible.

This policy brief contains main observations on the impact of privatisation and liberalisation in the six countries and the four sectors studied and put forward key messages and recommendations for policy makers.

## SCIENTIFIC EVIDENCE AND ANALYSIS

This policy brief raises awareness for the need for regulation of liberalisation and privatisation processes in order to ensure accessible and affordable high-quality public services for all. It underlines that the expected improvement through privatisation and liberalisation has not taken place in all areas.

The findings are divided into four policy areas:

- ⇒ market regulation
- ⇒ employment
- ⇒ industrial relations
- ⇒ productivity and service quality

### I. Market regulation

#### How far has the evolution towards highly competitive markets been achieved?

Liberalisation aims at building competitive market structures, in which many providers compete with each other in an integrated and easily accessible market.

Overall, out of 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,
- ⇒ few others show some progress towards competitive markets,
- ⇒ and in the majority of cases the progress is very limited.

**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.**

#### What are the trends in regulation?

With changed ownership structures and an expanded share of private ownership, new regulatory regimes have emerged.

- ⇒ 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, many public-service providers are not subjected to any comparable public-service commitments.
- ⇒ European citizens strongly support the notion that public services should be universal.

**Are consumers more satisfied with private or public providers of public services?**

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.

**Liberalisation and privatisation, alone does not guarantee accessible, affordable high-quality public services. What is needed to make a difference is more regulation.**

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## II. Employment

**How do liberalisation and privatisation affect employment?**

The main strategy by companies in response to the liberalisation of markets is to reduce labour costs by reducing employment levels. Liberalisation and privatisation therefore lead to

- ⇒ job reductions rather than employment creation,
- ⇒ more part-time jobs in the four sectors studied,
- ⇒ an increased number of self-employed and temporary workers,
- ⇒ lower wages and spread of precarious employment in some sectors and countries like the postal services sectors in Germany and Austria

**This, in turn, can result in higher costs for public authorities forced to top up wages below the poverty threshold with welfare benefit payments.**

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**How do liberalisation and privatisation affect work organisation and training?**

Company restructuring and changing business strategies led to:

- ⇒ a reform of human-resource management (HRM),
- ⇒ introduction of HRM policies where they did not exist before,
- ⇒ an imbalanced access to training across the workforce.

**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.**

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## III. Industrial relations

**How do companies attempt to reduce labour costs?**

The reduction of labour costs is a core element in improving competitiveness. Labour costs can be reduced by:

- ⇒ rationalising production processes (substituting machines for workers),
  - ⇒ lowering wages, extending working hours or using cheaper forms of employment,
  - ⇒ setting up new forms of wage setting with changes in collective bargaining, wage levels and employment conditions
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**What are the changes in**

Liberalisation has usually led to a two-tier system in collective

### collective bargaining and unions-density levels?

bargaining. Bargaining structures are relatively stable at the level of the incumbent and rather decentralised and fragmented with low bargaining coverage at the level of the new competitors

**Only in Sweden and Belgium, labour-relation systems offer high degrees of coverage and coordination.**

Union-density levels are relatively high within the former public monopolists and often rather low within the new competing companies. Unions lack organisational power to push for new collective agreements. 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.

⇒ **There is a competitive disadvantage for the incumbent monopolists, who have higher social standards**

### What is the impact of fragmentation of labour relations?

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; 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 serve to act as incentives to compete on labour costs and are thus likely to bring about a 'race to the bottom'.**

## IV. Productivity and service quality

### What are the trends in productivity?

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.

### What are the consequences of productivity increases on quality?

1. 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).
2. Many cases showed improvements in quality through productivity measures, such as speeding up processes, using new technology or enhancing responsiveness in customer care.

**Measures to enhance quality have only been observed where they do not conflict with the aim of cutting costs and**

**How does the tension between increasing productivity and improving service quality manifest itself?**

**employment. Quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation.**

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.

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.

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.

**While generally satisfied with the quality of service provision, consumers 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.

## RECOMMENDATIONS FOR POLICY MAKERS

### I. Market regulation

#### EU- and National level

- ⇒ Put more emphasis on monitoring the provision of public services.
- ⇒ Evaluate the impacts of liberalisation and privatisation.
- ⇒ Use the knowledge and experience of consumer protection groups and organisations to establish adequate institutions and processes.
- ⇒ Include independent experts from a variety of academic disciplines in both monitoring and evaluation.
- ⇒ Feed the output of monitoring and evaluation activities in regulation policies and enable policy makers to make informed decisions about the future of public services in Europe.

#### EU-level

- ⇒ Make public-service obligations an overarching principle of EU regulation policies.
- ⇒ Use regulation to make sure that providers operate on similar terms and conditions and that no group of providers is advantaged over others.
- ⇒ Implement a directive that clarifies the nature and role of public services compared to private services.
- ⇒ Make sure that services are easily accessible, affordable and of high quality and ensure they will remain so for future generations. Do not focus regulation on particular aspects of the supply chain. Use regulation to guarantee equal conditions for all, in terms of access, quality and price.

#### Regulatory Bodies

- ⇒ 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.
- ⇒ Be fully transparent and account for your decisions to the stakeholders
- ⇒ Do 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.

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.

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 of 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.**

## II. Employment

**Active employment policies are needed**

- ⇒ Regulate the liberalisation of public services in ways to make companies compete mainly on quality. Avoid the focus on cost cutting by means of wage dumping. Introduce sector minimum wages or other minimum standards. Avoid self-employment or other employment forms that cannot be subjected to regulation.
- ⇒ Avoid the erosion of national employment regulation. Take measures to ensure the quality of employment as envisaged by recent EU directives on postal services and transport. Implement these measures and assure compliance as part of a general public service monitoring process.
- ⇒ Safeguard employment and avoid understaffing. Introduce active labour-market measures to support workers who are made redundant through voluntary layoff schemes. Monitor human-resource pools and other adjustment measures with the help of independent bodies with regard to effectiveness and human dignity.
- ⇒ Take measures to ensure more equal access to training and lifelong learning for different groups of workers in public services.

## III. Industrial relations

**Ensure level playing field for all competitors, taking into account social cohesion**

- ⇒ Complement the liberalisation process 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.
- ⇒ Continue to complement market regulation by social clauses which ensure acceptable employment conditions. Define certain social standards in public tenders. EU-level: Make this an obligation for Member States.
- ⇒ Avoid low-wage competition and ensure a level playing field. Take measures to effectively 'avert the risk of social dumping' (EC Reg. 1370/2007).
- ⇒ 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.

- ⇒ Monitor labour relations and working conditions in public services regularly.
  - Define clear aims
  - Communicate the results to policy makers at European and national levels.
- ⇒ Ensure that economic freedom does not take priority over social protection.

## IV. Productivity and service quality

### Make active use of regulation

- ⇒ 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.
- ⇒ Use regulation to make sure that there is sufficient funding for public-service companies in order to allow them to provide high-quality services.
- ⇒ Use regulation to ensure sufficiently high levels of investment in order to prevent negative long-term effects on service quality.

### Put service quality first and ensure public control over it

- ⇒ Develop and enforce an encompassing catalogue of quality criteria (as part of a universal service obligation) in those sectors where there are no equivalent measures in place, in order to stop companies from compromising quality for cost-cutting. Apply such catalogues to all providers in a public-service sector and specifically emphasise labour-intensive quality aspects. Monitor compliance with the quality criteria listed in the catalogue on a continuous base.
- ⇒ Empower consumers 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. Use 'best practices' from consumer protection activities to empower public service users. Additionally, install other forms of participation such as public-service quality advisory boards in order to make sure that users' voices are already heard in planning processes.

## RESEARCH PARAMETERS

PIQUE (Privatisation of Public Services and the Impact on Quality, Employment and Productivity) was an EU-funded research project aimed at investigating the hypothesis that decent employment and working conditions impact positively on productivity and service quality while the provision of decent employment and working conditions depends on the regulation of liberalisation and privatisation processes and the resulting market and ownership structures.

### Objectives

The research objectives of the project were

- ⇒ A description and analysis of liberalisation and privatisation processes, changes in market and ownership structures and forms of regulation
- ⇒ An assessment of the impact of liberalisation and privatisation on the quantity and quality of employment, on the development of productivity and on public service labour relations
- ⇒ An understanding of how companies respond to liberalisation and privatisation; what are main strategies and organisational reforms, and what are the consequences for employment and working conditions as well as productivity and service quality
- ⇒ An exploration of the perspective of public-service users, including users' perception of liberalisation, privatisation, competition and choice, perceptions of quality and the role of public service obligations.

### Methodology

Research was conducted in four sectors – electricity, postal services, local public transport and health services/hospitals – and six European countries – Austria, Belgium, Germany, Poland, Sweden and the United Kingdom. The project used a broad variety of methods in the different work packages, including quantitative as well as qualitative methods.

### Reports

PIQUE partners produced a series of reports on changing ownership and market structures as well as forms of regulation in the countries and sectors covered. They were based on a literature review and analysis as well as expert interviews. For better comparison and analysis of the results, a series of multidimensional graphs were developed. They summarise the changes in ownership status of the incumbent, ownership status of all providers, number of providers and market concentration. This information was also presented in tables on the development of ownership and market structures. Due to a lack of exact and comparable data for specific sectors and countries, classifications were based on estimations of the national research teams. Research on the impact on industrial relations operated with similar methods.

### Case Studies

PIQUE partners conducted 23 case studies to analyse the impact of liberalisation and privatisation at the company level and to better

understand the consequences for work, employment and service quality:

- Six case studies from the electricity sector
- eight from postal services (five incumbents and three competitors)
- five from the hospital sector
- four from local public transport

The case studies themselves are based on a total of about 185 qualitative interviews conducted with managers, work council and trade union representatives and workers. The method of the problem-centred interview was used. Common guidelines had been developed for three different categories of interview partners (management, works council representative or trade unionist and workers). In two case studies – Austrian General Mail and British Londondrive – management declined to take part in the research. In addition to interviews the case study material included academic literature, press coverage of the companies, company documents, and company internet presentations. All case studies have been anonymised as far as possible even though it is sometimes impossible to conceal the identity of the case study company.

### Consequences on employment and productivity

The workpackages dealing with consequences on employment and productivity were primarily based on the secondary analysis of existing data. In the case of employment comparable EU wide data were used as well as national data if available stretching from 1995 to 2005. Data referred to the following NACE codes:

- 401 (Electricity)
- 641 (Post and courier activities)
- 6021 to 6023 (Other scheduled passenger land transport; taxi operation; other land passenger transport)
- 85 (Health and Social Work)
- 8511 (hospital activities)

Eurostat data was taken from the Structural Business Statistics (SBS), national data from the Labour Force Survey (LFS) and other sources. For Austria and Germany LFS data was used, for Belgium data from the Data Warehouse Social Security, for Sweden data from Register Based Labour Market Statistics, for Poland data from the Central Statistical Office (Employment in National Economy) and for the UK from the Annual Business Inquiry.

### Productivity data

Productivity data was taken from the EC-funded EUKLEMS project<sup>1</sup>. The data is standardised and for some categories stretches back to 1970. However, this data was only available for broader sectors such as electricity and gas, post and telecommunication, inland transport, and health and social services. Nevertheless, results still provide some indication of significant changes in productivity that can be linked to liberalisation, privatisation and marketisation processes. Furthermore, the focus of the project was on major changes in productivity, not just short-term fluctuations, and these

<sup>1</sup> [www.euklems.net](http://www.euklems.net)

are more likely to be apparent even in the data for these broader sectors, unless there are specific countervailing tendencies operating in other sub-sectors within the industry. Productivity trends were compared with respect to other sectors in the same country as well as the same sectors in different countries. The analysis was complemented by a decomposition of productivity trends (increase in value added or a decrease in hours worked).

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### **Research on users' attitudes towards liberalisation and privatisation**

Research on users' attitudes towards liberalisation and privatisation was based on a representative telephone survey conducted in the winter of 2007-2008. The sample population included all private persons aged between 18 and 79 living in a private household in one of the included countries; with furthermore a land-line telephone number and the capability to express themselves in the (country) language of the questionnaire. An additional pre-survey representativeness measure consisted of quotas. These were assigned according to gender, age, education, and urban-rural area. As a result, in each country at least 1,000 respondents were interviewed based on this random sampling. In the questionnaire, questions were asked about the general satisfaction with quality and price; the impact of liberalisation and if/how the specific service has to be provided in a universal way. Another extensive battery of questions assessed customer satisfaction with particular public services in more detail. The respondents were asked to rate their satisfaction with the quality performance of individual service dimensions. This quality satisfaction part was complemented by questions on recently experienced quality problems. In a final part, questions were asked about the evolution in price and quality.

## PROJECT IDENTITY

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<b>Website</b>	<a href="http://www.pique.at">www.pique.at</a>
<b>For more information</b>	Contact Christoph Hermann ( <a href="mailto:hermann@forba.at">hermann@forba.at</a> )
<b>Further reading</b>	<p>PIQUE Policy Recommendations:  <a href="http://pique.at/reports/pubs/PIQUE_policy_recommendations_final.pdf">http://pique.at/reports/pubs/PIQUE_policy_recommendations_final.pdf</a></p> <p>PIQUE Policy Paper 1: Varieties and Variations of Public Service Liberalisation and Privatisation: <a href="http://www.pique.at/reports/pubs/PIQUE_PP1_15_10_2008.pdf">http://www.pique.at/reports/pubs/PIQUE_PP1_15_10_2008.pdf</a></p> <p>PIQUE Policy Paper 2: The Impact of Liberalisation and Privatisation on Labour Relations: <a href="http://pique.at/reports/pubs/PIQUE_PP2_15_10_2008.pdf">http://pique.at/reports/pubs/PIQUE_PP2_15_10_2008.pdf</a></p> <p>PIQUE Policy Paper 3: What effects do liberalisation and privatisation have on employment and productivity in public services?  <a href="http://pique.at/reports/pubs/PIQUE_PP3_14_10_2008.pdf">http://pique.at/reports/pubs/PIQUE_PP3_14_10_2008.pdf</a></p> <p>PIQUE Policy Paper 4: How companies react to the liberalisation and provatisation of public services: <a href="http://pique.at/reports/pubs/PIQUE_PP4.pdf">http://pique.at/reports/pubs/PIQUE_PP4.pdf</a></p> <p>PIQUE Policy Paper 5 Liberalising Services of General Economic Interest: The Citizen-User Perspective in Six EU Countries:  <a href="http://pique.at/reports/pubs/PIQUE_PP5.pdf">http://pique.at/reports/pubs/PIQUE_PP5.pdf</a></p>