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Privatisation and liberalisation of public services in Europe: an analysis of economic and labour market impacts

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Introduction: liberalisation, privatisation and the labour market

Introduction

The liberalisation and privatisation of public sector activities in Europe and other advanced economies have been the subject of heated debate since the 1970s. At issue are various normative and cognitive conceptions concerning the most effective, legitimate and socially acceptable ways of providing key services and thus where lines may appropriately be drawn between the public and private sectors and the proper role of competition and markets. Much of the discussion has centred around questions such as the responsibilities of the public sector, how accessibility and quality of certain services can be guaranteed for all, to what extent public sector services are efficient and productive, how the public sector can contribute to employment creation and what the effects of liberalisation and privatisation are on quality of employment and industrial relations. The chapters in this volume contribute to this debate by analysing in detail the effects of liberalisation and privatisation on productivity and service provision, employment, wages and working conditions. The focus is on the service sector, which accounts for around 70% of GDP and employment in Europe and has been the main (often the only) source of employment growth in recent years. Indeed, the rapid growth in service employment during the last few decades has been one of the most prominent socio-economic trends in many countries. The effects of privatisation on service employment are at present hotly debated, but serious systematic analysis is lacking. Through a series of case studies of privatisation processes and outcomes, as well as four quantitative and comparative analyses of the differences between public and private service sector employment, the present volume helps to fill this gap. In this introductory chapter we first discuss the political and economic context in which privatisation and liberalisation of services takes place, with a focus on

Europe. We then summarise the main findings of the studies in the book, presenting them thematically.

1. Liberalisation and privatisation

1.1 The global trend towards liberalisation and privatisation

Today, the debate on the liberalisation – that is, the expansion of market coordination at the expense of non-market types of coordination – and privatisation (that is, the sale of public assets to private owners) of public sector activities tends to be dominated by those who underline their benefits and desirability. What is more, it has been argued that liberalisation – as a broader phenomenon – was the main characteristic of political-economic change in the last two decades of the twentieth century (Streeck and Thelen 2005; Boyer and Drache 1996). Until the 1970s, however, it had been relatively uncontroversial that the state had a central and active role in the economy, managing aggregate demand through public expenditure and investment in pursuit of growth and employment objectives, as well as being a major employer, not only in public administration and related activities but also in many industrial and service sectors.

It would be useful to begin by recalling why in most European countries key services were provided by the state. The main arguments for public ownership – the relative importance of which varied from country to country, depending on the characteristics of the sector in question – included the following:

- to ensure equal access to essential services, often conceived as human rights, and thus to promote social justice and territorial cohesion;
- to control (natural) monopolies/oligopolies in the presence of economies of scale and high fixed costs;
- to achieve rationalisation and economies of scale and thus reduce costs and prices;
- to gain access to low-priced capital for large-scale investments in a context of national private capital markets that were small and underdeveloped;
- to control the ‘commanding heights’ needed for economic planning;
- to address national security concerns (in the context of the Cold War).

Since the late 1970s there has been a move away from welfare capitalism and Keynesianism and towards neo-liberalism, which has had a huge impact on the perceived role of the state in the provision and regulation of services. The rise of neo-liberalism started in the wake of the first oil crisis of the 1970s, which was followed by rising unemployment and inflation and economic stagnation in the West, calling into question the viability of Keynesian demand management, planning and public ownership. The post-war consensus was contested with great success by the advocates of neo-liberalism, including many prominent economists, a number of Western governments, spearheaded by Margaret Thatcher and Ronald Reagan, and international organisations such as the IMF, the World Bank and the OECD. A dramatic loss of faith in the capacity of collectives to express their will through institutions other than private firms developed (Crouch et al. 1999: 8), and state intervention in the economy was increasingly deemed to be inefficient and inflationary, 'crowding out' private investment and reducing an economy's attractiveness to international capital (Standing 1999: 74).

The core of neo-liberal discourse is its reliance on neo-classical economics and its belief in the superiority of the market over other types of governance. Indeed, the ideal-type neo-classical market economy is its major theoretical inspiration: basically, neo-liberalism represents a set of ideas concerning what actors and institutions can best approximate the ideal-type market economy. These include a 'minimalist welfare state, taxation, and business regulation programmes; flexible labour markets and decentralised capital-labour relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility' (Campbell and Pedersen 2001: 5). Following this line, neo-liberals insist on the need for general 'deregulation' and for the state to abstain from intervention in the economy. Liberalisation and privatisation of public activities are major elements of this argumentation.

This was paired at the macroeconomic level with a focus on sound money and the primacy of fighting inflation, following the growing prominence of monetarist ideas. The reduction of budget deficits became a central objective. Contrary to the key role of public expenditure in regulating the economy in the Keynesian era, the new neo-liberal/monetarist consensus argued for modest and balanced budgets and against public debt. At this level, too, privatisation and liberalisation of public sector activities are major elements, presented as ways of reducing government expenditure by cutting subsidies and raising revenue through the sale of assets.

The shifting ideological basis for government policy was accompanied and, to some extent, supported by important shifts in background conditions compared with the post-war '*trentes glorieuses*'. Fiscal pressures increased substantially, leading governments to seek to reduce spending and tap additional sources of revenue. The globalisation of trade and investment increasingly undermined the idea of national markets. Indeed, with the ongoing expansion of markets around the globe, nations were seen increasingly to have lost control over their economic destiny to global economic forces. Specifically, trade liberalisation decisions taken at the WTO, especially in terms of the General Agreement on Trade in Services, have created pressure for privatisation of public services.

At the same time, changes in the financial markets and their international integration have given private companies access to a much bigger pool of capital. The pace of technological change (especially in telecoms) has accelerated dramatically. In many areas this has reduced transaction costs and enabled individual steps in production chains to be geographically separated, promoting tradability and hence the globalisation of both goods and services production. Also, the end of the Cold War rendered national security considerations less pressing and, arguably, reduced the incentive for elites to take social justice issues seriously. As incomes rose, consumer demand developed and became focussed more on choice and product differentiation, similar to goods markets.

1.2 Liberalisation and privatisation in Europe

In line with the global trend, in Europe too liberalisation and privatisation have been high on the agenda in the last few decades. This has been the case most dramatically in Central and Eastern Europe where the former state-socialist countries turned to capitalism at the end of the 1980s, resulting in the rapid liberalisation and mass privatisation of largely state-owned economies. In Western Europe, the UK under Margaret Thatcher introduced the most far-reaching project of economic liberalisation and privatisation between the end of the 1970s and the early 1990s. Other Western European countries followed to varying degrees, constituting a common trend but with strong inter-country differences (as shown in the country chapters in this volume). As a result, most of formerly publicly owned manufacturing has now been privatised across Europe, while there is more variation in the extent of public ownership of services, in accordance with different national traditions, values, perceptions of the role of the state and the resources available to governments. As a result, today’s privatisation debate largely concerns what role the state should play in providing ‘public’ services as an owner of the means of production and/or as a regulator of the activities of private suppliers.

Alongside the national level, in Europe the European Union plays a decisive role in processes of liberalisation and privatisation, in a number of ways (Brandt et al. 2008; Jacobi and Kowalsky 2002). The creation of the Internal

Market is one of the basic pillars of European integration (Scharpf 1996, 2002) and EU market making is increasingly acquiring a self-reinforcing character (Fligstein and Stone Sweet 2002). Within this framework, EU economic integration has promoted the privatisation of public services, among other methods by subjecting public services to competition regulations and placing restrictions on state aid for economic activities. The implementation of the Maastricht fiscal convergence criteria, which require member countries to cut their deficit and debt ratios, has affected public services insofar as it has forced governments to reduce subsidisation and has also encouraged the sale of public enterprises as a way of reducing government debt (Hall 2001).

EU sectoral directives aimed at creating a single market, and so permitting competition between producers from different EU countries on often highly monopolised domestic markets, cover the areas of telecommunications and broadcasting, transport, electricity and gas, as well as postal services. Regulations vary significantly in terms of method and extent from one sector to another. While telecommunications and energy have been subjected to full open market competition, postal services still remain relatively regulated (Raza et al. 2004). The speed of implementation of liberalisation directives also varies markedly between the member states. The Directive on electricity, for example, came into force in February 1999, but five years later DG Energy and Transport (2004) found full competition only in the UK, Sweden, Finland, Norway and Denmark. Overall, the activities of the European Commission and, not least, the European Court of Justice have done much to accelerate the liberalising tendencies already present at national level.

At the same time, and in spite of the clear move towards monetarism/neo-liberalism at the national and European levels, it is important to emphasise that states have not withdrawn from economic management, nor have markets become all-encompassing. Indeed, non-market modes of coordination continue to be of crucial importance in European economies. Partly this is because privatisation has created an additional need for government regulation to set the rules for competition, to ensure that public service obligations are met or to constrain price setting. More generally, the state remains an important player as an owner, employer and regulator of economic activities, if less so than in the past. In most European countries also other modes of coordination, such as collective agreements, restrict market coordination. And although state and other non-market types of coordination have been under pressure for quite some time, concerns are growing as regards the extent to which liberalisation and privatisation of public services are desirable, not to mention their effects on productivity, employment creation, working conditions and industrial relations. These issues will be further discussed below. First, however, we present a brief overview of the characteristics of and developments in the service sector in Europe, which are important background conditions for subsequent evaluation of the outcomes of privatisation and liberalisation.

1.3 The service sector in Europe

Over recent decades there has been a pronounced sectoral shift away from manufacturing and extractive industries in the EU – and in some countries also from agriculture – towards a service-dominated economy. By 2004 services accounted for over 70% of GDP in the EU-25. Employment trends are quite closely related to output trends: services increased their employment share by over 5 percentage points between 1995 and 2005, to 70%. Simulations in Kemekliene et al. (2007) suggest that, on current trends, by 2020 up to 80% of all employment in the EU will be in the service sector.

The expansion of employment in services is driven by a number of factors. Standard explanations revolve around both demand and supply side factors, including income elasticities of demand for services that exceed 1 (meaning that consumption of the service rises more than proportionately with income), limited scope for labour productivity improvements in the supply of consumer services and the rise in demand for coordination and intermediation services associated with structural change. Furthermore, advances in information and communication technologies, amongst other factors, are increasingly permitting cross-border trade in services, accelerating the growth of service activities by expanding potential supply and reducing costs. Coupled with increasing foreign direct investment in services, this is at the same time opening up to competition sectors that until recently were considered non-tradable and thus ‘sheltered’.

Although there is not a clear distinction between public and private sector employment in EU-wide data (see the chapters in this volume for more detailed country data), of total services employment in the EU-25 in 2005 health and social work account for about 14%, public administration and education about 10% each and transport and communication 9%. These sectors, which can, in a very broad sense, be identified as ‘public’, thus represent around one third of total service employment.

While service sectors are heterogeneous, a number of general characteristics of service-sector employment compared with that in industry stand out (see Kemekliene et al. 2007; the figures are for the EU-25):

- Gender: women are more highly represented in service sectors than in the economy as a whole. They represent 56% of total service sector employment. This falls to just under half if public administration is excluded, but even this is much higher than their share in industry (just under one quarter).
- Pay: there is a strong divergence among services. In particular, in hotels and restaurants, but also in wholesale, retail and repairs, earnings are low in comparison to industry. In contrast, in financial intermediation earnings are high, at 71.1% above earnings in industry. Low pay is a serious problem in many service sectors. To some extent this reflects low skill levels, but also difficulties organising effective worker representation in small-scale enterprises with high turnover and irregular working patterns and among more marginal sections of the labour force.
- Non-standard contracts: both part-time and fixed-term employment contracts are more prevalent in services than in industry. However, these averages conceal a substantial diversity within the service sector. In particular, there has been a substantial rise in the use of fixed-term contracts in many service sectors.
- Skills: the percentage of high-skilled employees in the service sector is higher than that for the economy as a whole and for industry, and the percentage of low-skilled employees is lower. But major differences exist between the different service sectors. Over time, in services, as in the economy as a whole – but to a slightly lower degree – there is a trend towards an increasing skill profile for employees, resulting from improved educational levels and changing consumer demand.
- Unionisation: the service sector needs to be divided up into its public and private sector components in order to understand developments. Except in those countries in which unionisation is universally high, union density tends to be substantially higher in the public sector than in industry, and this is much higher again than in the private service sector. In most EU countries fewer than one in five workers in private sector services is a union member: only in the three Nordic countries is the figure above 50%.

2. Service sector employment and the effects of liberalisation and privatisation

Against the background of the academic and political debate and the characteristics of the service sector in the European economy described above, we can develop a number of preliminary hypotheses regarding the impacts of liberalisation and privatisation on economic outcomes, such as efficiency and productivity, as well as on the consumers of services and the workers employed in the service sector.

At the most basic level the expected impacts of privatisation or liberalisation of a given sector in a given country will clearly depend on the characteristics of the national ‘social economy’ (legal framework, labour market institutions, and so on), the sector itself and the specific way in which privatisation or liberalisation is implemented in each sector.

- National ‘social economy’: the outcomes of a given privatisation/liberalisation strategy will depend on structural features of national economies, industrial relations and welfare state systems. Strong trade unions and protective labour market regulation will tend to protect workers otherwise exposed to market competition. The existence and political influence of consumer lobbies may have an effect on service quality. The taxation system will influence distributional outcomes.
- Sector: characteristics likely to affect the outcomes of privatisation/liberalisation include natural monopoly characteristics, capital and other costs of market entry, exposure to cross-border competition, the pace of technological change and the overall trend of product demand. The capital requirements for power generation, for instance, are so great that only a limited number of firms can effectively compete; by contrast, hospital cleaning services can be performed by large numbers of firms offering cleaning services. On the other hand (facilitated by regulatory liberalisation) electricity is increasingly traded across borders, exposing that sector to limited but growing foreign competition. Overall, such characteristics determine the extent to which a privately run sector will be prone to market failure. Also, the extent to which specific sectors are covered by collective agreements and the strength of trade unions in particular sectors are likely to ameliorate the effects of liberalisation and privatisation on wages and working conditions.
- Nature of privatisation/liberalisation: most crucially, the way in which the government – against the background of the specific sector’s characteristics, as well as requirements stemming from the European level – opts to structure the privatisation/liberalisation process will decisively affect outcomes. A simple sale of public assets in an inherently highly monopolistic sector will almost certainly harm efficiency and leave consumers worse off, as private oligopolies divide

> up markets, reduce supply and drive up prices. The existence of specific regulations to control prices and public service obligations to ensure wide access to services and the introduction of effective regulatory agencies to oversee liberalised sectors can be expected to be crucial determinants of outcomes and distributive effects. Overall, the institutional design of the privatisation/liberalisation process determines the extent to which sectors are actually 'marketised', the extent to which regulatory action can correct for market failure and, conversely, the extent to which the privatised/liberalised sector suffers from 'government failure'.

These considerations, at rather a high level of abstraction, already suggest that it is extremely likely that privatisation and liberalisation will have highly differentiated effects depending on the precise mix of national, sectoral and privatisation-policy characteristics: given such complexity it is highly unlikely that simple good–bad classifications of outcomes will be possible, especially in a European comparative perspective. It is precisely the task of the ten substantive chapters of this book to tease out the effects for workers, consumers and economies/societies at large of specific cases of privatisation and liberalisation. But can anything be said in terms of general hypotheses regarding likely effects?

Impact on workers

The introduction of a heightened market orientation is likely, other things being equal, to lead to a lowering of the level of wages and working conditions as new corporate governance principles and pressure from competition prioritise cost control. Within such a general trend, increased market orientation is likely to benefit those with scarce skills and increase competitive pressure on those whose skills are in surplus on the wider labour market. This can be expected to lead to increased differentiation in pay and working conditions between groups of workers that is likely to benefit the highly skilled over the low skilled. The severity of this effect will depend on the overall state of the labour market (unemployment) and the existence of non-market and protective institutions. It will also depend on practices in the public sector. Since the 1980s, following the New Public Management school, there has been a trend to progressively introduce private sector principles in the public sector. Where this has been most far-reaching, the differences between the public and private sectors are likely to be smaller, as will be the effect on workers of any subsequent privatisation and liberalisation.

Impact on the level of employment

This is uncertain *a priori*. Focusing on activities that are profitable is likely to lead to downsizing at the company level. However, increased competition and possibly price declines induced by greater competition may expand overall demand and thus (unless offset by higher productivity) raise labour demand at the sectoral level. It will be hard to disentangle the specific employment effects resulting from privatisation/liberalisation.

Impact on productivity

Similarly, productivity effects are likely to be hard to measure effectively. Indeed, the typical indicators may give perverse results: private monopolies will be able to raise prices and thus, although possibly technically inefficient, may appear highly productive. Conversely, effective regulation (which, for instance, lowers output prices) may depress measured productivity. Ultimately, the key factor is expected to be whether 'real' competition can be introduced and this is promoted by the regulatory regime in operation. Otherwise, incentives to raise productivity through innovative reorganisation of production and also through capital investment will be missing.

Impact on consumers

The impact on consumers is also hard to predict *ex ante*. Focussing on profitable services is likely to reduce supply unless a substantial inflow of new suppliers is induced. The shift from administrative to market rationing can generally be expected to transform a previously relatively equal access to supply to one that is more highly varied by region and by ability/willingness to pay, unless the regulatory regime takes effective counteraction (public service obligations). If effective competition is introduced falling prices may boost demand and generate a virtuous circle of falling unit costs that widens access to services (air travel is an oft-quoted example). On the other hand, competition brings new cost burdens from duplification and product differentiation, advertising, and so on, which will tend to raise prices.

3. Effects of privatisation and liberalisation – findings

The studies presented in this volume are aimed at shedding more light on the effects of privatisation and liberalisation of public services on productivity and employment, as well as on consumers. Furthermore, they discuss in detail the impact of privatisation and liberalisation on the quality of employment in terms of wages and working conditions. They do so from two different perspectives. The first part of this volume relies on sectoral case studies in selected countries. The case studies directly analyse the influence of privatisation and/or liberalisation on levels of employment, output and productivity, quality of services, and wages and working conditions. Five of the chapters focus on specific countries and sectors: Brandt and Schulten look at the German postal and hospital sectors; Thörnqvist focuses on Swedish postal services and electricity; Hall discusses the UK water and health care sectors; van der Meer looks at the electricity sector, public transport and home care in the Netherlands; and Darškuviene focuses on the telecommunications and transportation sectors in Lithuania. Hermann's and Atzmüller's chapter is comparative and discusses railways, public transport, post, electricity, natural gas and water utilities in Austria, Germany, the United Kingdom and Sweden.

The second set of contributions focuses on wages, working conditions and work–life balance in the public and private service sectors, based on quantitative and comparative studies. The four chapters utilise individual and firm-level survey data and compare the situation in the two sectors as an indirect indicator of the (potential) impact of privatisation. Leschke and Keune analyse working conditions and wages in the UK and Germany; Ghinetti and Lucifora focus on skill levels and wages in France, Italy and the United Kingdom. The focus of the chapter by Meurs and Ponthieux is on the gender pay gap in eight Western European countries; and Chung examines work–life balance options at firm level in 21 European countries.

3.1 Efficiency, productivity and employment

Efficiency and productivity gains are usually put forward as the main reason for privatising and liberalising public services. Three of the chapters of this volume address this issue in detail for individual countries. Liberalisation of the electricity market in the Netherlands has resulted in a substantial increase in the efficiency of production. A cost–benefit analysis prepared by the Netherlands Competition Authorities shows a gain of more than 1 billion euros for the period 2001–2006 – the most important contribution to the efficiency gain resulting from the decline of real prices and more efficient distribution (see van der Meer in this volume). In contrast, according to Hall (in this volume) water privatisation in the UK has been disappointing in terms of generating additional investment and raising productivity: labour productivity rose initially but this was due to a one-off labour shedding process. Over a longer period there is no evidence that privatisation has helped boost efficiency (as measured by total factor productivity). For the UK health sector Hall concludes that compulsory tendering has served to reduce costs, but this has largely been at the expense of the employees, whose pay and conditions have worsened – even where, as often happened, the incumbents won the contract – rather than from any efficiency gains. The use of public–private partnerships has helped to promote total investment in an environment of constraints on public spending. However, there are doubts concerning whether this makes sense in the longer term, as current payments to private sector companies (whose borrowing costs are higher than those of the government) remain high over the lifetime of the investment. Thörnqvist cites the results of a recent public investigation into the outcomes of liberalisation in Sweden that shows increased productivity for all industries under scrutiny (postal services, railways, domestic aviation and telecoms). In contrast, trends in production volumes and profitability are less clear – depending on the industry they have either increased, decreased or remained unchanged. These mixed findings reflect not least the difficulty of clearly defining what 'productivity' implies in the context of public services and also the more general problem of a counterfactual; we cannot know how productivity would have developed without privatisation. This is particularly the case in those countries undergoing transformation from a planned to a market economy, as the case of Lithuania (Darškuviene) in this volume indicates: developments there have been so rapid and comprehensive that the specific impact of privatisation/liberalisation is hard to distinguish.

The findings from the country studies can perhaps be tentatively interpreted to suggest that there has been an increase in measured productivity. However, we are unable to come to clear overall conclusions as to what the source of this increase is since it remains too complicated to distinguish the (unambiguously positive) effect of greater investment and better work organisation (that is, higher efficiency) from the (highly ambiguous) effect of a worsening of working conditions and/or job losses; the latter effects, while beneficial to taxpayers and/or the new capital owners, are clearly at the expense of the formerly public sector workers concerned.

Several of the chapters look into the employment outcomes of privatisation and liberalisation. Hermann and Atzmüller review a number of studies suggesting that in many sectors (telecommunications being an exception) liberalisation and privatisation have resulted in net losses of public sector jobs. In the EU-15 the loss of employment in the electricity sector, for example, amounted to 31% between 1995 and 2004, and there was a 12% reduction of employment in the gas industry for six countries within four years. The postal sector in several countries has also seen a substantial decrease in employment following the stepwise introduction of competition, but also because of technological changes (especially automatic sorting). In railways, the reduction in five member states amounts to 16% on average. Also in other sectors job losses at the former monopoly suppliers go beyond those experienced at the sectoral level. For Austria, a detailed analysis of sectoral and company data shows that employment created by new service providers cannot as a rule compensate for the losses at the former monopoly suppliers.

Van der Meer's findings for the electricity sector in the Netherlands are less clear cut because the direct and indirect employment effects are hard to disentangle, given the emerging patterns of in- and outsourcing and restructuring of companies. Clear job trends in the various companies include the loss of jobs for production workers, whereas there has been an expansion of administrative staff due to the increasing information exchange and contracting with consumers. Another noteworthy development is the growth of higher skilled jobs, for instance in the forecasting of market developments and energy prices. The Dutch electricity sector first experienced a decrease in employment, but employment levels rose again when market liberalisation was introduced, mostly due to the administrative preparations and in front offices for marketing activities and consumer services.

According to Hall the effect of UK water privatisation on employment levels, but also on unionisation and collective bargaining, was dramatically negative. The core water companies cut around one in five jobs during the 1990s. Job losses in cleaning and other ancillary health-sector services were even more dramatic, although to some extent offset by growing employment in private sector firms.

From their case study on the German postal service (Deutsche Post AG) Brandt and Schulten conclude that employment was cut within Germany due to competition on domestic markets, while Deutsche Post AG strongly expanded employment abroad so that now less than half of their workforce works in Germany. For the German hospital sector, on the other hand, the decline in employment as an outcome of privatisation was relatively modest – employment in this area has dropped by about 4.3% since the early 1990s, the number being rather higher if we look at full-time equivalents (9.6%).

Thörnqvist comes to a similar conclusion for the Swedish electricity sector. The private company Vattenfall downsized domestic employment while substantially expanding employment abroad. The number of employees in the Swedish postal service has been falling continuously since the mid-1990s, starting before the onset of formal liberalisation.

As in other East European countries the liberalisation experience in Lithuania was rather different from that of Western European countries. Darškuviene describes in her chapter that the takeover of the national telecom monopoly by Nordic telephone companies was accompanied by major job losses in the company itself, whereas employment in the sector increased markedly. This tended to be to the disadvantage of older workers, while benefiting those with new skills. The sector – about one third of whose employees remain in publicly owned firms – has experienced rapid expansion but as in telecoms this overall expansion has gone hand in hand with job losses in existing companies.

Overall, job losses in the formerly publicly owned companies seem to be the order of the day. In some cases, though, this has been offset by employment gains in competitors and in some cases also via expansion of former national monopolies abroad. In a number of sectors, especially telecommunications, technological and demand-side effects (the rise of mobile telephony) have swamped the concurrent privatisation impacts.

The extent to which job losses due to privatisation are cushioned by social measures depends strongly on the bargaining power of workers and on the legal regulations (especially where unions are weak, as in Lithuania). In this regard, there are various mechanisms to alleviate the impact of retrenchment. Many privatised businesses have made use of early retirement, severance payments and bonuses for employees who take voluntary redundancy. Furthermore, there are often accompanying measures to facilitate the reintegration of laid-off workers into other forms of employment (help with job search, mobility assistance, retraining or vocational training, job creation schemes). Such measures are also part of the policy of making privatisation socially acceptable.

3.2 Effects on consumers

Some of the chapters make it possible to draw conclusions concerning the kind of effects privatisation and liberalisation of services have had on *consumers*. A popular argument put forward by privatisation proponents is that by increasing competition privatisation will lead to more choice for consumers and better prices.

In the Dutch electricity market consumers have been offered more choice. Over recent years prices have gone up, however, although this was due mostly to the almost continuous increase in oil prices. In the German postal sector the impact on service quality has been mixed: delivery times have improved and business clients are offered discounted prices, but a large number of local post offices have been closed. Similar trends can be seen in Sweden where the new company (Posten AB) retains an overwhelming share of the letters market but the competitive threat has nevertheless led to the widespread closure of traditional post offices. For the Swedish electricity sector studies of the impact on prices are conflicting since it is difficult to separate the effects of privatisation from other factors. Concerning private hospitals in Germany the staff to patient ratio is considerably lower than in public ones and there is some evidence that commercial pressures are reducing the length of hospital stays. In the UK the privatisation of cleaning (and the associated cuts in pay and conditions) has been implicated in sharp falls in standards, leading to an injection of substantial government funding. Water consumers initially faced drastic increases in their water bills, although this was subsequently corrected under public pressure after a change of government. In Lithuania, finally, significant improvements in the provision and quality of public services were accompanied by cost and price increases, not least due to the dominance of oligopolistic structures after privatisation.

3.3 Wages and working conditions

The effect of liberalisation and privatisation on wages and working conditions is addressed in two ways in this volume: directly, in the various case studies of the impact of privatisation and liberalisation processes, and indirectly, through the comparison of wages and working conditions in the public and private sectors in a number of countries, based on individual and firm-level micro data.

A first important conclusion is that liberalisation and privatisation tend to lead to a deterioration of wages and working conditions. The case studies show that both processes induce companies to look for ways of reducing labour costs; apart from the earlier discussed downward adjustment of the number of jobs, this is also reflected in pressure on wages and working conditions. This pressure may stem from increased competition following liberalisation or from changes in corporate governance in the case of privatisation. For example, liberalisation of the postal sector in Austria, the Netherlands, Sweden and Germany has led to the entry of new competitors alongside the former monopoly providers (see the chapters by Hermann and Atzmüller, Thörnqvist, and Brandt and Schulten). These new competitors pay considerably lower wages than the former monopolist and employ their workforce on more flexible contracts. In Germany, hourly wage rates paid by the new competitors are between 25% and 50% below those of the former monopoly provider Deutsche Post AG, while those newly employed by Deutsche Post AG itself are hired at lower wages than their colleagues. In Austria the majority of the workers employed by the new mail operators are self-employed, lacking any form of employment protection, but also earning significantly less than regular postmen employed by the former monopoly provider Austrian Post AG. In this way, pressure is exerted on wages and working conditions in the entire sector.

Similar processes can be observed in other countries and sectors. Van der Meer shows how wage levels in one of the major companies in the liberalised (but still largely publicly owned) electricity sector in the Netherlands have been adapted to the market average for newly entering employees, who earn about 24% less than existing workers, and that a substantial part of the workforce has been put on flexible contracts. Increased competition and budgetary pressure in the Dutch home care sector have spurred domiciliary health care organisations to substitute part of their qualified nursing labour force by unqualified housekeeping employees to reduce labour costs and also partly to replace qualified staff by self-employed persons who work on their own account and are not covered by the collective agreement and related pension and social benefits entitlements in case of illness or unemployment.

Following liberalisation in the German health sector, private hospitals pay lower wages than those common in public hospitals, while staff are expected to treat more patients. In a more direct fashion, in the UK the privatisation of bus companies resulted in immediate cuts in basic wages and an extension of working time, while health workers had to make concessions on pay (and conditions) in order to secure service contracts. Such direct wage cuts or working time extensions affecting the workforce already employed in the public companies remain exceptional, however. More often these employees are faced by reductions of supplements and benefits and by increased flexibility demands.

The results of the case studies are supported in a more general and indirect manner by the quantitative comparison of wages and working conditions in the public and private service sectors. The chapters by Leschke and Keune, Ghinetti and Lucifora, and Meurs and Ponthieux show that wages in the public sector are higher than in the private sector in the eight countries they discuss. Although this can to a large extent be explained by differences in sectoral composition (characteristics of organisations and employees) there is also an independent public sector pay premium. This premium exists along the wage distribution but is in most countries highest for the lowest wage levels, for the unskilled and for women. In this sense the public sector exhibits greater equality than the private sector. This suggests that in these countries privatisation would lead to a lowering of wages, in particular for the low skilled and for women. The stronger the public sector pay premium, the stronger this privatisation effect would be. At the same time, as Ghinetti and Lucifora argue, the more compressed wage distribution in the public sector not only includes a higher ‘floor’ but also a ‘ceiling’ that often remains below private sector wages for the highest skilled.

As far as non-wage issues are concerned, the picture is more mixed. Leschke and Keune show that in the German public sector, all other things being equal, workers are less likely to be affected by excessively short or long working hours; in the UK, however, this is not the case. According to Hermann and Atzmüller the direct extension of working hours after privatisation is exceptional (examples include local transport in the UK and railways in Germany), but a range of indirect measures are applied to lengthen the working day. These include the reduction of the number and shortening of the length of breaks and time-off periods in addition to those required by law (for example, additional holidays). Often, the impact of privatisation and liberalisation on working conditions varies between categories of workers. In the Swedish electricity sector, for instance, blue-collar workers' representatives were highly critical of changes in working conditions and practices, training opportunities, and so on, whereas union officials representing white-collar workers were more positive (Thörnqvist). Many of the case studies and some of the empirical studies give examples of deterioration in terms of contracts (for example, increasing use of fixed-term contracts, marginal part-time employment and (own account) self-employment) and reports of increased workload, stress, greater insecurity and less job satisfaction.

As regards training provision outcomes are not clear-cut. Whereas Leschke and Keune conclude for the UK and Germany that the public sector provides more training than the private sector, van der Meer points out that in the liberalised Dutch electricity sector for most staff internal career possibilities have improved, whereas in the public transport sector HRM and training policies are being reduced.

Chung shows that in 14 of the 21 countries she analyses public sector employees are offered more work–life balance options, while in the other seven the private sector makes more such options available. She concludes that in the former privatisation may lead to fewer possibilities for employees to balance work and life, but in the latter it might actually improve such possibilities.

3.4 The role of institutions and changes over time

The above-discussed differences between the public and private sectors show important variations across countries and sectors. For example, although in all countries discussed in this volume the public sector has a more compressed wage structure than the private sector, the distance between the two is larger in some countries than in others. This suggests that national and sectoral institutional factors – that is, norms, rules and regulations – influence the differences between the two sectors and, by extension, also mediate the effects of liberalisation and privatisation processes on wages and working conditions.

Indeed, as van der Meer suggests, the relationship between liberalisation, privatisation and employment conditions appears to be a complex one, involving interaction between various levels: European regulations, national regulations, sectoral characteristics (that is, type of competition, type of 'market', sectoral collective agreements), enterprise policies (possibly at the level of the multinational headquarters) and establishment policies and interactions between companies and (organised) employees. The chapters in this volume present some evidence on these various levels, in particular the national and sectoral dimensions.

Where differences between countries are concerned, Ghinetti and Lucifora show that in Italy, France and the UK the pay gap between the public and private service sectors is 29%, 25% and 16%, respectively, while intra-country differences between the various NACE sectors also show substantial differences. They argue that the fact that public–private wage differences are so much higher in France and Italy than in the UK stems from a number of institutional factors. These include the fact that in France and Italy wages and working conditions are set in a much more centralised manner – especially in the public sector – than in the UK where it is strongly decentralised; the fact that wage setting in the public sector in the UK takes the private sector as a reference to an important extent, while in France and Italy the development of the cost of living and the conditions of the public budget are much more important; and the fact that in France and Italy an important part of public sector employees are employed on lifetime contracts in which seniority plays a key role. Where work–life balance options are concerned, Chung shows that the differences in their provision by public and private companies are affected by the extent to which national regulations establish such options for workers in all sectors of the economy.

Turning to the sectoral level, van der Meer shows that the way in which competition is institutionalised here affects company HRM policies and the definition of wages and working conditions. Similarly, sectoral agreements are shown to establish a floor in the sectoral labour market, while their absence allows for a more aggressive downscaling of wages and working conditions. The latter is often the case in sectors in which there was previously a monopoly provider (and thus a company, rather than a sector-wide, multi-employer agreement). When such sectors are liberalised the former monopoly provider often has a relatively worker-friendly collective agreement, but new competitors are not bound by this. An example of the latter is the German postal sector. New entrants in this market started to aggressively underbid Deutsche Post AG. One effect of this was that at Deutsche Post AG, too, wages and working conditions were affected negatively. But another was the demand from trade unions and, in part, political parties for a state-set sectoral minimum wage to prevent this downward spiral from getting out of control (Brandt and Schulten).

Finally, there is the issue of institutional change. Two major issues emerge here. One is the relationship between changes in national models of labour market regulation and the effect on the public and private sectors. Leschke and Keune show that the UK and Germany followed quite opposite processes of macro-level institutional change between the mid-1990s and the mid-2000s, with the UK going through a (limited) re-regulation of the labour market under New Labour, while Germany progressively deregulated its labour market through the Hartz reforms. As a result, in the UK several aspects of wages and working conditions improved, while in Germany they deteriorated. Interestingly, in both countries both the public and private sectors followed the general trend and differences between the two remained largely stable or increased slightly. This points to the fact that the national regulatory framework of the labour market plays a key role in setting the boundaries for both sectors.

The other issue is that today's public sector does not resemble the public sector of three decades ago. Whereas, as argued by Hermann and Atzmüller, the public sector previously played a key role in ensuring full employment (notably by hoarding labour during economic downturns) and as a pacesetter for the improvement of private sector employment and working conditions, today this is much less the case. With the turn to neo-liberalism and the growing importance of New Public Management-type philosophies, private sector principles have progressively been introduced in the public sector since the 1980s (see, for example, OECD 1995) and this trend towards a recommodification of public sector employment does not seem to be slowing down. The danger with this switch to private sector standard setting as far as labour conditions are concerned is that the overall trend may become one of downward adjustment and polarisation in both sectors.

Conclusions

The chapters of this book contribute to the debate on the actual and potential effects of privatisation and liberalisation of services through a series of case studies and quantitative and comparative analyses. As far as the 'economic' effects of privatisation and liberalisation are concerned, the case studies demonstrate that these are anything but clear-cut. In terms of production volumes and investment the cases show that there are no general positive or negative trends. The same goes for the effect on consumers, as choice often improves whereas the impact on prices and quality can go either way, depending on the sector and the specific policies adopted. Where productivity is concerned, the case studies suggest increased productivity for all industries under scrutiny, but the extent to which this is due to greater investment and better work organisation or to a worsening of working conditions and/or job losses remains unclear. What is clear is that the positive expectations concerning the economic effects of privatisation and liberalisation of services that dominate today's political debate and mainstream economics are far too simplistic and one-sided.

The studies are more straightforward in their conclusions on the effects on employment and wages. As far as employment is concerned, liberalisation and privatisation clearly lead to job losses in the companies concerned. In some cases this is accompanied by employment gains in competitors or by the expansion of former national monopolies abroad, while increased demand may also have positive employment impacts. But the overall effect is one of employment decline.

Wages, too, are clearly negatively affected by liberalisation and privatisation in the case studies considered, in particular where newly-hired workers are concerned. Moreover, the comparative studies all show a public sector pay premium across Europe, even allowing for other differences in sectoral characteristics. Overall, workers appear to 'pay the price' for privatisation and liberalisation through increased pressure on wages, and this affects most of all the lower qualified and women. Where working conditions are concerned, the effects are somewhat less clear, although on balance privatisation and liberalisation seem to be associated with a worsening of conditions, again for the weakest groups on the wider labour market.

A further point demonstrated by several of the chapters is that the labour market effects of privatisation and liberalisation are mediated in an important way by national and sectoral institutional factors, which may magnify or dampen the severity of their effects on employment, wages and working conditions.

These conclusions point to three important political lessons. One is that the prevailing simplistic and optimistic expectations of privatisation and liberalisation should be abandoned. A far more realistic and evidence-driven approach is needed. Second, the negative effects of such processes on workers, today not a core element of the debate, require much more attention and should be part and parcel of decision-making processes when reforms are considered. Finally, when privatisation and liberalisation take place, politics can play a key role in cushioning their social effects.

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