

# PRESOM

## Privatisation and the European Social Model Results and open questions

Presentation for the 14th workshop on alternative  
economic policy in Europe  
Brussels 26-28.Sept. 2008  
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# What is PRESOM?

A CA = „Coordinated Action“ within the 7th RTD Framework Programme of the EU

16 participants from 11 countries

Duration: 1.1.2006 – 31.12. 2008

No research, but networking amongst experts

Two dozen workshops, five dozen experts

# Phases of work

## 1. Stocktaking (months 1-9)

- Development of privatisation: historical overview (Western and Eastern Europe)
- Theories of privatisation
- The discussion on the European Social Model

## 2. Case studies (months 10-27)

- Manufacturing (East and West)
- Infrastructure
- **Finance**
- **Health care and pensions**
- **Education**
- **CEECs**
- General impact assessment

## 3. The role of the public sector in a progressive ESM (months 27-36)

# Issues

1. The concept of privatisation
2. Drivers of privatisation
3. The role and current approach of the EU
4. Impact of privatisation
5. Alternatives: Where do we stand?

# Principal areas of privatisation

1. Manufacturing (shipyards, aircraft, automobiles) 1970+1980 years
2. Utilities, infrastructure and network industries (1990s)
3. Real estate (office buildings, residences)
4. Currently : services ( administration, social and cultural services, education, security)
5. Privatisation as core element of transformation in Eastern Europe (1990s)

# Issue 1: Concept of privatisation

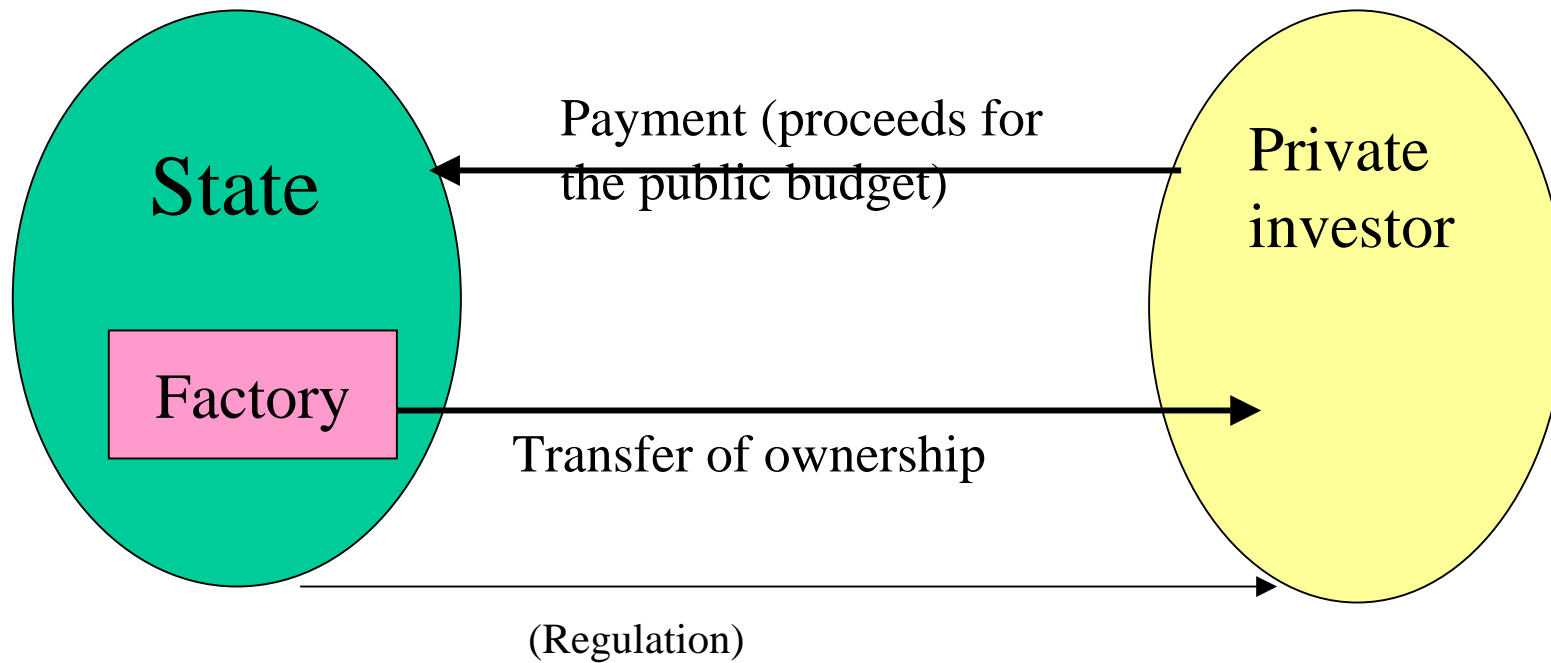
## Narrow concept

Change of ownership from public to private via sale (direct or IPO): shipyards, automobile factories, telecommunication corporations, land and real estate etc.)

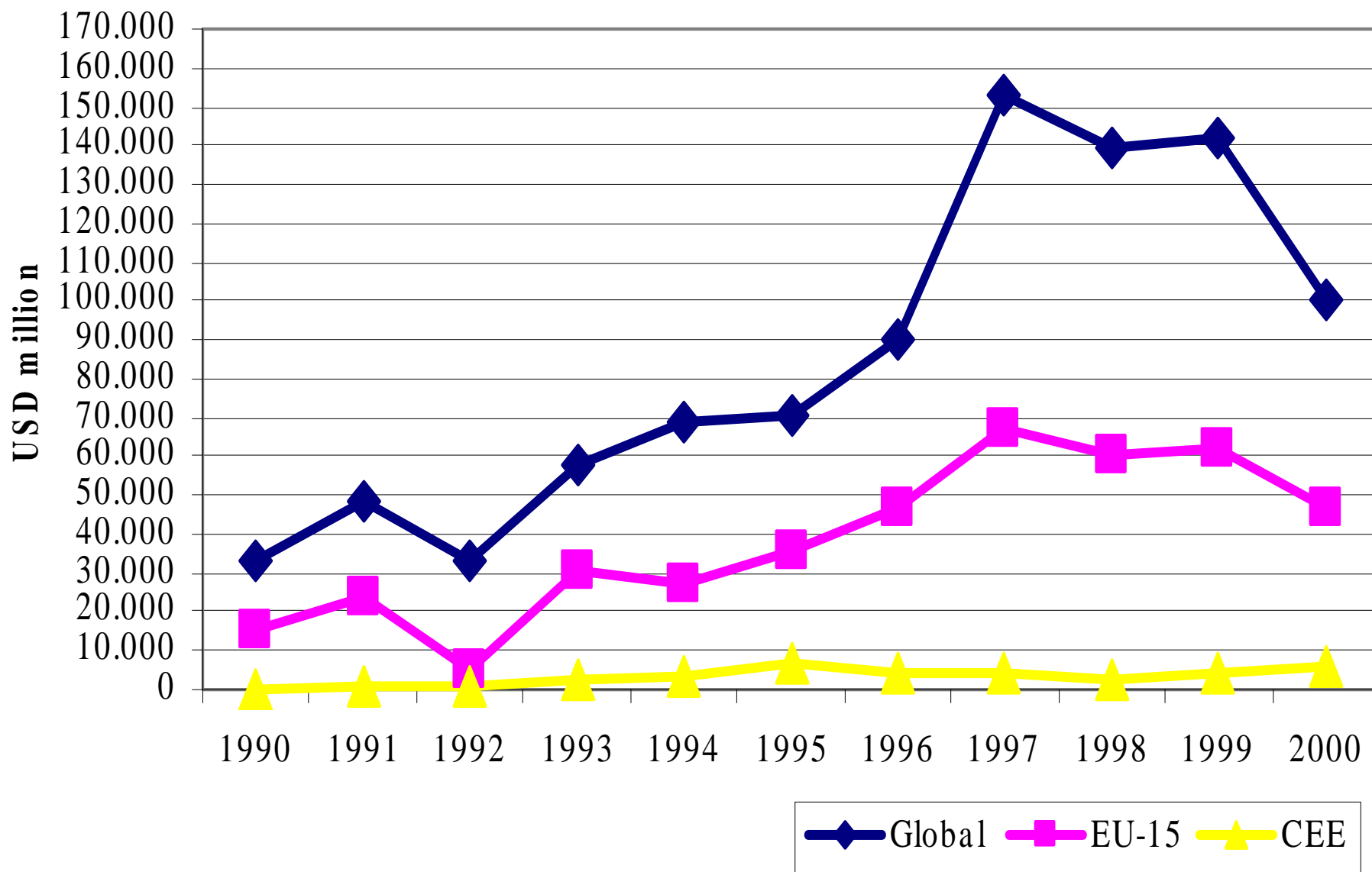
Either complete loss of public control(shipyards)

Or: regulation of private activity  
(telecommunication)

# Privatisation through sale

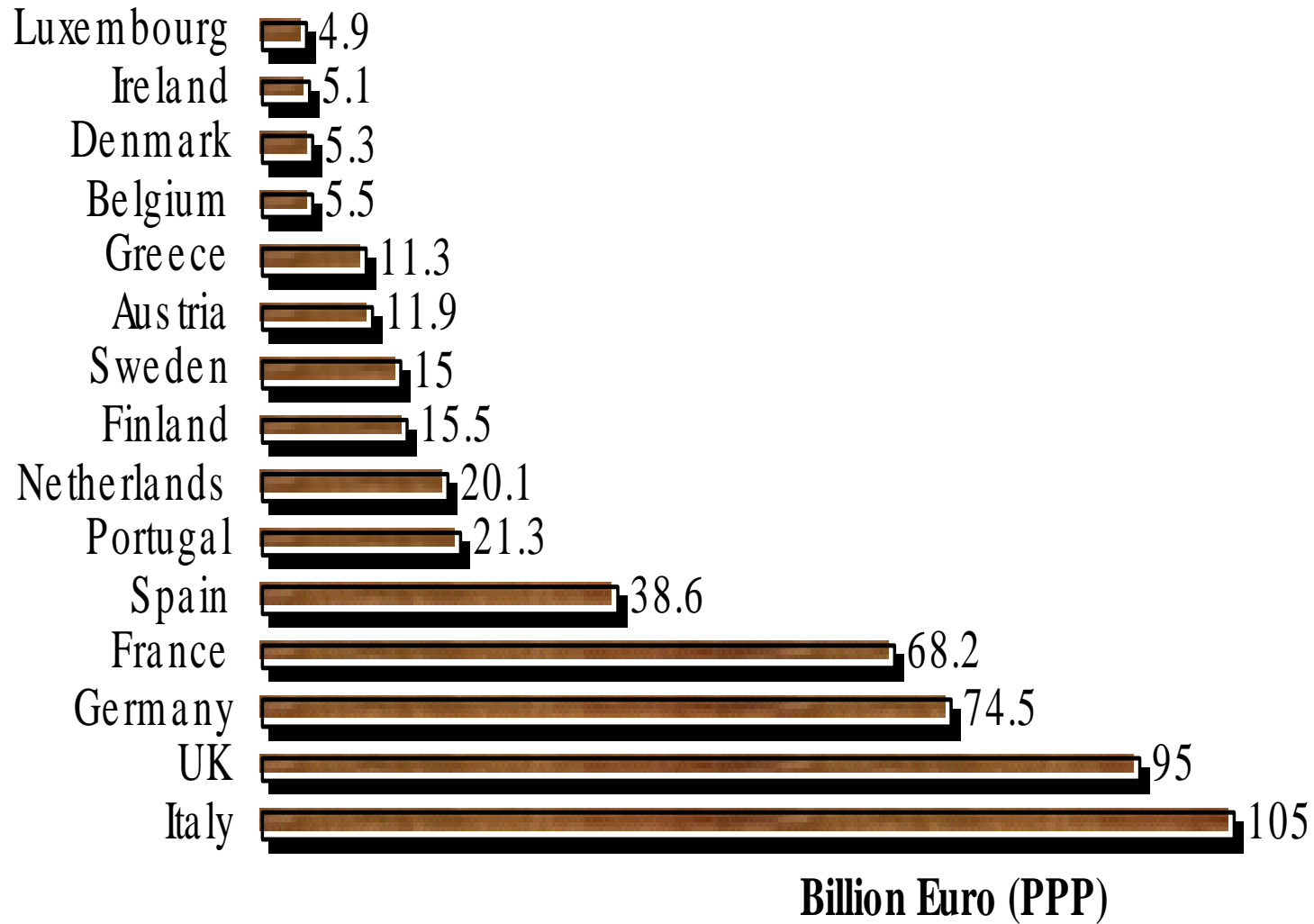


Privatization proceeds globally, EU15 & CEEs 1990-2000 (USD mio)

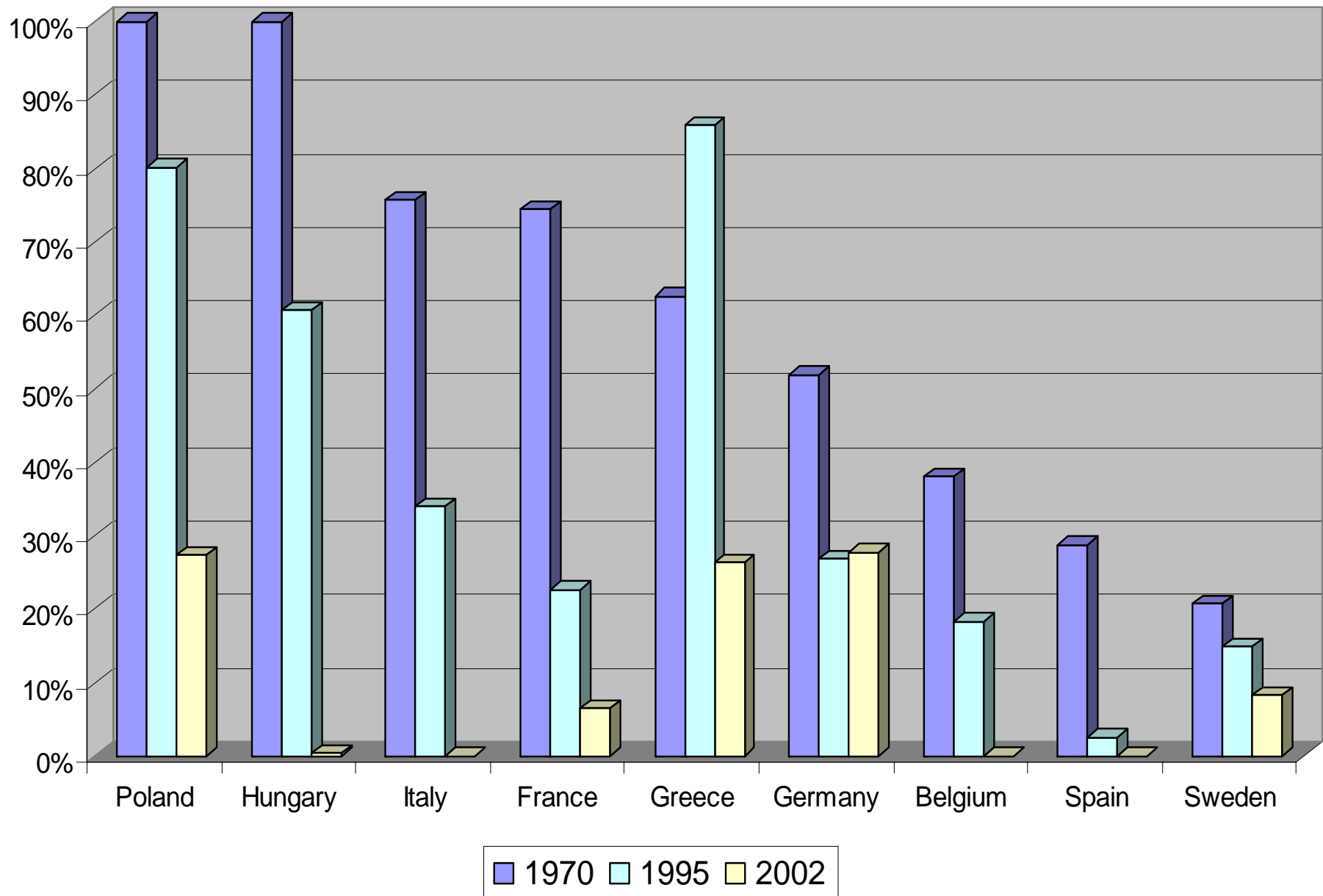


Source: OECD, Recent Privatization Trends, 2001

## EU15 Privatization proceeds 1977-2004



## Proportion of bank sector assets which are public



# Concept of privatisation II: Broader Approach

Difficulty: Who owns social services?

Privatisation as transformation of context,  
mechanism of and standards for the provision  
of services

Transfer of a service from a predominantly  
public good framework to a predominantly  
private competition framework:

**commercialisation and commodification**

Gradual process with many intermediate steps

Co-existence and overlapping of both  
frameworks

# Complex structure of privatisation of public services I:

## Separation of finance and provision

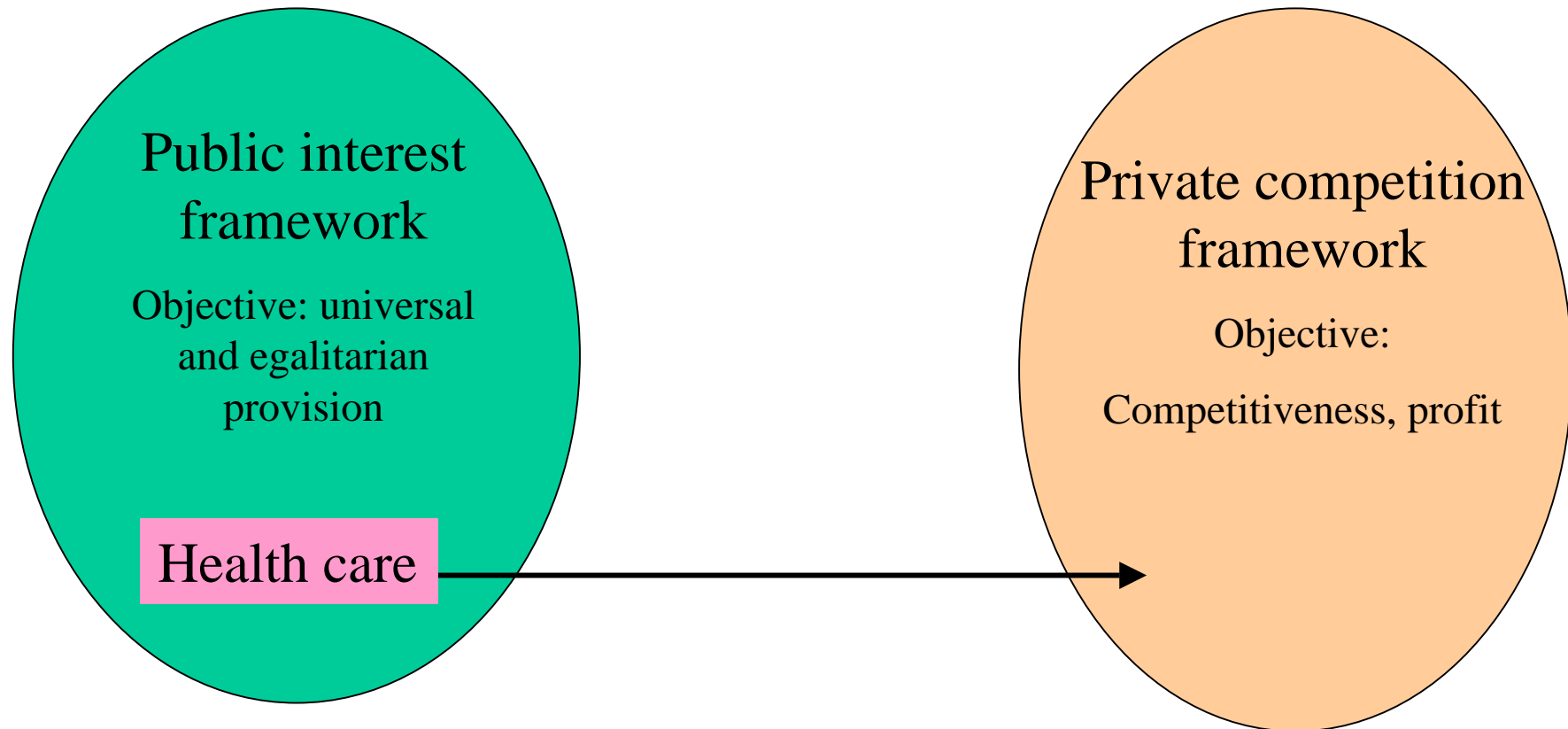
<b>finance</b> <b>provision</b>	<b>Public</b>	<b>Private</b>
<b>Public</b>	<b>I</b> Security Administration Education	<b>II</b> Utilities: Water
<b>Private</b>	<b>III</b> Infrastructure (streets) and building (schools)	<b>IV</b> Cinema

# The complex structure of privatisation of public services II:

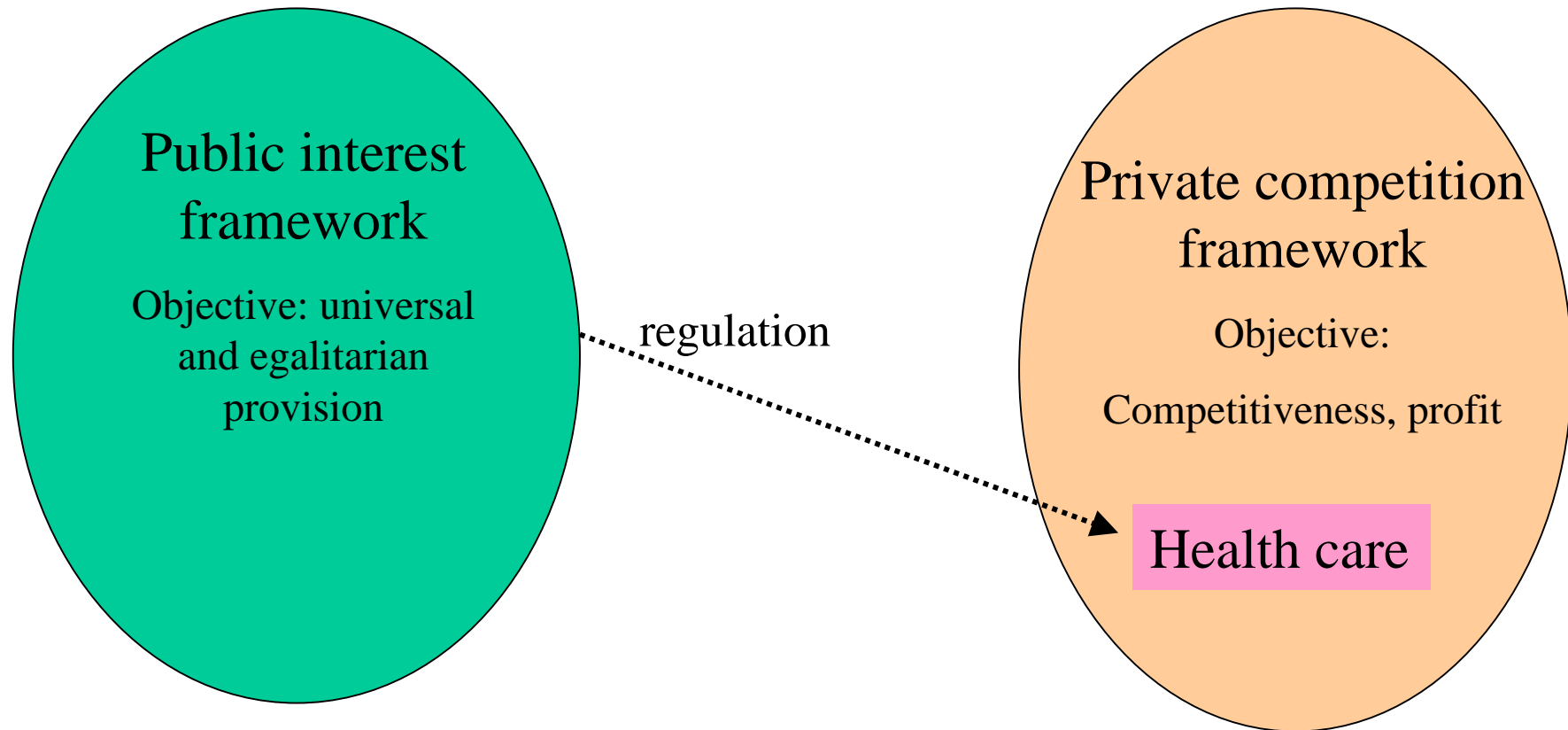
## Separation and hybridisation of finance and provision

Finance \ Provision	Public	Public + Private (co-payments)	Private (User pays)
Public	I Security, administration	II. Health care (co-payments) Universities (tuition fees)	III Utilities: Water
Private + public (regulation)	IV Operation of motorways (without fee)	V. Network services	VI Private schools and hospitals
Private	VII. Military equipment infrastructure	VIII PPP Theaters	IX Restaurants

# Privatisation as transfer of a service from the public good- to the private competition-framework



# Privatisation as transfer of a service from the public good to the private competition framework



## Second issue: Drivers of privatisation

1. Alleged higher efficiency
2. Ideology of peoples capitalism
3. Roll-back against nationalisations
4. Poor performance of public sector

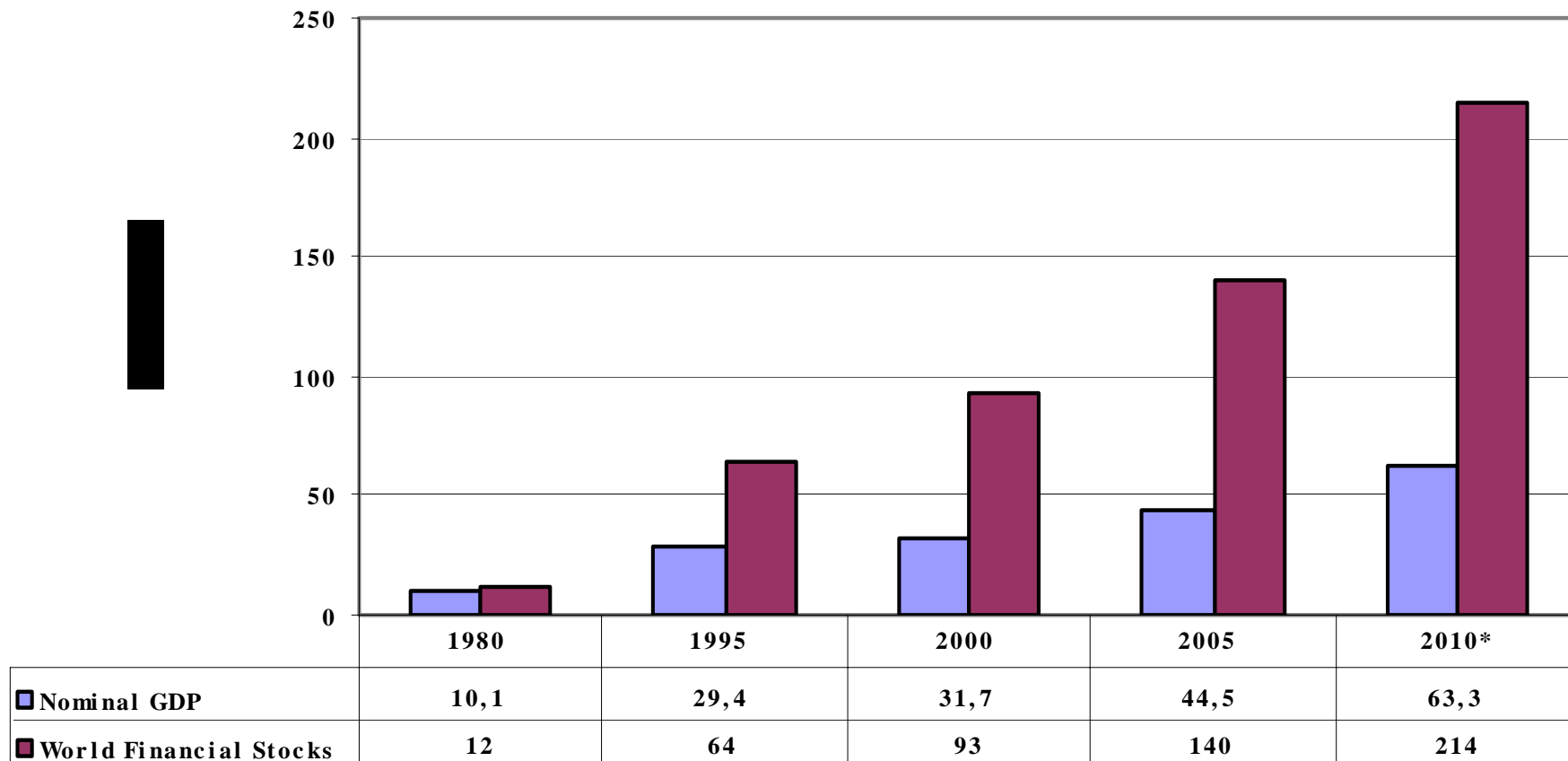
More recently:

5. Fiscal pressures (Maastricht)
6. Financial investors (finance driven capitalism)
7. EU policies

# Finance driven capitalism I:

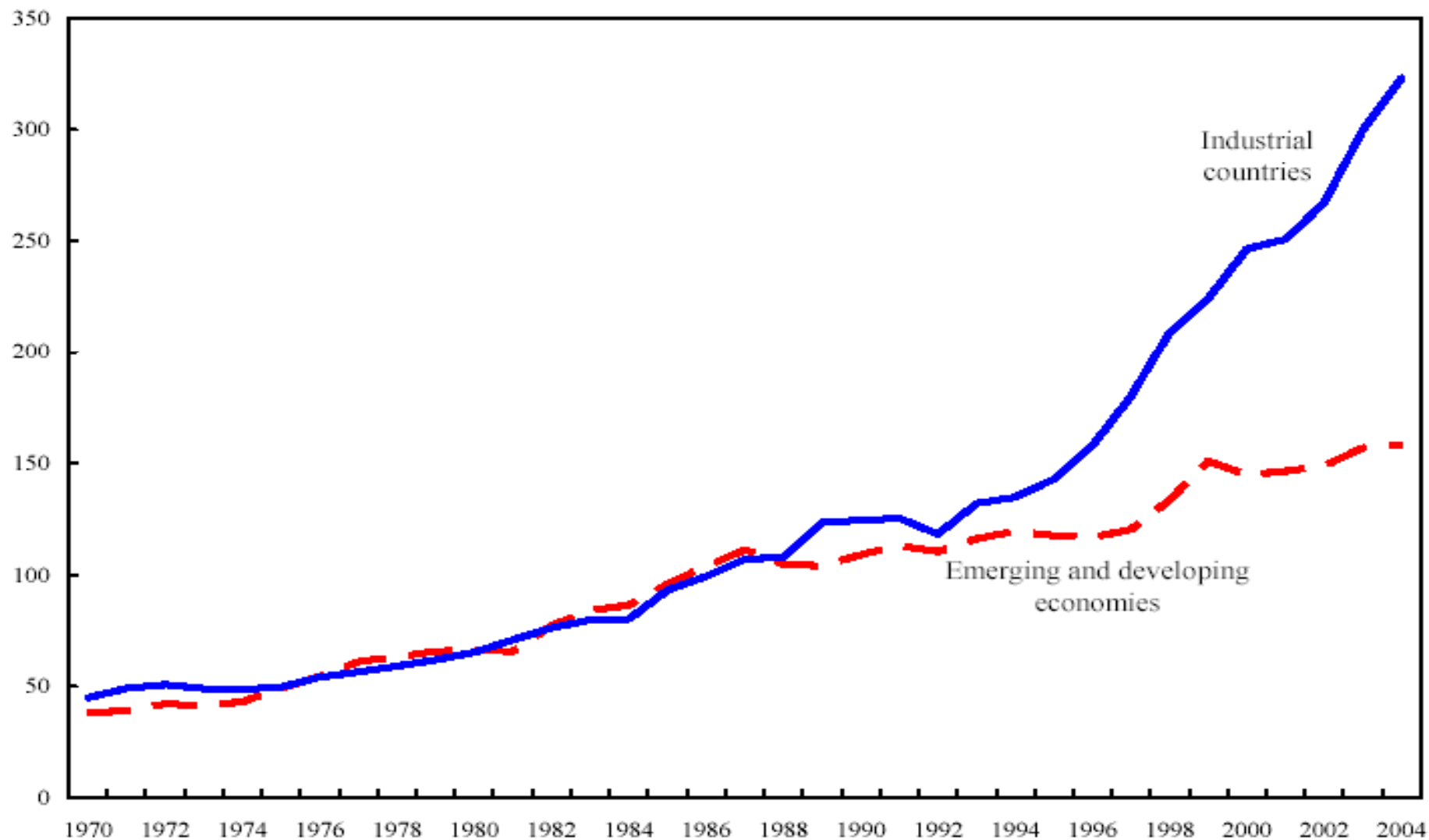
## Mega-trend1: Financial (over)accumulation

**Development of nominal GDP and financial stocks worldwide, 1980-2010**



Source: McKinsey Quarterly, January 2007, Mapping the global capital markets, p.8

## Mega-trend 2: Internationalisation of financial assets: **International financial assets as % of GDP**



# Finance driven capitalism II: New constellations

## 1. Developing Capitalism

Savings +  
Credit creation

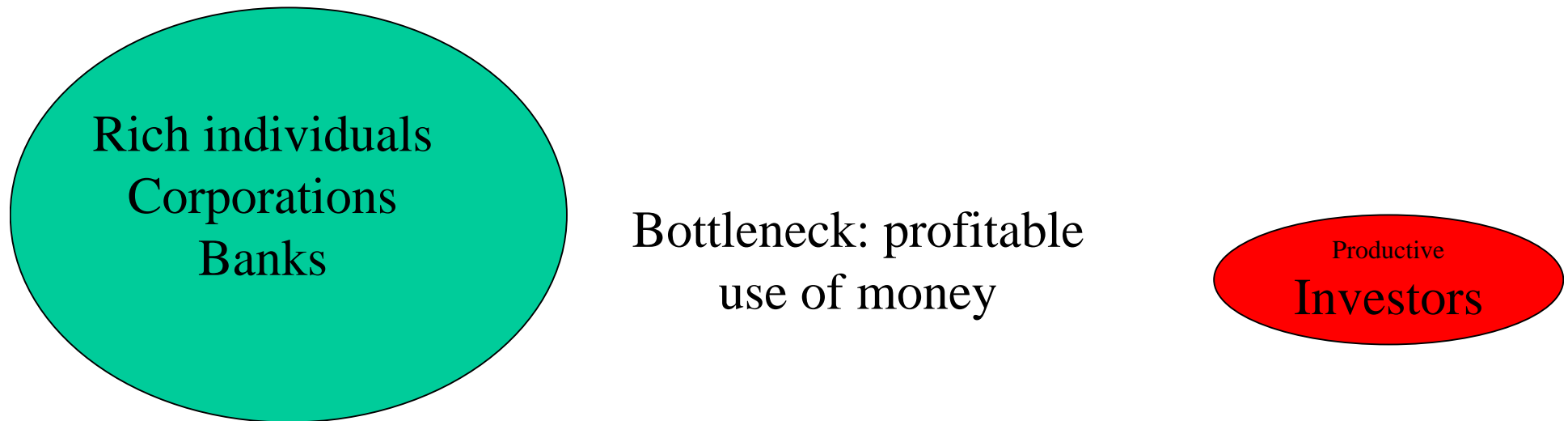
Bottleneck:finance

Entrepreneurs  
= Productive  
Investors

Financial markets are driven by enterprises who need  
money to finance their investments

# Finance driven capitalism II: New constellations

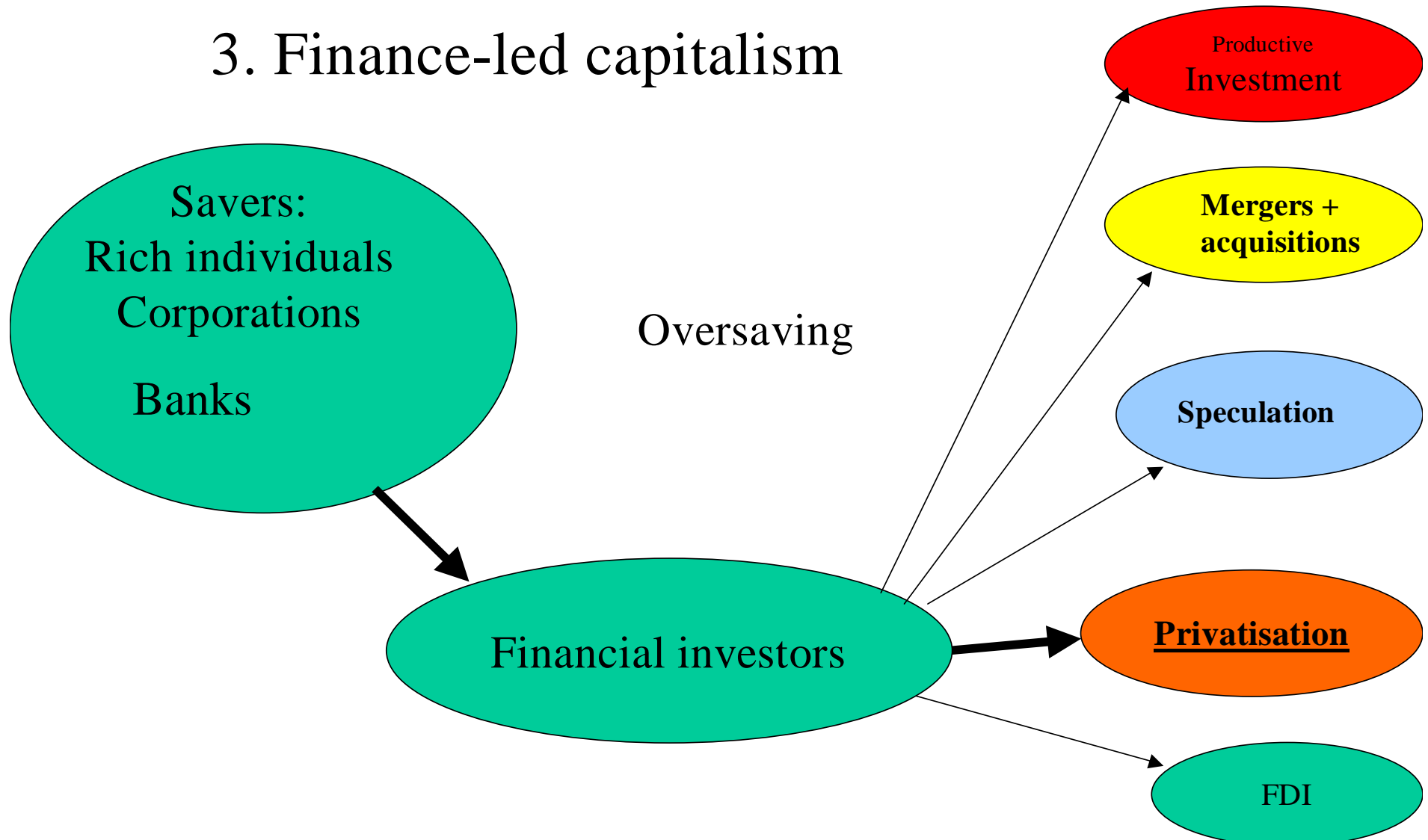
## 2. Mature capitalism



Financial markets are driven by firms and individuals who have much money and search for profitable investment opportunities – which become increasingly rare.

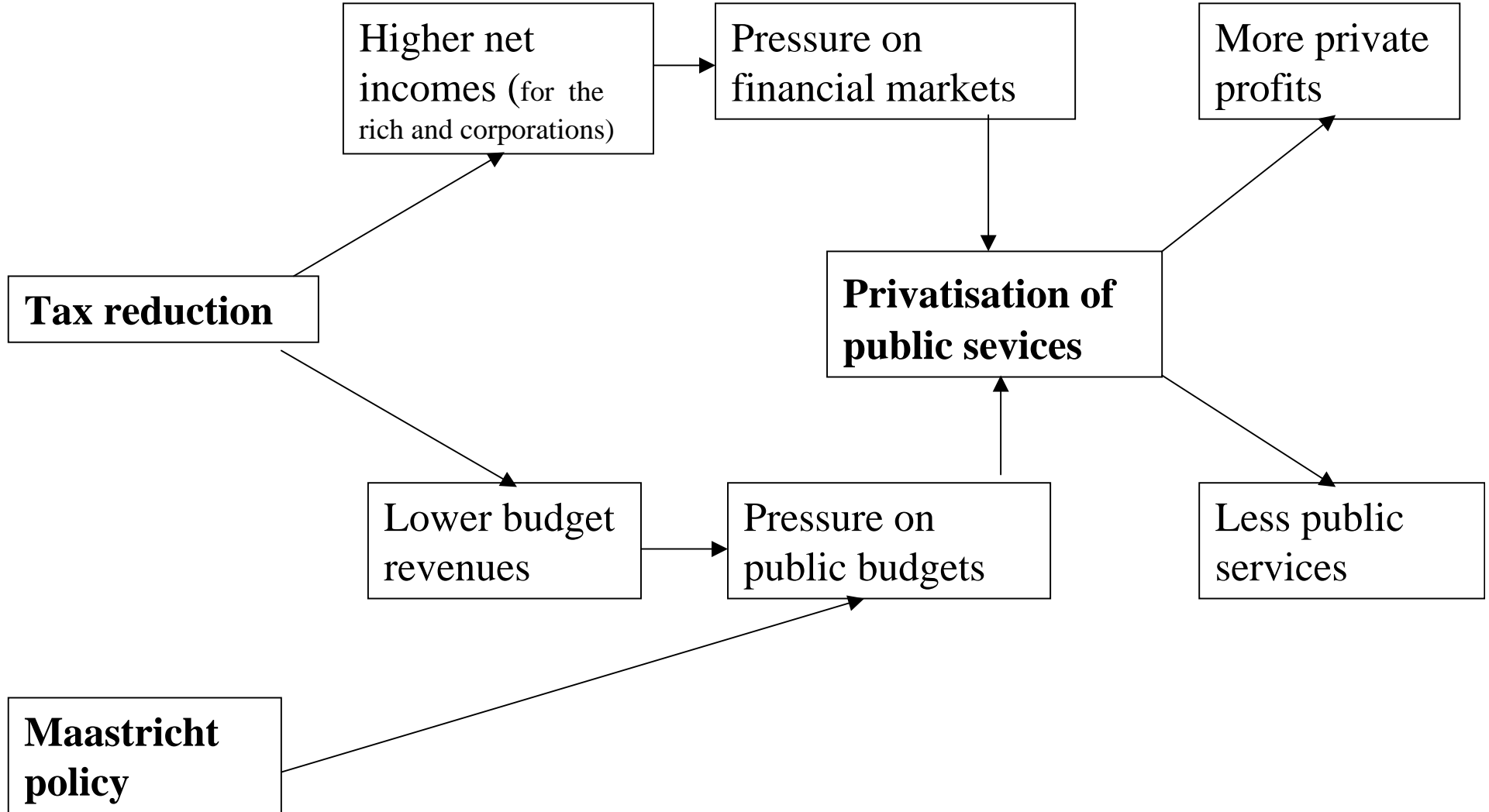
# Finance driven capitalism II: New constellations

## 3. Finance-led capitalism



...and manage them with numerous strategies

# Privatisation as co-operation of fiscal policy and financial markets



## Third issue:

### Role and current approach of the EU

1. Art. 295 EUT: „This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.“
- 2 No distinction between private and public ownership: therefore no use of the term „public services“, instead „services of general interest“(SGI), but only as „services of general **economic** interests“(SGEI): services of non-economic general interest are not covered by the EU
3. EU approach via single market and competition rules (1985: Single market project, 1999, Financial services Action plan, 2007 Services directive)
4. Today the is a main proponent of privatisation in the broad sense

# The current approach toward social services

1. All economic services fall under the single market and competition rules as dominant framework of reference. For non-economic services the EU has no competence
2. An economic service is every service which is ***provided for money***, regard less of the price or who pays.
3. Because today (almost) all social services are provided for money they fall under competition and single market rules
4. Within this framework there is some space for well (and narrowly) defined exceptions and public interest obligations

# Health as commodity: The draft health care directive

Health care not as a citizens right but as  
marketable commodity.

The imperative is not comprehensive  
provision everywhere, but free choice and  
mobility to supply and buy everywhere.

# Fourth issue: Impact of privatisation

## I: Economic impact

### 1. Macroeconomic impact

- Modernisation of CEEC economies
- EU15:
  - No general gains in productivity and growth
  - Long-term price increases
  - Lower public deficits (short-term), but unclear future

### 2. Microeconomic impact

- from public monopolies to private oligopolies
- pro-cyclical behaviour

# Impact of privatisation II: Social impact

1. Frequent job losses
2. Deteriorating labour conditions
3. Growing inequality and exclusion
4. Higher risk of poverty

# Impact of privatisation III: political impact

1. Weakening of trade unions
2. Loss of state control
3. Undermining of democratic control of main directions of development
4. Shift of centre for political decisions to large corporations/financial investors

# Impact of privatisation IV: Impact on the ESM

Transformation of the solidaristic societal  
into a competition driven framework

Transformation of the diversity of social  
models into one uniform pattern

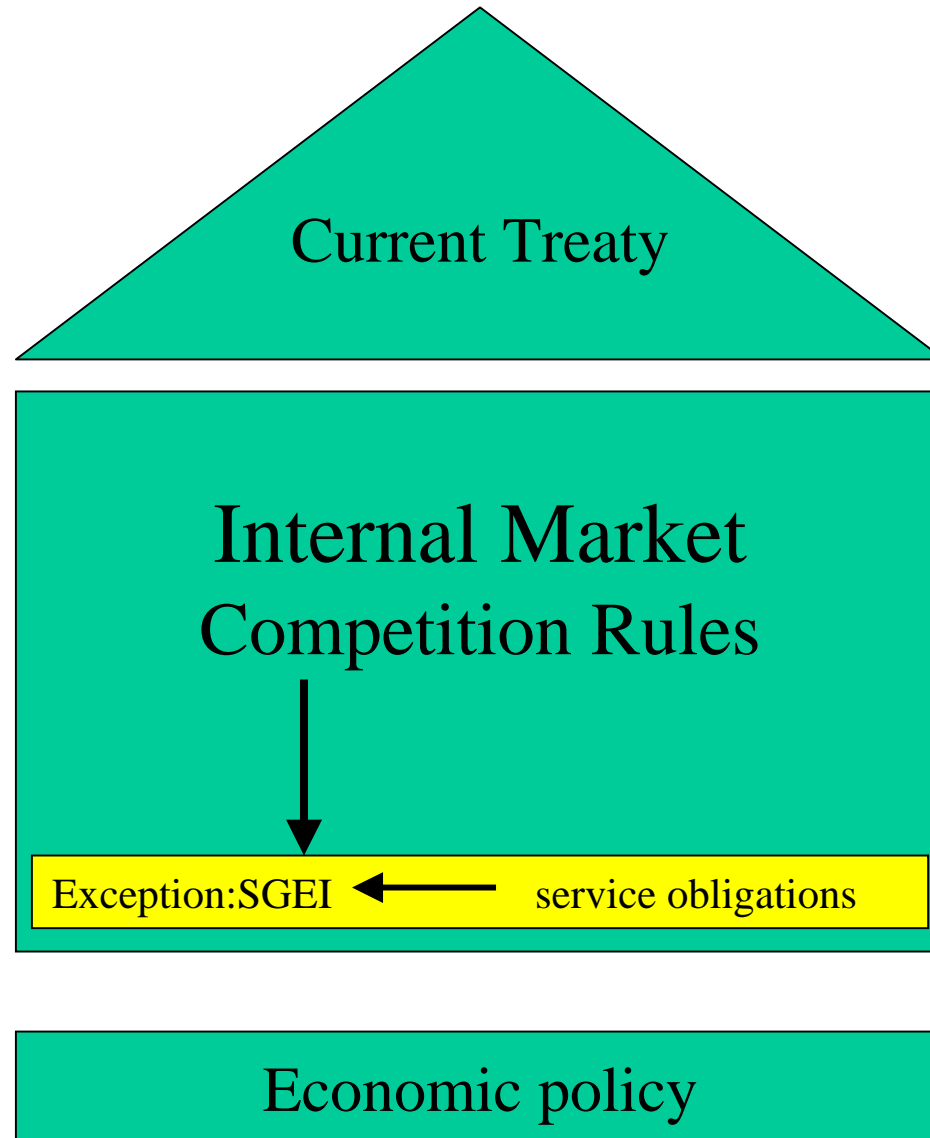
Transformation of citizens social rights  
into commodities

Transformation of democratic pluralism  
into the dominance of corporate power

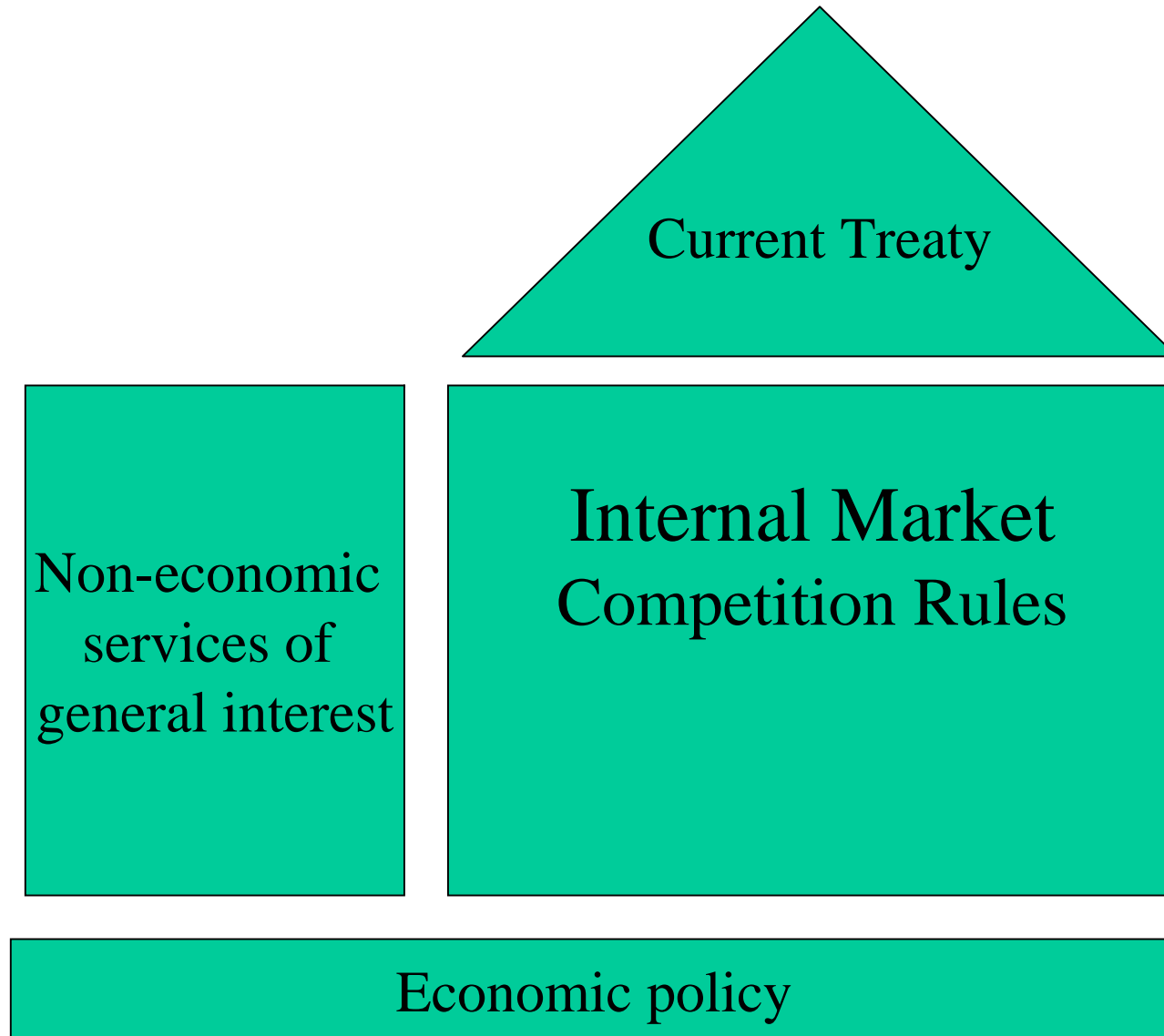
## Fifth issue: Alternatives. Where do we stand?

1. Rising empirical disillusion, theoretical and political critique, social resistance
2. Approaches with regard to the EU
  - insist on the non-economic character of public services
  - Enhance the number of and provisions for exceptions from the single market and competition rules
  - Adopt a general framework directive for SGEI
  - Change the EUT towards a two-pillar model

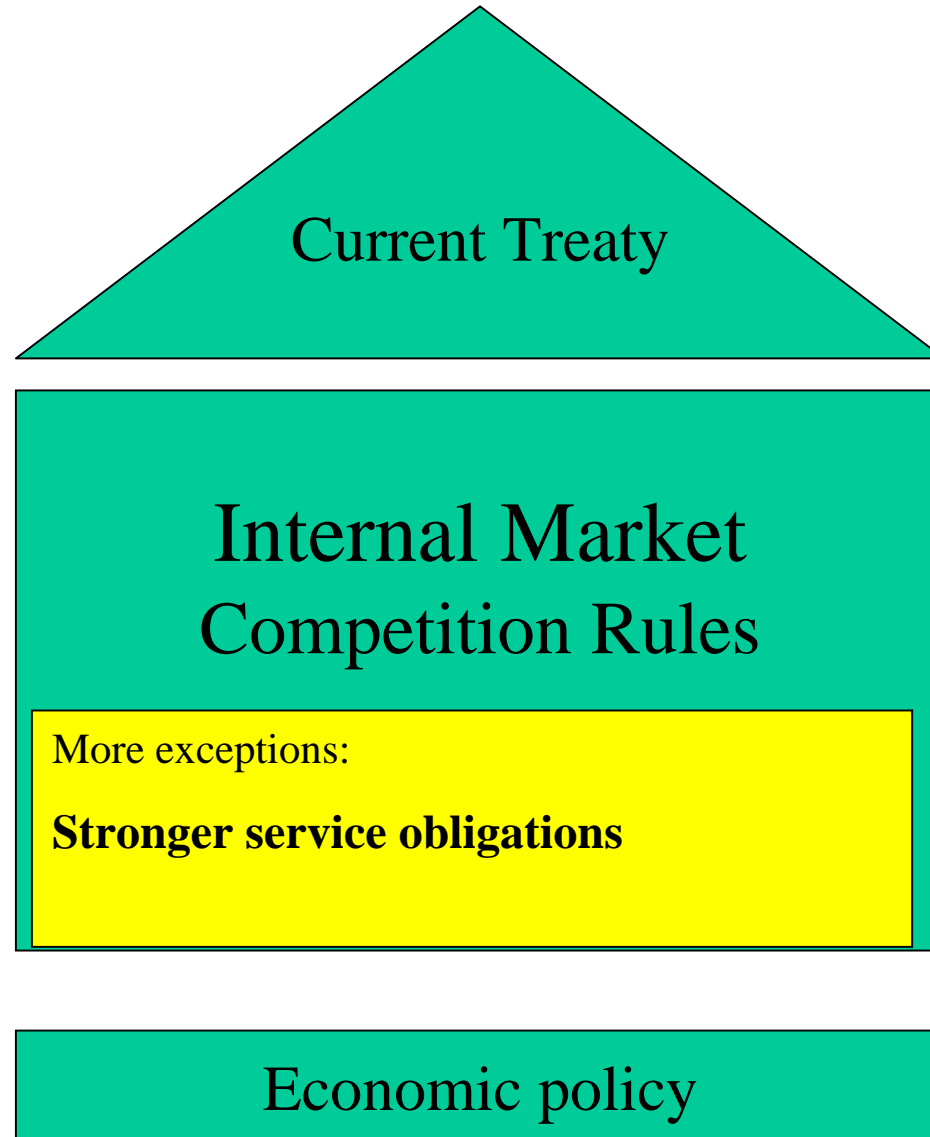
# Services of General Economic Interest: current situation



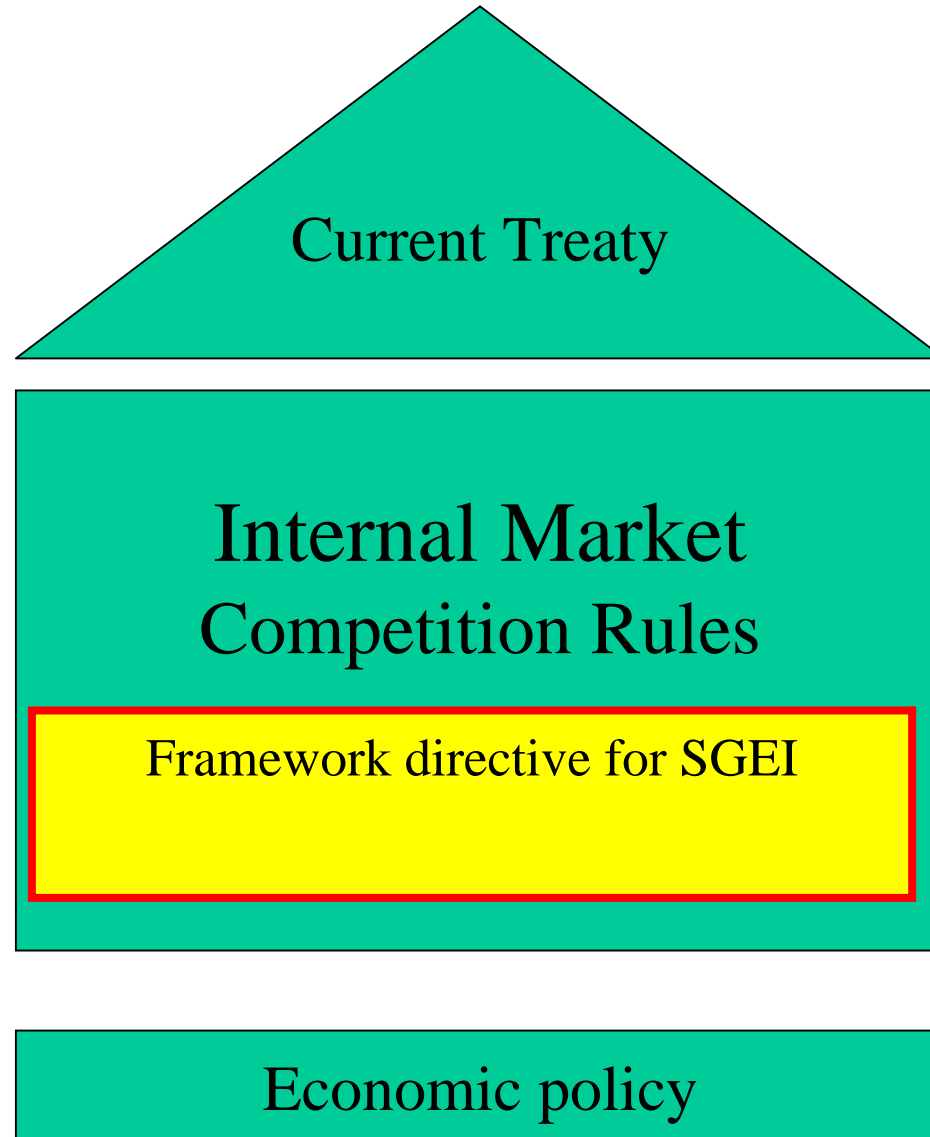
First alternative:  
Public services as non-economic services



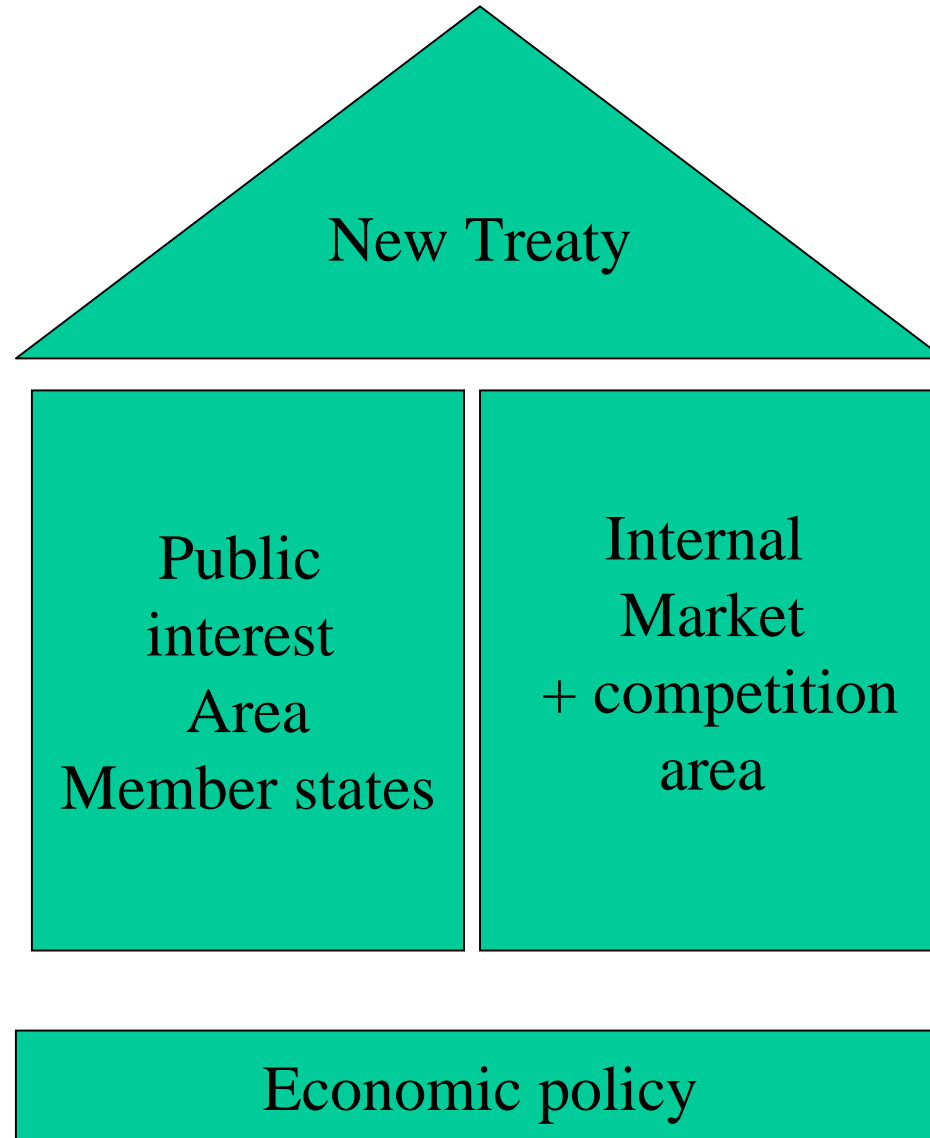
Second Alternative:  
More exceptions, stronger obligations



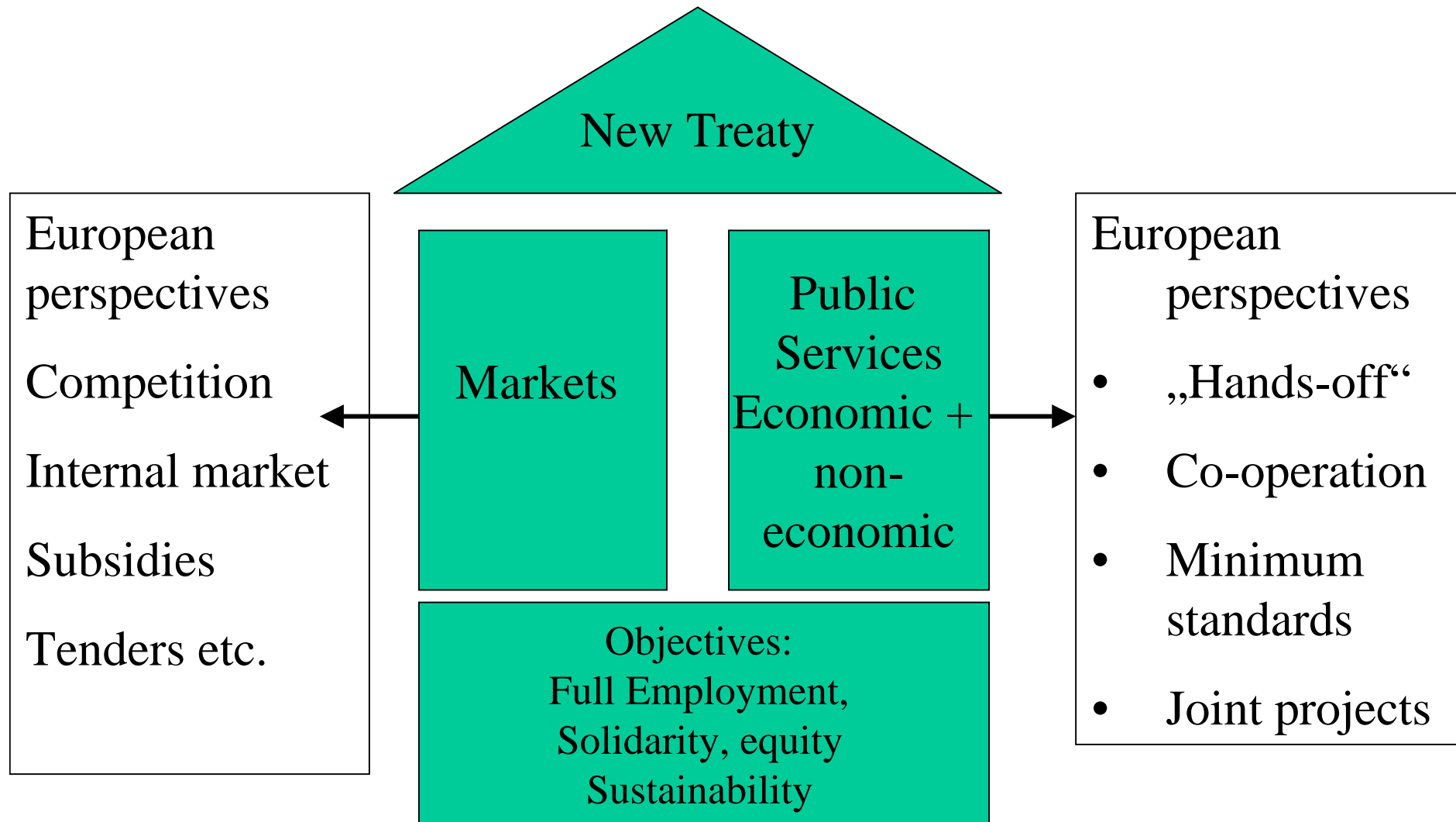
# Third Alternative: Framework directive on SGEI



# Fourth Alternative: Two pillars model



# Economic and social regulation in a progressive Reform Treaty



# European perspectives for public services

1. Creation of space for ps in the member states
2. European cooperation (border regions)
3. European minimum standards + implementation assistance
4. European projects: TENS etc.

**Needed: European institutions, higher budget,  
better macroeconomic policy framework**