

РЕГИОНАЛЬНАЯ ЭКОНОМИКА И УПРАВЛЕНИЕ ПУБЛИЧНОЙ СФЕРОЙ

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DELIVERING OF PUBLIC SERVICES IN EUROPE: IS (RE-)MUNICIPALIZATION A PROMISING PERSPECTIVE?¹

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The article draws on a cross-country and cross-policy study of the provision of public services with a focus on the U.K., France, Italy and Germany and the service sectors of energy and water provision. In pursuing a developmental (historical) approach the article, at first, identifies the institutional changes that since the 1980s have occurred, under the impact of neo-liberal policies and «marketization» concepts, from «public/municipal sector to private sector» service provision. It then raises the question whether, where and why a «comeback» of public/municipal sector provision («remunicipalization») has taken place. In conclusion it is argued in the article that international experience suggests that «privatization» and «(re-)municipalisation» should not be regarded as mutually excluding and contradicting each other, but, instead, as mutually complementing each other, as the private sector's «economic rationality» emphasizes economic efficiency while the public/municipal sector's «political rationality» gives priority to social, ecological etc. («general interest») concerns and to political accountability.

Key words: provision of public services, privatization, (re-)municipalization.

1. From Public to Private

From the beginning of the 1980s, the public sector-centred organisational form of service provision encountered mounting criticism, particularly from neo-liberal point of view. Remedy for the alleged «state failure» was seen in dismantling the (quasi-monopolist) public sector by way of «privatizing» the provision of services – be it by functional privatization, that is «outsourcing» to outside (first of all private sector) providers or by «material» (asset) privatization, that is, transfer to private ownership [1].

The neo-liberal policy shift and discourse received its initial powerful political and thrust in the U.K. in the early 1980s under Margaret Thatcher's conservative government («Bureaucracy banishing») whence it spread first to other Anglo sax and subsequently to Continental European countries. Since the mid-1980s it has been further propelled by the market liberalization policy of the European Union that aimed at creating a «single» European market by 1992 for goods, services and capital which included, not least, the provision of public utilities, that is, in EU terminology and understanding, the «services of general economic interest».

Whereas in the immediate post-1945 development, the U.K. all but epitomized the public

sector-centred advanced welfare state, it became, under the «Thatcherist revolution», the spearhead of a radical neo-liberal policy turn-around. This was exemplified by the energy sector which, after having been «nationalized» under the Labour government in 1949, was (asset) privatized through the Electricity Act of 1989. At first 14 regional private sector companies were created which were subsequently reduced to five by way of mergers.

Politically and ideologically in the wake of the British example the EU started, in the early 1990s, to intervene in the electricity sector by issuing so called *directives* which, in the EU's norm setting hierarchy, oblige the EU member States to translate («transpose») them into binding national legislation.. After the (first) Directive 92/92 of December 19, 1996 largely failed to deregulate the electricity market, the EU followed up with the so-called Acceleration Directive (2003/54 of June 26th 2003) which introduced two particular instruments. For one, in distinguishing between generation, transmission and distribution/supply as three key functions of energy provision, the EU Directive aimed at organizationally «unbundling» these three functions. The basic idea was that, in order to ensure price competition, non-discriminatory access to the

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transmission grid/network should be guaranteed to all providers. Second, the directive obliged each member state to put in place a national regulatory agency in a watchdog function.

In *Germany*, in compliance with the EU directive 96/92/EC, the Federal Energy Act of 1998 was adopted which was meant to «liberalize» the country's energy market. However, this legislative measure had the somewhat paradoxical effect of triggering a «downright wave of mergers» [2, p. 82] which ushered in the emergence of E.ON, RWE, EnBW and (Sweden's State-owned) Vattenfall as the «Big Four» dominant players in Germany's energy market. At the same time, faced with the competitive pressure by the Big Four and with a mounting budgetary plight, many municipalities saw themselves compelled to sell local grids and shares of their *Stadtwerke* to the Big Four. This development was seen, by some, as foreboding the «demise of the *Stadtwerke*» («*Stadtwerkesterben*») [3] and thus perhaps putting an end to the all but «path-dependent» traditional form of local level service provision.

2. «Comeback» of public/municipal service provision?

Since the 2000's two somewhat contrary trends have emerged depending on different contexts in the four countries under consideration and beyond.

In the countries under consideration a reversal towards some «comeback» of public (municipal) service provision appears to have taken shape for a number of reasons.

For one, the pressure emanating from the EU and the national levels to induce, if not oblige the local actors to embark upon privatization has abated. In a protocol to the Treaty of Lisbon of December 2009 (which has the same legal status as the Treaty itself) the EU has explicitly recognized «the essential role and the *wide discretion* of national, regional and *local authorities* (italics added, H.W.) in providing, commissioning and organizing services of general economic interest as closely as possible to the needs of the users» as well as «the diversity between various services of general economic interest and the differences in the needs and preferences of users that may result from different geographical, social or cultural situations». This means that the EU has significantly mitigated its «single market» imperative and accepted that the local authorities may exercise «wide discretion» in deciding how to organize and define the rendering of local services.

Furthermore, in certain policy fields, the local government level has been recognized by the

EU as well as by the national governments as crucial actors. This applies prominently to environmental protection and energy saving. So, at their summit held in March 2007 the European heads of State agreed on an Energy Policy for Europe which called for a 20 percent increase in energy efficiency, a 20 percent reduction of greenhouse gas (GHG) emissions and a 20 percent share of renewable energy sources in overall EU energy consumption by 2020 [4]. For achieving these energy and climate preserving goals the local authorities are bound to play a key role.

Second, the dominance of the neo-liberal policy tenets which prevailed in the international as well as national discourse arenas has faded in the wake of the world wide finance crisis that was triggered by the bankruptcy of Lehman Brothers on September 15, 2008. The relation between «the State» and the Private Business and Finance Sector has been critically reappraised; the crucial role of the State to redress «private sector failures» and «market failures» has been rediscovered and «the State (and hence the public/ municipal sector) has politically and ideologically been «brought back in».

Third, in the political and administrative practice, on least on the local level, it has been increasingly noticed that that the neo-liberal promises that (material or functional) privatization would lead to better quality of services at lower prices has not materialized¹.

Forth, the local authorities have rediscovered the provision of public utilities under their own responsibility and in their own operation as a strategy to generate revenues instead of leaving profit-making to private sector providers². By the same token, they seek and use this an opportunity to regain political control over the quality and price-setting of service provision and to pursue social, ecological etc. objectives («welfare effects»), for instance by way of «cross-subsidizing» structurally and chronically deficient service sectors (such as public transport).

Fifth, this reassessment of the assets of public sector-based service provision is also reflected and supported in a growing popular perception and sentiment which tends to value public sector service provision higher than private sector one. This trend is evidenced by a growing number of local referendums in which the privatization of public services and facilities is rejected or their remunicipalization is demanded [7, p. 194 ff; 8]. On the national level a striking pertinent event was the national referendum held in Italy on June 8, 2011 in which the privatization of water provision was overwhelmingly rejected.

Finally, as in the field of grid-based services, such as energy and water, the municipalities in most countries have the right to grant (time-limited) concessions to the enterprises that want to establish and use such grids, and as currently many of these concessions contracts expire, a «window of opportunity» is opening for the municipalities to renegotiate the concessions contracts and to possibly remunicipalize the services.

Even in the UK where since the 1980s – under the Conservative but also under the New Labour governments – privatization has reigned all but exclusively in the energy sector, the conservative-liberal coalition government recently made a conspicuous policy «turn-around» when it explicitly encouraged the local authorities to resume a responsibility in the energy sector particularly and to engage in the generation and utilisation of energy saving and renewable energy generation technologies³. The national goal has been set to supply 15 percent of the country's energy consumption from renewable energy by 2020. Enabling legislation has followed suit. In the meantime a considerable number of local authorities have initiated local projects, particularly pertaining to power and heat coupling (in conjunction with district heating) and in solar energy. Sheffield, Leeds and Bradford are leading the UK in renewable energy installations.

Although, in the water sector, the privatized provision of water services in *England* and *Wales* have become severely criticized (not least for high tariffs and high operating profits)⁴, a politically relevant discussion about turning the water services back to public (State or local) operation has so far not materialized.

France's electricity market continues to be dominated by EdF which, notwithstanding formal (organisational) privatization. Its market preponderance is also fostered by some protectionism of the national government which promotes EdF as a «national champion» on the domestic as well as international energy markets.

Some 230 municipal energy companies which were exempted in 1946 from nationalisation continue to provide energy services to not more than 5 percent of the households [9, p. 40].

In France's water sector in which well unto 1990s service provision by private sector companies, particularly by the «Big Three», has progressed, a reverse trend has gained momentum since the late 1990s as municipalities have begun to «in-source» the previously «outsourced» service provision. In the meantime steep price and tariff hikes have discredited the privatization of water provision. When politically left council ma-

ajorities and mayors regained power, they sought to undo the privatisation effected by their right-wing predecessors and to make use of the expiration of concession contracts. The decisions taken in Grenoble⁵ and in Paris (in 1989 and in 2000 respectively) are the most conspicuous examples of remunicipalization⁶.

In Italy, while ENEL (which is in 30 percent State ownership) and other institutional and individual (largely private sector) currently still play a major role in Italy's energy market, the municipal energy companies (*municipalizzate*) which, in 1962, were exempted from the nationalisation continue to hold a fairly strong position in the energy sector [12]. This applies particularly to big cities. In 2008 the municipal companies of Milano (1.2 million inhabitants) and Brescia (190.000 inhabitants) merged to form a consortium-type stock company called *A2A* which is listed on the stock market and generates 3.9 percent of the country's electricity, while a multitude of other small municipal companies generates another 10 percent [13, p. 51]. As Italy has politically and legally committed herself to do without nuclear power, the municipal energy companies whose power generation traditionally has a strong alternative and renewable (hydro) energy component [13, p. 52] appear to be poised for an expanding role in the country's energy sector.

In Germany's energy market where well into the 1990s the Big Four private sector energy companies extended their market dominance, while the municipal *Stadtwerke* seemed doomed to fade away (*Stadtwerkesterben*), the municipalities and their *Stadtwerke* have, since the late 1990s, started a remarkable «comeback» and have regained ground [3; 14, p. 6 ff].

First of all, they have learned how to cope with the new competitive environment by improving their entrepreneurial skills and their operational base, for instance, by intensifying inter-municipal cooperation.

Furthermore the municipalities and their *Stadtwerke* which in the past traditionally focused on energy-saving and alternative technologies. (such as heat and power coupling, HPC) have been given increased salience on the national agenda. Besides, the European Commission, in recognising the competitive potential that the local energy companies can bring to bear in the energy market, proceeded to strengthen their competitive «muscle» by exerting pressure on the «Big Four» (E.on, RWE, EnBW, Vattenfall) to retreat from local grids and sell previously acquired minority shares in *Stadtwerke*. Finally, this trend coincided with the expiration of an increasing number of concession contracts on local grids⁷.

As a result, many municipalities have turned to repurchase local grids and shares of the *Stadtwerke*⁸. The dynamics of this development is evidenced also by a growing number of newly founded *Stadtwerke*⁹. As of 2010, 700 *Stadtwerke* out of a total of 1.372 municipal companies¹⁰ are engaged in the energy sector, with one third of them in power generation. Of the locally generated electricity, 84 percent stems from heating and power coupling (HPC) and 16 percent from other, particularly renewable, energy sources. The locally generated electricity amounts to 10.4 percent of Germany's entire power generation [15].

In Germany's water sector, where during the 1990s private water companies, including major players such as Veolia, Suez, RWE and E.on, made significant advances, this trend has, in the meantime, been halted and reversed as well, since the municipalities have turned, in making use of the upcoming expiration of concession contracts, to renegotiate the contracts and to take back control over the local water services. This development has been prompted by demands and pressure from local citizens, as expressed in a growing number of local referendums directed at preventing or undoing privatizing¹¹ (for details and examples see [8]).

3. New wave of privatization?

However recently in some countries the pressure on central government as well as local authorities has mounted to «privatize», that is, to sell State-owned or municipality-owned assets, not least in the sector of public service provision, in order to gain additional financial resources and thus to reduce the existing public debts. This applied particularly to countries that have recently been hit by the so-called «sovereign debt» crisis, that is, by the fatal coincidence of exploding public debts and decreasing tax revenues. This has been the case, for one, in Southern European member countries of the European Union, foremost Greece, Italy, Spain and Portugal that have faced the demands by European Commission, the European Central Bank and the International Monetary Fund, embodied in the so-called Troika, to sell public assets in order to reduce the public («sovereign») debts. Moreover this holds true in the «new» Central Eastern European «accession» countries in which, as a post-communist legacy, the «inherited» State ownership in the service delivery sector of still prevails and the pressure to step of privatization has also mounted.

4. Conclusions

Which conclusions can be drawn (also with an eye on the situation and development in Rus-

sia) from this seemingly ambivalent, if not contradictory development (re-municipalization, on the one hand, and privatization, on the other)?

First, the logic of «privatization» (aiming at enhancing the «economic rationality», first of all, the economic efficiency, of service provision) and the logic of «(re-)municipalization» (geared to a «political rationality» which is committed to «general interests», such as social, ecological concerns etc., besides narrowly economic ones) should not be seen mutually exclusive («either or») but complementary («both... and»). Both private sector ownership and operation of public services and public sector ownership and operational involvement have their specific advantages and disadvantages which should be combined by «maximizing» the respective merits and «minimizing» the respective drawbacks. Experience suggests that (over) hasty and politically uncontrolled privatization may result in replacing the previous (often economically inefficient) public sector monopoly with an (socially, ecologically etc equally detrimental) private sector monopoly. Thus, much attention needs to be given to the proper «balancing» of the two logics of «privatization» and «(re-)municipalisation» in an attempt to draw on and exploit the specific merits of both.

Furthermore, pertinent experience shows that the «(re-)municipalisation» of public service provision essentially hinges on the institutional, political and financial potential and capacities of the public/local authorities to pursue this course. Public/municipal operation has often been (rightly) reproached by its critics for being occupied by incompetent and not seldom corrupt and fraudulent personnel. Hence, the recruitment and maintenance of qualified and corruption-defiant personnel and the compliance with, and control of, correspondingly high ethical and behavioural standards are pivotal and indispensable preconditions of making «(re)municipalisation» successfully function in the «best common interest» of the public (local) community.

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¹ This disenchantment has been manifested in a survey which was conducted in 2010 by the Association for Public Service Excellence (APSE) among 140 local authorities in England, Scotland and Wales (See APSE website www.apse.org.uk). While 60 percent of the responding local authorities indicated that they have begun or were preparing or planning to take previously «outsourced» services back («insource») into their own operation which was explained by «a need to improve efficiency and reduce service costs was the most cited reason for insourcing» [5].

² In a recent survey conducted among German municipalities 74 percent of the respondents indicated that a prime reason for «remunicipalization» was to achieve additional revenues (see: [6]).

³ On August 28, 2010, Chris Huhne, Secretary of State for Energy and Climate Change wrote in a letter to all local authorities that «for too long, Whitehall's dogmatic reliance on 'big' energy has stood in the way of the vast potential role of local authorities in the UK's green energy revolution» <http://www.decc.gov.uk/publications/basket.aspx?FilePath=News%2f376-unlocking-local-power-huhne-letter.pdf&filetype=4#basket>.

⁴ The tariffs increased by 46 percent in real terms between 1990–2000, while the operating profits rose by 142 percent in eight years, according to [10].

⁵ In the case of Grenoble the mayor was convicted of corruption and sentenced to prison. The concession contract concerned was cancelled (see: [10]).

⁶ As a result, the percentage of water services rendered by the municipalities themselves rose from some 18 percent of the country's population in 1970 to 28 percent in 2008 (see table in [11, p. 134]).

⁷ between 2000 and 2001 some 3.000 out of a total of 20.000 concession contracts (see: [14, p. 6]).

⁸ A conspicuous recent example is «Thüga», a former subsidiary of E.on (one of the Big Four energy giants) which was purchased in summer 2009 by a consortium of some 100 *Stadtwerke* for the amount of 3 billion Euro; it now holds about 6 percent of the country's electricity market.

⁹ See [14, p. 8] for an (incomplete) list of some 30 newly founded *Stadtwerke*.

¹⁰ With 241.535 employees which is about one tenth of the entire local government personnel – see [15, p. 9].

¹¹ For instance, in the City of Stuttgart where, in 2003, water provision was completely sold to a large German provider (EnBW), the city council, in responding to a pertinent local referendum, decided in June 2010 to repurchase the water work in 2013.

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