

Privatisation against the European Social Model

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Privatisation against the European Social Model

A Critique of European Policies
and Proposals for Alternatives

Edited By

Marica Frangakis

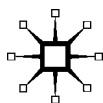
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Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	viii
<i>List of Boxes</i>	ix
<i>List of Abbreviations</i>	x
<i>Notes on Contributors</i>	xii
 1 Introduction: Privatisation and the Crisis of Social Europe <i>The editors</i>	 1
 Part I Privatisation in the EU: Process and Discussion – An Overview	
2 Privatisation in Western Europe <i>Marica Frangakis and Jörg Hufschmid</i>	9
3 Privatisation in the Central and East European Countries <i>Károly Lóránt</i>	30
4 Finance as Driver of Privatisation <i>Jörg Hufschmid</i>	49
5 Theoretical Approaches to Explaining and Understanding Privatisation <i>Malcolm Sawyer</i>	61
6 The European Social Models: Contours of the Discussion <i>Christoph Hermann</i>	77
 Part II Case Studies	
7 Privatisation in the Industrial Sector <i>Włodzimierz Dymarski, Danes Brzica and Malcolm Sawyer</i>	93
8 Liberalisation in Network Industries <i>David Flacher, Hugues Jennequin and Mehmet Ugur</i>	112
9 Privatisation and Marketisation of Health Care Systems in Europe <i>Christine André and Christoph Hermann</i>	129

10	Privatisation of Education <i>Wolfgang Blaas, Elsa Hackl and Birgit Mahnkopf</i>	145
11	Privatisation of Pensions <i>Miren Etxezarreta and Mejra Festic</i>	164
12	Bank Liberalisation and Privatisation <i>Marica Frangakis, Jörg Huffschnid and Joze Mencinger</i>	187
13	Privatisation Trajectories in Europe: A Cross-Sector View <i>Marica Frangakis</i>	208

Part III Perspectives

14	The Impact of Privatisation and Liberalisation of Public Services on the European Social Model <i>Birgit Mahnkopf</i>	221
15	Elements of a Progressive European Social Model <i>Christoph Hermann</i>	233
16	The Role of the Public Sector in a Progressive Construction of Europe <i>Jörg Huffschnid and Jacques Mazier</i>	245
17	Social Actors – Trade Unions and Social Movements <i>Miren Etxezarreta and Marica Frangakis</i>	256

	<i>Index</i>	267
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Tables

2.1	Institutional investors in EU25, the Eurozone and in selected countries, 2006	19
2.2	Banks in the CEEs	19
3.1	Dominant privatisation methods	32
3.2	Foreign Direct Investment stocks as per cent of the GDP	40
3.3	Balance of payments and general government deficit of the CEE countries	41
3.4	Unemployment rates (total unemployment)	43
3.5	Harmonised long-term unemployment and activity rate (2007)	44
4.1	Sources of global assets under conventional management, end of 2007	52
4.2	PEF in privatisations in 2006	55
7.1	Changes of industry share in GDP in CEE EU member countries during transition process	97
7.2	Change of industry share in total employment in CEE EU member countries during transition process	98
7.3	Size of public enterprises in Western Europe, 1982–1991	104
7.4	Size of public enterprises in Western Europe, 1998	105
9.1	Health care systems: Spending and financing	132
10.1	Proportion of public and private expenditure on educational institutions as a percentage, by the level of education (2005)	150
10.2	Percentages of students in tertiary institutions by type of institution (2006)	152
11.1	The different types of pension schemes	172
11.2	Share of expenditure for pensions in % of GDP (current prices)	175
11.3	Average annual growth rate per capita of spending for pensions, at constant price, in %	177
11.4	Pensions in the new member states	180
12.1	Bank privatisations in non-OECD, OECD and EU countries 1982–2000	196
12.2	Number and size of privatisation in the EU banking sector, 1982–2000	197
12.3	Characteristics of the CEE banking systems in 2006	202
12.4	Major foreign banks in the CEE banking sector	202
17.1	Union membership and density in the EU and selected countries	258

Figures

2.1	Privatisation proceeds (US \$ million)	14
2.2	Major EU privatiser countries 1977–2007 (US \$ billion)	15
2.3	Privatisation proceeds as % of GDP 1990–2005 (unweighted average)	16
2.4	Percentage sectoral share in EU15 privatisation revenues 1977–2006 (%)	17
3.1	Real GDP levels in the new EU member countries 1988 = 100	38
3.2	GINI index for per capita incomes from ‘official’ sources	45
12.1	Bank privatisations in the EU15, 1985–2007	194
12.2	Bank privatisations in the EU15 countries, 1985–2007	195
12.3	Share of public ownership in bank assets	199
12.4	Bank privatisations in the CEE members of the EU, 1992–2004	201

Boxes

2.1	The East German privatisation experience	12
2.2	About PPPs	20
2.3	The European Commission on social services	26

Abbreviations

CEECs	Central and East European Countries
CEU	Council of the European Union
CITUM	Confederation of Independent Trade Unions of Montenegro
DB	Defined Benefit
DC	Defined Contribution
DHAs	District Health Authorities
DM	Deutsche Mark
DRG	Diagnosis Related Groups
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Council
ECT	European Communities Treaty
EEC	European Economic Community
EHEA	European Higher Education Area
EIB	European Investment Bank
EMU	European Monetary Union
EPL	Employment Protection Legislation
ESF	European Social Forum
ESM	European Social Model
EU	European Union
EUT	European Union Treaty
FDI	Foreign Direct Investment
FSAP	Financial Services Action Plan
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GPFH	General Practitioners Fundholders
HNWI	High Net Worth Individuals
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision
IPO	Initial Public Offering
MEBO	Management and Employee Buy-Out
NGO	Non-Governmental Organisations
NHS	National Health System
NMS	New Member States
NPM	New Public Management
NRAs	National Regulatory Authorities
NUM	National Union of Mineworkers

OECD	Organisation for Economic Cooperation and Development
OMC	Open Method of Coordination
PAYG	Pay As You Go
PbR	Payments by Result
PCS	Public and Commercial Services Union
PEF	Private Equity Fund
PFI	Private Finance Initiative
PPPs	Public Private Partnerships
PRESOM	Privatisation and the European Social Model
ROR	Rate of Return
SEA	Single European Act
SGEI	Services of General Economic Interest
SGI	Services of General Interest
SMEs	Small and Medium Size Enterprises
TFP	Total Factor Productivity
TU	Trade Unions
TUC	Trade Union Congress
VPFs	Voucher Privatisation Funds
WB	World Bank
WFS	World Financial Stocks
WSF	World Social Forum
WTO	World Trade Organisation

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15

Elements of a Progressive European Social Model

Christoph Hermann

15.1 Introduction

Preceding chapters have analysed in great detail the consequences of privatisation of public services and have thereby shown how privatisation undermines the very foundations of the European Social Model (ESM). This chapter attempts to go a step further and discuss possible elements of a progressive ESM as an alternative to the changes described in the previous pages. However, the starting point is an acknowledgement that although privatisation and related processes resulted in a situation that in many aspects is clearly inferior to the state where services were still provided publicly, a progressive alternative cannot simply demand for a reinstatement of the old model. First, the European social models of the post-war years themselves had a number of serious deficiencies, and second there are new challenges ahead that demand new responses.

There is no point in denying that the delivery of public services in the post-war years was not without problems. Even if privatisation made things worse, services users were not always satisfied with the services provided by bureaucratic, state-run and often seriously underfunded organisations. Similarly, there were plenty of loopholes in welfare safety nets, and some groups of individuals were plainly excluded, while welfare recipients were frequently treated in a paternalistic and perhaps even penalising manner. Given this legacy, it should not surprise that liberalisation and privatisation was not utterly rejected by service users who had hoped for the improvements promised by privatisation advocates (and hence were deeply frustrated by the subsequent developments). In formulating progressive elements of a new ESM, this chapter will therefore not only argue for a revocation of privatisation and related processes but also address some of the legitimate criticisms directed at the post-war social models.

15.2 An active role for the state

With the policy of liberalisation and privatisation the role of the state has changed profoundly in the past decades. During the post-war decades states actively engaged in the provision of public services through widespread public ownership and through the adaptation of encompassing and detailed service regulations (starting with provisions for investments and ending with the imposition of prices and tariffs). In contrast, in recent years European governments tend to leave the provision of public services to private companies and the 'free play' of market forces (Hermann and Verhoest, 2008). While the primary objective of private companies, regardless whether they provide public or private goods, is to generate profits (and for this purpose they are willing to compromise accessibility and service quality if not barred from doing so), the role of the state is reduced to making sure that competing providers have access to the markets (*ibid.*). In some sectors, certain providers are subjected to universal or public service obligations, but these usually apply only to one provider, typically the former monopoly supplier, while the others are free to provide the same services at their own discretion. Not surprisingly, this creates tensions between those who are forced to maintain a certain quantity and quality of service provision and others who can focus on particular lucrative areas or business segments. In addition, despite the opening of public service markets, competition is still limited with public monopolies often being replaced by private oligopolies (*ibid.*). In other cases, in particular in services in which competition between different providers is dysfunctional (e.g., public transport), or which are heavily subsidized (e.g., education and health services), the provision is not simply left to the free play of market forces. In these cases, states increasingly engage private providers through contracting, 'private-public partnerships' or 'private finance initiatives'.

Private-sector involvement, according to the rationale behind this tendency, allegedly makes service provision more effective and efficient and therefore less costly. As described in detail in the second part of the book, private sector involvement has, in contrast, often increased costs, while deteriorating quality, and obstructing responsibility, accountability and transparency. In short, in the liberalised and privatised public service model choice between competing providers, who mostly offer the same or only marginally different services, has replaced democratic accountability (Le Grand, 2007). Yet, as we will discuss further below, choice has resonated well among many public service users precisely because of weak responsiveness and limited democratic accountability in the governance of public services, both in Western European welfare and Eastern European communist states. However, the cost-cutting argument not only amplified the role of private companies in public service provision. Even where services are still provided by government agencies, the nature of service provision has been altered through

the introduction of new public management techniques, emulating private sector goals and methods (Needham, 2007; Whitfield, 2001). Changes have been described as a shift from 'welfare' to 'contracting' or 'enabling states' (Gilbert, 2002). It is important to note that governments do not necessarily cede power in this process. What instead happens is a transformation of the role and responsibility of states. Some authors have therefore described the transformation as a move towards 'competition states' (Hirsch, 2005), emphasising the increasing state support for private businesses.

A progressive ESM needs an active state that fully resumes its responsibilities vis-à-vis its citizens. Instead of hoping that the 'free' play of market forces will create favourable outcomes (which it more often does not than it does), public authorities have to make sure that the outcomes meet the needs and expectations of citizens. While not all services must be provided by public organisations – private for-profit and not-for-profit organisations have always played an important role in the provision of public services in some countries and sectors – comprehensive regulation must guarantee that profit interests are subordinated to the interests of citizens. This means that regulation must cover the whole process of service provision (from investments to prices and tariffs) not only specific aspects (such as, for example, the access of competing providers to infrastructure). Similarly important, regulation should not be limited to certain providers, but cover all companies that are engaged in the provision of public services. Service users and citizens more generally, should play an active role in the design of regulation and the monitoring of compliance (Palast, Oppenheim and McGregor, 2003). This means that a progressive ESM not only needs a more active but also a more democratic state (Albo, Langille and Panitch, 1993).

Although comprehensive regulation is an important step in reinstating responsibility and accountability, public ownership still has an additional advantage as it enables governments to directly intervene and actively respond to changing needs and expectations, and even more importantly, to build the capacity for public problem-solving processes, thereby limiting the dependence on the private sector (which, as the current financial crisis shows, is of crucial importance). In a similar vein, public ownership enables the state to promote innovations and developments that go beyond the initiative of private capital with short-term profit expectations. This is particular important for long-term investments in improving environmental sustainability. While the recent financial crisis has led to a number of public takeovers of failing private banks, other forms of re-nationalisation in Europe have been rare. Among the rare cases are a number of municipalities who have brought some of the outsourced services back under municipal ownership after sometimes disastrous experiences with private contractors (Candeias, Rilling and Weise, 2008; Needham, 2008).

To be able to meet their responsibilities, states, of course, need sufficient financial resources. Tax policies therefore play a crucial role in a progressive

ESM. Only through a meaningful and progressive tax policy can states make sure that the public sector is sufficiently funded to deliver those services that citizens are expecting. The current trend of granting tax breaks to the rich has exactly the opposite effect and deprives states from the possibility to sufficiently fund public services. In several sectors and countries it was problems created by underfunding that paved the way for privatisation as service users were discontented by deteriorating infrastructure and service quality while the new private owners promised long-overdue investments (in some cases, however, investments were also made before the public companies were sold to private investors). Underfunding of public services and deteriorating infrastructures are particular pressing problems in the new member states in Central and Eastern Europe where governments are severely constrained by their attempts to join the Euro area. In Western Europe similar pressures are felt by municipalities who are subjected to increasingly tight deficit targets by federal governments who themselves attempt to meet the Growth and Stability Pact Criteria. Hence, a progressive ESM with flourishing public services not only needs supportive tax but also monetary policies.

15.3 An encompassing welfare system and the decommodification of social relations

Originally, welfare systems were developed to protect citizens from the risks and distortions inherent to modern market societies and the wage labour status. Welfare systems provided income for the unemployed, disabled, for those who are too old to work or are poor for other reasons. True, there were loopholes in social protection and only the most advanced welfare states provided a decent basic income, but welfare was based on social rights and not on charity. This implied the acceptance of redistribution of wealth through a progressive tax policy and proportional social security contributions. Consequently, as Gøsta Esping-Anderson (1990) has pointed out, even the most conservative welfare systems contained some degree of decommodification.

In very basic terms, decommodification means that citizens are not dependent on income generated by the sale of their labour power and the subsequent exchange of money for goods and services in order to exist. Labour law and collective agreements also play an important role in this regard as they establish rules and responsibilities associated with the purchase of labour power and thereby restrict labours' commodity character (Hyman, 2005). Decommodification went furthest in the northern European welfare states where welfare not only meant cash transfers to those eligible for benefits, but the development of a public infrastructure, with child care facilities and elderly care structures, among other things, that not only provided help for those in need, but also job opportunities for

workers excluded from or disadvantaged on private sector labour markets, including, most notably, women. It also shows the importance of welfare policy for the promotion of equal opportunities and for combating discrimination (Heintze, 2005). Regardless of the national welfare model, there was widespread consensus among European policymakers during the post-war decades that welfare systems must continuously be improved to strengthen solidarity and social cohesion.

Recent decades of welfare and labour market reforms have reversed this development and significantly reduced the level of de commodification. Instead of allowing for an existence beyond the market and money-driven society, welfare benefits are increasingly targeted towards integrating those without employment as fast as possible into the labour market. Of course there is nothing wrong with supporting unemployed workers to find a job, but not by forcing them to accept any employment that is available including poorly paid and precarious work (Gray, 2004). Some authors have described these changes as shift from welfare to workfare policies (Peck, 2001). In this process, fundamental social rights are reduced to temporary and conditional support and anti-discrimination strategies are confined to labour market policies, although recent welfare and labour market reforms fuel inequality and social exclusion.

Instead of forcing an increasing number of European citizens in the ranks of the working poor and precarious workers, a progressive and comprehensive welfare policy should start with governments developing an active macro-policy as an essential part of a progressive welfare strategy. The same governments that promote workfare policies have become increasingly reluctant to stimulate the overall economy. Second, a progressive and comprehensive welfare policy is hard to be imagined without a meaningful redistribution of wealth. Tax cuts for the rich typically mean welfare cuts for the poor. In contrast, a comprehensive welfare policy must reinstate the principle of solidarity (everybody gives what he or she can, and takes what he or she needs).

Measures to fight poverty include the introduction of an adequate European minimum wage and the granting of a general basic income that allows for a decent social existence. While the first measure is supposed to make sure that even the lowest paid jobs pay for a living, the latter is meant to protect workers from having to accept jobs with poor employment and working conditions. In addition it is an acknowledgment of the existence and decisive role of unpaid labour in the reproduction of European families, and, consequently, for social cohesion and progress. The form and eligibility of the basic income must be designed to make sure that state agencies cannot treat welfare recipients paternalistically. To strengthen the de commodifying effects of such a measure, monetary transfers should be combined with the creation of what some authors have called a social infrastructure. As Joachim Hirsch (2007, p. 143) explains, "the goal should be to establish

a comprehensive social infrastructure, which combines an expanded provision of public goods with an adequate and unconditioned and for everybody available basic income, which not only secures the material existence but enables self-development and participation in society.”

A progressive welfare policy should not be limited to particular and presumably comparably rich member states. These countries should maintain and strengthen their welfare regimes, but, in order to allow poorer countries within the European Union to narrow the gap in welfare standards, a common set of welfare benefits should be statutorily established for all member states, even if the material levels of the benefits would be related to living costs in the respective countries. To advance in that process, institutions such as the European Social Fund (ESF) could play a critical role, but must be endowed with sufficient resources and powers. A trend towards convergence of welfare benefits is a basic element towards equality, regional development and social cohesion, and it could substantially reinforce the sense of European citizenship.

15.4 Equality and equal opportunities through accessibility, affordability and high quality public services

Although there is a wide range of public services, one of their common feature is that they provide citizens with essential means of existence and that in contrast to private services individual purchasing power has only a limited effect on the quality and quantity of the services provided. For this reason, public services are particularly important to sustain equality and social cohesion. While some services were freely accessible (e.g., health care, education), for others a fee or price was charged even in the past (e.g., transport or electricity). However, price policy was typically the result of political decisions rather than of market processes. As such, prices were frequently subsidised. In the case of multi-service suppliers, loss-making services were sometimes subsidised by the profit-making activities of the same organisation (e.g., post by telecommunication). Hence, even if services were not freely accessible, prices reflected social concerns in order to make sure that low-income groups were not excluded.

Liberalisation and privatisation advocates have criticised this as illegitimate and costly interference in market processes which ultimately results in higher costs. Liberalisation and privatisation according to this view will reduce prices and thereby improve accessibility. In reality, however, liberalisation and privatisation has led to the establishment of complex and often intransparent price structures with different prices for different groups of users. This not only makes it difficult to compare prices and thereby obstructs competition, but new price structures tend to favour large customers with strong market power, often being large corporations that subsequently profit

from liberalisation and privatisation, while for small companies or private households prices decreased only marginally. And sometimes they have even increased. As a result, liberalisation and privatisation has fuelled inequality and partly undermined accessibility, even if the average price for a particular service may have decreased. The introduction of variable fees had similar effects: Private health care insurances advantage high-income groups as these customers typically show lower health risks and therefore qualify for lower premiums than low-income earners. Other fees may be the same for all users but they may create a serious barrier for low-income earners to use the service as they make up for a significantly larger proportion of their income than for high-income earners.

In extreme cases, liberalisation and privatisation can cause the emergence of two-tier systems for high- and low-income earners as is already the case in the health care systems in the new member states in Central and Eastern Europe, with public hospitals treating low-income earners and private hospitals treating those who can afford private insurance or have sufficient personal funds. This is a particular frightening development. A high quality of public services, as promised by the European Council and the European Commission, can only be sustained as long as low- and high-income earners use the same services. Experience shows that services for the poor are typically poor services (see Chapter 14). Yet the growing attention paid to more profitable customers or service areas is a general problem that threatens to undermine the quality and accessibility of service provision. While universal service providers (e.g., former national post companies) are obliged to maintain a national distribution network that more or less covers the entire territory and provides a whole range of services, new competitors can concentrate on certain areas (e.g., highly populated urban centres) and particular lucrative customers (e.g., large corporations with a large amount of mail). As a result, universal service providers feel even more pressure to cut costs and one way to do this is to cut-back on services (as can, for example, be seen in the repeated closures of railways and post offices in rural areas).

Liberalisation and privatisation is not only believed to result in falling prices, their advocates also assume that competition makes sure that service providers improve service quality. Indeed some public service companies have responded to competition by stepping-up customer service relations and by introducing specific quality control systems (Flecker and Hermann, 2009). However, quality standards are deliberately chosen not to contradict with cost-cutting programmes with the effect that broader quality criteria such as the well-being of the service user or of the local community are neglected. Moreover, a number of public services are particularly labour intensive. In these kind of services, the reduction of employment introduced to prepare former monopoly providers for competition (even though competition often increased only marginally) and the poor working conditions

offered by the new competitors very likely have a negative impact on service quality (*ibid.*).

To guarantee accessible, affordable high-quality services, regulation should not only introduce universal service obligations for all providers, but also impose common quality standards developed in cooperation with user groups. Services should, furthermore, as far as possible be freely accessible, but if prices or tariffs are charged these should reflect social and environmental concerns and not be left to market processes. The objective is to make sure that all citizens, however marginalised socially or geographically, have sufficient service access. In addition, price policy should take into account the long-term effects of a possible exclusion of certain groups from service provision, which may greatly outstrip the initial costs (as it is obviously the case in health and educational services). The establishment of socially and environmentally sensitive prices of course demands the possibility to subsidise services.

15.5 High quality public sector jobs in order to ensure high quality services

The quality and effectiveness of public services depends on highly motivated public sector workers with sufficient resources and training to accomplish their tasks. Moreover, public services are also a major source of jobs. Public service providers are among the largest employers in their countries. During the post-war decades the extension of public employment played an important role in reaching the overall objective of full employment and in mitigating cyclical private sector job losses. It not only created employment opportunities especially for low- and medium-skilled workers and in some areas for women, but also worked as a counterweight and partly as a model for the private sector employment regime (Schulten, Brandt and Hermann, 2008).

Many public sector workers enjoyed a high degree of employment security, while working conditions were regulated by a complex set of rules which made sure that economic pressure did not compromise quality and security of services. As a result, employment and working conditions were more stable and homogenous than those offered by private sector employers, thereby adding to the decommodification of labour in the post-war decades (*ibid.*). Public sector workers were subsequently less motivated by wage increases than by the public sector ethos, including a high degree of identification with the employing organisation, loyalty, accountability, a sense of community and a sense of justice. In some cases there was, however, also a lack of motivation.

Liberalisation and privatisation presented a major challenge to the public sector employment regime. Allegedly, rigid employment standards and work rules, including a lifetime protection from dismissal, were criticised as barriers to greater service efficiency. In some countries (like the UK) and sectors

liberalisation and privatisation were deliberately deployed by governments to break the power of public sector trade unions. Cost-cutting has not only led to falling employment numbers; the emergence of new competitors and the drive to lower labour costs have at the same time resulted in a fragmentation of bargaining structures and the introduction of two- and multi-tier labour relation systems (Brandt and Schulten, 2007). Differences emerged between 'old' and 'new' workers in the same company, between workers employed by the former monopoly providers and by the new competitors and between in-house and outsourced staff. Liberalisation and privatisation have not only led to a widespread deterioration of public sector working conditions, in a number of cases they have literally fuelled the creation of low-paid and precarious jobs (e.g., in the postal sector in Germany and the Netherlands). The resulting re-commodification of public sector employment may not only affect public sector workers. In the absence of a public sector counter-weight, private sector employees in the long term can also expect growing pressure on wages and working conditions.

To make sure that liberalisation and privatisation are not carried out at the cost of public sector workers and of service quality (suffering from poor employment and working conditions) there is a need for strong and encompassing employment standards in public service sectors. These standards have to create a level playing field that applies to all competitors, not only to the former monopoly providers, and should make sure that workers who carry out the same job should receive the same compensation. In addition, new competitors should be banned from fighting unionisation and required to introduce the same forms of workers' representation that exist in the former monopoly providers (who typically have elected works councils and much higher union membership rates than the new competitors). Training and promotion systems should be fair and profit all public sector workers and not only particular groups. Wage differentials should be based on experience and commitment and not on market criteria and they should be proportional in order to strengthen the solidarity between public sector workers.

Besides trade unions, work councils and other forms of labour representation should play an important and active role in the planning and delivery of public services. A highly motivated public sector workforce is the best guarantee that service quality is improved in a great variety of aspects, including those that are particularly labour intensive. In addition, the public sector should provide extensive training and comparable decent jobs, especially for low- and medium-skilled workers, and for workers who are discriminated in private sector labour markets.

15.6 More participation, accountability and sustainability

A paramount element in a progressive ESM is to make political decision making of any kind, particularly relating to welfare, much more participatory.

A reform of the ESM must therefore centre on improving participation, accountability and sustainability. This will be the critical difference to the social models of the post-war years. In other words, social and political institutions and states themselves must change and allow for new forms of activism, participation and responsiveness in order to overcome the paternalistic top-down governance structures of the Keynesian welfare states of Western Europe and the state-communist systems of Eastern Europe. A radical democratisation of European societies that promotes active participation also demands for citizens with sufficient resources to formulate and articulate their expectations, and engage in the development of collective solutions to social problems. It is clear that the financing of this new system must be public, but the concrete processes and institutions that enable a radical democratisation still wait to be developed. Participatory budgeting developed in South America, but increasingly also practiced in European municipalities is one example of how state agencies can be made more responsive to citizens' needs.

Public services play a crucial role in this regard and the reform of public services could function as a model for a penetrating democratisation of European societies. In the old public service model citizens elected governments which would then decide about the provision of public services or delegate decisions to administrative units. If they were not satisfied with the services, users could elect another government but they could not directly articulate their critique of existing practices. However, with liberalisation and privatisation and the resulting commodification of public service provision service users have even less influence. In the new privatised social models the provision of 'public' services is left to the market which means that service users have a choice to decide between two or more providers that perhaps all provide the same unsatisfying service – if they can afford to pay for them. Instead of reducing service users to consumers that can choose between different yet unsatisfying alternatives, an alternative public service model should be based on strong and encompassing user participation.

The participation should be twofold: First of all, users should be encouraged to monitor service delivery and make suggestions for improvements. Second, service users or specifically assigned user representatives should play an important role in the planning and design of public services. Service users, in other words, should become co-producers (Needham, 2008). A possibility would be the installation of a wide range of public service boards with representatives from management, workers, experts and service users. The objective would not only be to solve current problems, but also to develop a dialog and vision for the future of public services. There are some examples that give a hint how such a dialog could work. The reorganisation of municipal services in Trondheim in Norway clearly demonstrates the gains involved in such a process (Little, 2007). Yet the example of Trondheim also shows that the primary focus of public service reform should not be how to cut costs, but how to improve services.

15.7 Conclusion

The elements of a progressive ESM identified and discussed in this chapter are certainly important but not exhaustive. These elements are:

- An active yet more responsive and democratic state that resumes its responsibilities vis-à-vis its citizens. Such a state should introduce encompassing regulation that covers the entire process of service provision and makes sure that services are of high quality and easily accessible. An active state should furthermore promote public ownership in public services in order to build capacity for public problem-solving processes and innovation. To be able to do so, states need an adequate tax and monetary policy.
- An encompassing welfare system based on universal rights that enhance decommodification and protect workers from poor jobs and working conditions. Such a system should also guarantee a basic income for those outside paid employment, many of whom do unpaid work, in order to promote self-development and participation. Money transfers should be combined with a social infrastructure of high-quality, easily accessible public services. Such a welfare system can hardly be imagined without a meaningful distribution of wealth.
- Public services that are of high quality, accessible and affordable and thereby promote equality and social cohesion. As far as possible, public services should be freely accessible but if prices or tariffs are charged they should reflect social and environmental concerns, rather than reflecting market power of particular groups of customers. In short, services should be the same for all service users regardless of their purchasing power. To make sure that all services are of high quality, regulation should address the various quality aspects involved in the provision of public services and cover all services providers not only the former monopoly suppliers.
- A public sector workforce which creates decent jobs especially for low- and medium-skilled workers and for groups that are discriminated against in private sector labour markets. Regulation should make sure that liberalisation and privatisation does not lead to a fragmentation of labour relations and a deterioration of employment and working conditions. Furthermore, trade unions, work councils and other forms of labour representation should play an active role in the planning and delivery of public services.
- A high level of participation, accountability and sustainability. This is perhaps the greatest difference to the post-war models and the Western European welfare states and the Eastern European communist systems. Public services that constantly strive to meet the changing needs of citizens' demand for an active role of service users, both, in monitoring existing services and in the planning and designing of new services. Although there is much work ahead in developing institution and mechanisms that promote accountability and participation, there are a few examples in Europe that can be used as an inspiration to build a progressive ESM.

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