



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT
ECONOMIC AND SCIENTIFIC POLICY **A**



Employment in privatised utilities: A higher risk of precariousness?

Economic and Monetary Affairs	
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Employment in privatised utilities: A higher risk of precariousness?

Study for the EMPL Committee



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

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STUDY

Abstract

This paper explores the risk of precarious work in privatised utilities, based on data analysis and literature review. It examines the history of privatisation of utilities in the EU including programme countries and the impact that this has had on levels of employment. Moreover, it presents a range of measures to cushion adverse effects.

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LIST OF ABBREVIATIONS

AGRI	Agriculture and Rural Development Committee
ALDE	Group of the Alliance of Liberals and Democrats for Europe
BAS	Brake-assist systems
CAP	Common Agricultural Policy
CFP	Common Fisheries Policy
CMO	Common market organisation
CoR	Committee of the Regions
CULT	Culture and Education Committee
ECOSOC	Economic and Social Committee
ECTS	European Credit Transfer System
EPP-ED	Group of the European People's Party and European Democrats
FAO	Food and Agriculture Organisation of the United Nations
FPS	Frontal protection systems
GDP	Gross Domestic Product
GM	Genetically-modified
Greens/EFA	Greens/European Free Alliance
GUE/NGL	Confederal Group of the European United Left - Nordic Green Left
IFI	International Fund for Ireland
IND/DEM	Independence/Democracy Group

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EXECUTIVE SUMMARY

The **focus of this paper** is on the effect that privatisation of public utilities has had on employment, both in quantitative and qualitative terms, as far as this can be determined. It analyses in particular the risk of precariousness, thus complementing recent research published by the European Parliament on the risk of precarious employment.

Chapter 1 outlines the analytical framework and background for this study. Overall, it should be noted that **the available literature and data on this topic is limited**. Available data come from the European Labour Force Survey and show the trend in public sector employment levels in the sectors in which utilities operate. However, **privatisation may only be one factor that influences quantitative employment trends**.

Chapter 2 charts the history of public utility privatisation in the EU, beginning with the **privatisation of public utilities led in the early 1980s by the UK**. Following this lead, the bulk of the privatisation initiatives in western European countries took place during the 1990s. **EU regulation and liberalisation policy** has, from the 1990s, provided a framework for privatisation around the EU in sectors such as gas, electricity, water, telecommunications, rail and postal services. Rapid privatisation then took place in the transformation countries of Eastern and Central Europe during the 1990s and early 2000s as part of economic reform. Most recently, the EU's programme countries have embarked on privatisation initiatives as part of pledges made under bailout agreements.

Chapter 3 examines the quantitative trends in employment after privatisation. The reviewed studies provide evidence that there was an **overall loss of employment in organisations in the years immediately following privatisation** and that job-cutting has been a key factor in increasing competitiveness in privatised utilities. However, at the longer term, there is also evidence of some **job creation depending on the potential for growth in a given sector**. There is also evidence that **downsizing often takes place while the state is still the unique shareholder** and that although left-wing parties also implement privatisation or at least do not hamper it, the **displacement of workers is lower when left-wing parties dominate the government**. Job loss has been a feature of privatisation in electricity, gas and water, although there are differences between the sectors in terms of the timing and character of privatisation. More recently, aggregate employment in energy and also in water supply increased slightly between 2008 and 2015 at EU level, even if the majority of EU Member States experienced a decrease. Further, there is evidence of a **change in job patterns** in the electricity sector due to a combination of technological progress and new management practices. This led to a decline in technical and maintenance staff and an increase in legal, marketing and sales staff. This in turn has contributed to increasing the number of women working in the electricity sector. The age profile of workers in privatised utilities has changed, following early retirement of older workers. Most recently, **employment in the Eurostat categories of electricity, gas, steam and air conditioning supply and water supply increased slightly** between 2008 and 2015, although there has been a **decrease in employment levels in the majority of EU Member States**, which may partially be due to privatisations in some of the programme countries.

Chapter 4 examines the **qualitative effects and trends of privatisation of public utilities**. The overall picture is rather **nuanced and complex**, with a variety of factors playing a role in shaping employment trends, including sectoral and national country characteristics. Moreover, employment conditions have also been changing in the public sector (e.g. use of temporary work, new public management). Nevertheless, **employees in the public sector still perceive a lower risk of precariousness** according to a 2017 briefing note for the European Parliament.

Looking at privatised sectors, the study finds for the energy and water sector that **part-time working and the incidence of temporary work increased slightly**. Second, there is some evidence of increases in stress-related ill health among employees after privatisation involving company downsizing. Third, privatised utilities offer **more working time flexibility**, in areas such as time banking and reference periods, but there are also indications of shorter breaks

Fourth, there is **no conclusive evidence that privatisation of utilities results in lower pay** for workers. Nevertheless, there is evidence that for new workers, inferior terms and conditions can be put into place. Further, the countries that suffered the most from the financial crisis (Ireland, Portugal and Spain) were more likely to have introduced public sector pay cuts or pay freezes.

Finally, the development of **trade union representation and functions** in privatised utilities corresponds more or less to the general trend towards a decrease in union membership. There is **mixed evidence on trade union representation and functions** in privatised utilities, with some evidence of very little effect and some evidence of decentralisation and fragmentation of bargaining.

Chapter 5 examines ways in which to **cushion the potentially negative effects of privatisation** of public utilities. Overall, there are a variety of ways in which the potential negative effects of privatisation can be cushioned, including: **early involvement of trade unions and employee representatives; protecting the terms and conditions of employees; and offering support to those at risk of redundancy**. There are also (transitory) measures in place to protect civil servant status in some countries, such as Austria and Belgium. The good practices detailed in this section include advance warning and consultation, overall support for workers and financial compensation for workers. Where the transfer of ownership affects the job security, wages and benefits of incumbent staff, **contractual rights should continue to be honoured**. However, the **automatic or uncritical “grandfathering”** of the rights of civil servants and other public employees **is considered to be counter-productive**.

Policy recommendations centre on:

- **treating each case on its own merits**, bearing in mind the rather nuanced and varying evidence as to the employment impacts of the privatisation of public utilities
- focusing on **ensuring that employees in these companies are adequately protected** from the risks associated with more atypical and flexible forms of working, as identified in previous European Parliament studies on precarious work
- ensuring **cushioning measures** such as the implementation of information and consultation of workers, supporting those at risk of redundancy and ensuring that the remaining employees are treated fairly
- **striking a balance** between not burdening newly privatised companies with higher labour costs than their competitors but ensuring that workers do not have rights and entitlements taken from them suddenly and without compensation
- encouraging the continuation of existing **collective bargaining structures** and trade union presence in order to provide a strong framework to help a smooth transition from public ownership into the competitive market.

This study also recommends that **further research** could be carried out to determine the specific effects of privatisation of public utilities in the programme **countries, which have most recently experienced privatisation** as part of austerity programmes. In addition, European comparative case study research looking at specific privatised utility organisations would yield some interesting insights into the specific qualitative and quantitative impacts of privatisation in cross-country comparison.

1. ANALYTICAL FRAMEWORK

1.1. Background to the research

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 (Keune *et al* 2008). This followed the first oil crisis of the 1970s and the ensuing rise in unemployment and inflation, and economic stagnation in western European countries, all of which called into question the viability of Keynesian demand management, planning and public ownership.

Overall, Pedersini (2005) notes that since the early 1990s, there have been dramatic changes in the structure and dynamics of the sectors in which utilities operate:

- the markets have been liberalised, though to different degrees;
- public ownership has decreased significantly;
- privatisation processes have emerged and new private operators are competing with the former monopoly firms;
- market mechanisms and competition are at work;
- the issue of regulation has become crucial, both to foster competition in a context of structural difficulties and to balance the interests of providers, users and the public at large; and
- multinational companies have emerged in these sectors and act as global players.

There have been a number of **key waves of privatisation of public utilities in Europe**. Privatisation was led by the UK in the early 1980s, originally focusing on the telecommunications sector. Other Western European countries followed this lead to varying degrees during the 1980s. In Eastern Europe, national public utilities began to be reformed and privatised during the 1990s following regime change, with the bulk of these reforms completed by the early 2000s. Most recently, the so-called programme countries (Greece, Spain, Ireland, Cyprus and Portugal) have come under pressure to restructure their economies, as part of financial aid packages granted during the financial crisis. This has resulted in further privatisations of public utilities in countries such as Greece.

The crisis that began in 2008 has arguably exacerbated certain trends and led to more insecurity and levels of precariousness for certain groups of people. Young people have, in many ways, borne the brunt of the crisis in that they are finding it extremely difficult to gain access to the labour market. The jobs that they do manage to obtain often tend to be those that have a relatively high risk of precariousness, in the form of fixed-term contracts and temporary agency work. The main risks associated with these types of contracts are low pay and in-work poverty, low levels of access to career development and training, lack of labour rights and low levels of collective rights (Broughton *et al* 2016).

There is a growing realisation among the EU institutions that there is a need to ensure more equality in the labour market and to halt the trend towards polarisation of the labour market into insiders and outsiders. In this context, the insiders are deemed to have good quality, secure jobs with stable and open-ended contracts with good pay and working conditions. On the other hand, the outsiders, over-represented by young people, women, ethnic minorities and migrant workers, work in insecure jobs in terms of the type of contract, their pay and their employment terms and conditions.

The European Union offers some legal protection against precariousness in the form of Directives. These are principally: the fixed term contracts Directive; the temporary agency work Directive; the part-time work Directive; and the posting of workers Directive, recently amended by the enforcement Directive. In addition, the working time Directive also offers

protection to workers in terms of stipulating the maximum number of average hours to be worked per week, and setting out weekly rest, daily rest and rest breaks.

Previous **recent European Parliament research** (Broughton *et al* 2016; Eichhorst and Tobsch 2017) has examined precarious work patterns and trends in the EU. In terms of trends, the 2016 study found that, in the uncertain environment of the crisis and its aftermath, recruitment has increasingly taken place on the basis of temporary and marginal part-time contracts. This rise in atypical contracting has meant that job has declined significantly in some countries, such as Portugal, Spain, Ireland, Latvia and Greece, involuntary temporary work has increased significantly in Ireland and Latvia and involuntary part-time working has increased significantly in Italy, Lithuania, Spain, Ireland, Latvia and Greece. On a sectoral basis, the study found that the share of different types of contract varies by economic activity of the employer: for example, full-time working is most prevalent in industry, part-time working is more likely in services, self-employment is much more common in agriculture, and the extent of temporary working is low in all sectors. However, there was no focus in this study on recently-privatised utilities. This present study aims to fill this gap.

The **available literature and data** on this topic is **limited**. On this basis, the study will draw conclusions on the general impact of privatisation as well as present cases where the picture is mixed or inconclusive. Available data come from the European Labour Force Survey and show the trend in public sector employment levels in the sectors in which utilities operate. However, privatisation may only be one factor that influences quantitative employment trends.

As many of the privatisations began during the 1980s and 1990s, much of the literature dates from that time, with relatively little of a more recent nature. It is also difficult to ascertain the exact qualitative effect of privatisation on employment in terms of increasing or decreasing its precarious nature.

Public utilities are essentially the organisations that provide energy (gas, electricity) and water to the public. Telecommunications service organisations are also included in some definitions, and will be included to some extent in this study, as are postal services.

State-owned companies or enterprises are legal entities created by governments in order to undertake commercial activities on the behalf of the government. These enterprises can be either wholly or partially owned by the government. Keune *et al* (2008) note that the reasons for state ownership of utilities include: ensuring equal access to essential services; controlling monopolies in the presence of economies of scale and high fixed costs; achieving rationalisation and economies of scale, thus reducing costs and prices; gaining access to low-priced capital for large-scale investments; controlling the means needed for economic planning; and addressing national security concerns in the context of the Cold War.

Privatisation is a process during which ownership of a business, public service, enterprise, or agency is transferred from the government (the public sector) to the private sector. This can include transfers to a for-profit business or to a not-for-profit organisation. The OECD (1996) notes that the term privatisation is not always precisely defined, but describes it as the full or partial transfer of ownership of public assets to the private sector. It adds that recent years there has been a rise in activities that may be viewed as closely related to privatisation, such as contracting-out, franchising, and leasing. It is normally argued that the fundamental difference between state-owned and private firms rests in their objectives: the latter focus exclusively on profit, while state-owned companies will be expected to meet politically determined targets such as creating or maintaining employment in economically depressed regions or holding prices below average costs for redistributive reasons. In this situation, profits become a secondary criterion, and business decisions becomes politicised.

Inefficiencies can thrive because they are not a central concern of the owner, and managers can exploit the lack of clarity in company objectives to ensure an easy life for themselves and employees (Estrin 2007). The privatisation of public utilities has not been without controversy: public enterprises in these sectors were usually the most valuable parts of the state's portfolio: *"The privatisation of these sectors was thus often seen as 'selling the family silver', and governments have usually taken this decision only when they were driven to by EU accession conditionality or by desperate needs for additional budget revenues"* (Čučković *et al*, 2011, p.6). Further, more recent analysis (Hermann and Flecker 2012) highlights the fact that privatisation of public utilities has in many cases resulted in the consolidation of multinational corporations and rising costs, limiting choice for EU citizens.

The **debate on the consequences of privatisation for employment and terms and conditions usually focuses on the negative repercussions** in terms of job cuts (quantitative effects) and a worsening of terms and conditions (qualitative effects). Given that privatised utilities are driven by a need to increase competitiveness and cut costs in order to compete in the market, cutting labour costs by reducing headcount and reducing spending on pay and conditions appears to be a logical consequence of this and this is borne out by the majority of our literature findings, although some studies have found this not to be the case.

The debates on the advantages and disadvantages of the privatisation of public utilities have **not been conclusive**. New Public Management (NPM) theories (Hood 1995; Bach and Bordogna, 2011) have linked the performance of privatised utilities with the problems associated with general public management and economic governance (Čučković *et al*, 2011). Bach and Bordogna (2011) identify similar NPM style developments in respect of the privatisation of railway and postal services, local public transport and public utilities and outsourcing, even if the **motives for pursuing privatisation differ and are not all designed to shrink the state**. However, they conclude that the proposition that public service employment relations and HRM practices are globally converging towards an NPM model is misleading. Although they have identified some common reforms associated with NPM, such as contracting out, forms of performance management and performance appraisal, a partial erosion of the special status of public sector employees, decentralisation of wage-setting systems and differentiation of pay and working conditions they note that there are a range of different models of reform, rather than variants derived from a common NPM template.

The **focus of this paper** is on the **effect that privatisation of public utilities has had on employment, both in quantitative and qualitative terms**, as far as this can be determined. It analyses in particular the risk of precariousness, thus complementing recent research published by the European Parliament on the issue of precariousness (Broughton *et al* 2016; Eichhorst and Tobsch 2017). The indicators developed by Broughton *et al* (2016) are: low pay and in-work poverty, social security coverage, access to labour rights, stress and health, career development and training, and low levels of collective rights. However, it is often difficult to determine where exactly the threshold of precariousness sits, as risk of precariousness relates both to the individual and the job that they are carrying out. Chapter 2 charts the history of public utility privatisation in the EU. Chapter 3 examines quantitative employment trends, charting the difference waves of privatisation around Europe and the effect that this has had on employment levels in these newly privatised organisations. Chapter 4 examines qualitative employment trends, and effects on working conditions, focusing on part-time work, temporary work, flexible working, health and wellbeing and pay, effects on industrial relations. Chapter 5 looks at ways in which any negative effects of privatisation can be cushioned, showcasing some examples of good practice. Chapter 6 offers some conclusions.

2. PRIVATISATION WAVES: FROM FIRST INITIATIVES TO RECENT ADJUSTMENT PROGRAMMES

KEY FINDINGS

The UK led the privatisation of public utilities, beginning in the early 1980s.

EU regulation and liberalisation policy has, from the 1990s, provided a framework for privatisation around the EU in sectors such as gas, electricity, water, telecommunications, rail and postal services.

Following the lead of the UK in the early 1980s, the bulk of the privatisation initiatives in western European countries took place during the 1990s.

Rapid privatisation took place in the transformation countries of Eastern and Central Europe during the 1990s and early 2000s as part of economic reform.

The programme countries have embarked on privatisation initiatives as part of pledges made under bailout agreements.

2.1. Introduction and background

This section examines the trajectory of privatisation of public utilities in the EU, from the first initiatives in the early 1980s, through to the major waves of privatisation in the later 1980s and 1990s, the transformation of the Eastern and Central European economies in the 1990s and early 2000s and the austerity privatisations of the programme countries over the past decade.

Privatisation of public utilities began in the 1980s in some European countries, with many Western European countries following the lead of the UK (Keune *et al* 2008), and intensified during the 1990s. The process of privatisation was driven by factors such as political ideology, moving utilities out of public sector control and into private ownership, a desire to weaken trade union power (particularly in the UK), and a desire to make organisations more efficient and competitive. The privatisation of the 1990s was the result of three main factors (Bräuninger 2013; Hermann and Flecker 2012): the then very widespread prevalence of liberal economic thought which asserted that governments should concentrate on setting appropriate framework conditions for private business; a response to competition requirements set by the European Commission for the opening and deregulation of markets such as telecommunications and air transport; and the view that disposing of government assets was a way to restructure public budgets. Countries with a large government debt and budget deficit that were interested in joining European Economic and Monetary Union succeeded in fulfilling the convergence criteria set out in the Maastricht Treaty within the required time frame, partly due to privatisation revenues.

EU policy has played a role in the privatisation of public utilities (Hermann and Flecker 2012). EU liberalisation **Directives have triggered the opening of markets** in a range of sectors such as **telecommunications¹, transport², energy³ and postal⁴ sectors, in the**

¹ For an overview of telecommunications liberalisation in the EU, see:

<http://ec.europa.eu/competition/sectors/telecommunications/legislation.html>.

² For an overview of air and rail liberalisation in the EU, see:

http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.6.7.html and http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.6.6.html.

³ For an overview of energy liberalisation in the EU, see:

http://ec.europa.eu/competition/sectors/energy/overview_en.html.

⁴ [Directive 97/67/EC of 1997](#), as amended by [Directive 2002/39](#) and [Directive 2008/6/EC](#).

context of developing the internal market. Lane (1997) notes that *"it is difficult to explain the emergence of privatization on the agenda of so many different nations at roughly the same time if we take it for granted that it is domestic factor variables that mainly determine policy"*. Within this framework, the privatisation of public services has been promoted by subjecting public services to competition regulations and placing restrictions on state aid for economic activities (Keune *et al* 2008). It should also be noted that EU regulation varies significantly in terms of method and extent according to sector. For example, telecommunications and energy have been subjected to full open market competition, but postal services still remain relatively regulated. The speed of implementation of liberalisation Directives also varied between Member States. In addition, the deficit criteria of the Maastricht Treaty and the EU's Stability and Growth Pact mean that governments wanting to join the eurozone need to keep public spending down and keep budget deficits within set limits. This put governments under fiscal constraints and would have been a factor in decisions to privatise public enterprises (Becker, 2007). The EU's internal market programme essentially broke up formerly closed markets, resulting in the emergence of new markets in the sectors of telecommunications, energy and postal services, in which new, private organisations operated alongside the formerly publicly-owned monopoly-holders (see table 2.1).

Table 2.1: Privatisation Top-10: OECD countries from 2000 to 2007

Largest absolute amounts		Largest relative to size of domestic economy	
Country	Amount (US\$ bn.)	Country	Per cent of 2006 GDP
France	98.2	Slovak Republic	13.5
Italy	69.6	Czech Republic	9.2
Germany	65.0	Finland	8.7
Japan	33.2	Iceland	8.6
Turkey	25.0	Hungary	6.9
Netherlands	23.1	Greece	4.8
Australia	20.0	Turkey	4.7
United Kingdom	18.4	Portugal	4.4
Finland	18.3	France	4.4
Sweden	16.0	Poland	4.3
Total OECD	497.7	Total OECD	1.4

Source: OECD 2009.

In terms of percentage of GDP (largest relative size), which is the more important indicator, the Slovak Republic is top of the table, at 13.5 %, although countries that are close to 10% are the Czech Republic, Finland and Iceland. In absolute terms, we can see that the countries at the top of the table are France, Italy and Germany, with the UK, Finland and Sweden towards the bottom. Relative to GDP, however, the Slovak Republic and the Czech Republic top the table, with Poland and France at the bottom.

2.2. First wave: the UK in the early 1980s

Although there is an overarching framework in terms of EU liberalisation policy, there are **large national differences** in terms of privatisation trends and the overall extent of

privatisation. This is also linked to the **traditional size of the public sector** in individual countries.

For example, in the **UK**, the process of privatisation began relatively early: the UK was one of the first EU Member States to embark upon a programme of privatising public utilities. After the crisis of the 1970s, from 1979, the Conservative government focused on a policy of denationalisation, breaking up the public sector and weakening the power of the trade unions in the public sector. The Conservative governments of the early 1980s argued that industries would perform better in the private sector for three main reasons. Firstly, methods for controlling and monitoring the performance of nationalised industries were ineffective. Secondly, “political interference” by ministers in the running of nationalised industries had undermined their ability to take strategic decisions and operate efficiently. And thirdly, the power of the trade unions was magnified when so many of their members worked for one employer. The Chancellor of the time, Nigel Lawson, stated that *“the primary aim of the privatisation programme was to improve performance of the former state-owned industries”* (UK House of Commons, 2014). Share ownership among the UK population also increased as a result of the privatisation of public utilities. This was seen as a way of spreading wealth by giving people a stake in potentially profitable organisations.

Privatisation is described by the UK government as an important component of economy policy between the 1980s and mid-1990s. The UK government privatised British Telecom in 1984, the remainder of Cable & Wireless and British Aerospace, Britoil and British Gas (1986) (Seymour 2012). This was followed in the mid-1980s in the UK by the sale of British Steel, British Petroleum, Rolls Royce, British Airways, and water and electricity were among the major utilities for sale. Regional electricity and water companies were privatised by 1991. The OECD (1996) notes that *“the United Kingdom by its persistent action over a decade created a framework for the planning and execution of privatisation programmes in an advanced industrial economy with well-developed capital markets, which would serve as a model for other countries at later times”* (OECD, 1996, p.1).

Royal Mail, of the last major public UK companies, was floated in 2013. For an overview of the timetable of public utility privatisation in the UK, see Table 2.2.

Table 2.2: Timetable of public utility privatisation in the UK

Sector	Date	Information
Electricity	1989	The <i>Electricity Act 1989</i> provides for the privatisation of the electricity industry in Great Britain The privatisation of the Central Electricity Generating Board began in 1990. The assets of the CEGB are broken up into three new companies: Powergen, National Power and National Grid Company. Later, the nuclear component within National Power was removed and vested in another state-owned company called Nuclear Electric
Gas	1986	The <i>Gas Act 1986</i> made arrangements for the privatisation of British Gas Corporation. On 1 April 1986, British Gas plc was incorporated as a public limited company and the property, rights and liabilities of the Corporation were transferred to the new company. Subsequently British Gas plc has been split into three major listed companies in various stages – Centrica plc (which includes the original British Gas trading activities in the UK); BG Group (which includes exploration and production in the UK and overseas) and National Grid (which includes the original gas transmission and gas distribution activities in the UK).
Water	1989	The <i>Water Act 1989</i> provided for the privatisation of the Regional Water Authorities (RWAs) in England and Wales as public limited companies. The assets and liabilities of the RWAs were vested in the ten water and sewerage businesses – Anglian, Northumbrian, North West, Severn Trent, Southern, South West, Thames, Welsh, Wessex, Yorkshire – which were publically floated on 1 September 1989.

Source: UK House of Commons 2014.

Other Western European countries followed this lead to varying degrees, resulting in a common trend, albeit with strong country differences: *"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"* (Keune *et al*, 2008, p.16). In 1986-87, the French government set out large-scale privatisation plans that were to be completed by 1991, although this programme was discontinued following a change in government in 1988.

The only notable exceptions in terms of the extent of privatisation of public utilities are **Cyprus and Malta**, where the **role of the state has remained prevalent**, and the impact of liberalisation has so far been marginal, if any, partly due to limitations on the potential for competition.

2.3. The transformation economies: rapid privatisation following economic reforms

Privatisation of public companies has been a particularly important phenomenon in the **transition process in Central and Eastern Europe** from a planned to a market economy, a process that began in the 1990s. Most of the privatisations in these countries were

completed by around the early 2000s and the OECD (2009) notes that only Hungary showed any evidence of large-scale privatisation transactions since 2005.

Privatisation has been a tool of transition in these formerly centrally-planned economies for economic and political reasons. It has been used to establish property rights, to restore ownership of assets seized by the State under communism, to form a private sector and the basis of a market economy, to enable efficient governance and management of formerly state-owned enterprises (ILO 1995). Privatisation also enabled changes to be made both in terms of shrinking employee numbers and changing employment terms and conditions.

Companies have been privatised in a **range of sectors**, such as telecommunications, electricity, the oil and gas industry, water supply and railways. The privatisation of public utilities has often been the most controversial element of the privatisation process because public utility companies often functioned as natural monopolies which provided universal services. In many of these countries, there was no private sector at all and more than 90 % of assets were state-owned. In some countries, such as Poland or Hungary, there was a private sector, although this was concentrated in agriculture or handicrafts; industrial companies were all state-owned. This meant that privatisation was a central aspect of building a market economy in all the transition economies (Estrin 2007). However, the collapse of communism had left state-owned firms with limited internal structures to deal with the requirements of the marketplace and no mechanisms to monitor or enforce governance.

Privatisation in these countries was both **large-scale and rapid**; as a result, the private sector share of GDP increased considerably during the 1990s. **Germany** undertook the most rapid reorganisation and privatisation when state-owned enterprises of the formerly communist eastern part of the reunified country were liquidated or sold through a specially-created public institution, the Treuhandanstalt. This agency took over thousands of companies with a combined workforce of more than 4 million in 1990 and had completed the privatisation process four years later. In other countries, such as Bulgaria and Romania, the process had hardly begun by the time Germany was winding up the Treuhandanstalt (ILO 1995).

In terms of sectors, Hall (1997) notes that a number of major towns in the Czech Republic and Hungary set up semi-privatised joint ventures to run water on a concession basis. In the case of electricity, major privatisations have been restricted to Hungary and the Czech Republic, although they cover both generation and distribution. Privatisations in public utilities in central and eastern European countries have generally been accompanied by significant job losses.

The **employment and social consequences** of this rapid period of privatisation were **mixed and sometimes contradictory**. On the positive side, the creation of a market economy opened up a range of opportunities for expansion of the economy through **entrepreneurial initiatives**, leading in turn to an increase in employment and tax revenues, which then can fund social welfare schemes and social services. However, the ending of state subsidies and central planning resulted in the loss of employment and therefore the loss of income for many people, in addition to the decline of the type of social and welfare services that were attached to enterprises formerly in these countries (ILO 1995). These countries had no previous recent experience of high levels of unemployment and the **sudden exposure to redundancy and job insecurity** was therefore something of a shock. However, it is also the case that this type of restructuring was an essential step in the transition to a market economy and thus overcoming the legacy of command economies: maintaining unnecessarily high levels of unproductive employment in the state sector does not create sustainable employment in the long term and would also deter investment.

Table 2.3: Employment developments in transition economies in the early 1990s

Country	Developments
Bulgaria	Between December 1989 and December 1991, industrial employment in Bulgaria fell by 31.3 per cent; employment in privatised firms fell from 4 million to 1 million people.
Czech Republic	A government survey of 572 companies - 101 in food, 159 in engineering, 184 in manufacturing and 128 in construction - revealed a "significant decline in employment", with engineering (12 %) showing the sharpest drop, manufacturing and construction each cutting jobs by 10 %, and the food sector by 4 %.
Hungary	<p>From 1992 to 1993, employment in engineering dropped by 12 %, in manufacturing by 10 %, in construction by 10 % and in food processing by 4 %.</p> <p>The lighting company Tungsram employed 35 000 people until that figure was halved to 17 640 in preparation for its sale to General Electric, which soon almost halved the workforce again to 9 500 by 1993. This was done mainly through early retirement and voluntary redundancy, alongside a freeze on recruitment. Many of the jobs were redundant as a result of administrative functions being centralised with the new owner's offices outside Hungary. As a result, non-manual grades were affected disproportionately by the Tungsram job losses.</p>
East Germany	The numbers in employment fell from 9 million before transition to 6.3 million by the end of 1992; the numbers employed in enterprises under the privatisation agency, the Treuhandanstalt, fell from 4.1 million to 1.2 million during that period.
Poland	Government research into 130 companies (24 % in manufacturing, 45 % in construction and 31 % in trade and services), employing 285 each on average, showed that employment fell by 15 % in the first year and by 25 % over the first two years after privatisation, levelling off in the third year with a drop of a further approximately 2 %. A study of ten privatised Polish industrial and trade companies indicated decreases in employment averaging around 12.5 %. In the Bialystok Municipal Refuse Collection Enterprises, privatised with a large employee stake, employment halved over the first year, and, as a result of being shareholders, the workers received no severance pay.

Source: ILO 1995.

Long-term unemployment also became a feature of the transformation economies during the 1990s. For example, in the Czech Republic, although unemployment levels were relatively low, by the end of 1994, over one third of all those seeking work had been unemployed for more than one year (ILO 1995).

The **impact of privatisation on pay and conditions** in the transformation economies can be **mixed**. Privatisation can be followed by a deterioration in terms and conditions, although

this can be reversed if the company subsequently does well and is able to reward employees. Initial improvement followed by deterioration is also possible, however. The ILO (1995) found that in Poland, average pay fell by 27 % between 1989 and 1992, which increased income inequality. It cites a study of 10 privatised Polish companies that revealed a tendency for wages to increase sharply immediately after privatisation but to stop doing so soon afterwards in favour of performance-related pay incentives.

In Estonia, trade unions reported that foreign owners blocked pay increases. A 1993 law on collective bargaining forbids new private owners from unilaterally ending collective agreements, although employers are allowed by renegotiate them.

2.4. The (post-) programme countries: privatisation as part of restructuring

Privatisation of public utilities has formed **part of general austerity measures** under agreed financial bailout packages in those countries that needed economic support during the crisis. The reasons for these privatisations are therefore different from those motivating countries to privatise during the 1990s and 2000s. These privatisations are based on a need to cut public sector costs and to raise revenue and are also likely to be carried out to a more rapid timescale. This section examines these privatisations and the effects that they have had on employment levels.

The so-called programme countries are those that benefited from the EU-IMF economic support programme during the economic crisis that hit in 2008. Typical economic reforms include devaluing currencies, lowering tariffs, encouraging foreign investment, privatising state-owned enterprises, and reducing expenditure on the public sector. Eurofound (2015) finds that the reforms in the programme countries impacted directly on the public sector in terms of conditions such as reducing the public sector workforce, freezing recruitment and reducing senior and management positions.

The IMF has been criticised for forcing recipient countries to take on policy reforms without considering national differences in terms of economic status, business environment and culture (Li *et al*, 2015). Bräuning (2013) notes that in recent years, despite commitments under agreed EU-IMF bailouts, the **privatisation process has proceeded “sluggishly at best”** in the heavily debt-stricken countries of the euro area. **Portugal** has been the **exception**, as it succeeded in reaching the targets set by the troika. The other programme countries have, however, not had any major success in selling off government assets until around 2012. Countries also still hold significant corporate stakes in the energy supply sector, the railways and post office operations. The privatisation process is difficult in these countries, however, due to the fact that there will be public resistance in countries with high unemployment to privatisation programmes that involve shedding of staff.

Leisink and Bach (2014) have also examined the effects of austerity packages on public sector employees, although with a wider focus than just public utilities. Looking at seven EU countries (Denmark, France, Germany, Hungary, Italy, the Netherlands and the UK), they find that **national government policies have generally embarked on wage and employment cuts and freezes**, and qualitative or structural measures such as decentralising public services to municipalities.

Greece was relatively slow to join the privatisation wave, although efforts were made in the run-up to the country joining the euro, when privatisation focused on telecommunications and energy utilities. **In 2010, before economic adjustment reforms** were carried out, **the share of employees in the public sector was close to the EU average**. When the financial crisis hit a privatisation programme of public assets, including utilities, was a condition of the EU-IMF assistance programme. This took place in stages, as follows. In May 2010, Greece and the Troika agreed to the 1st Economic Adjustment Programme (EAP), of EUR 107.3 billion in financial assistance. In **2011**, Greece made a **commitment to a**

privatisation programme that aimed to raise EUR 50 billion between 2011 and 2015. This has been characterised as **one of the most ambitious programmes in the world** (Pagoulatos 2016). In March 2012, the 2nd Economic Adjustment Programme was ratified, which confirmed the need for privatisation. Privatisation horizons were extended and the focus was to achieve EUR 19 billion in achieved privatisations by 2015. The Samaras government took power after a double election in mid-2012, and was succeeded by the first Tsipras government in January 2015. In this time, limited progress was made on privatisation completions due to a range of factors. The Tsipras government was required to continue the programme from mid-2015, despite its extensive ideological resistance to privatisations.

Thus, the process has been controversial and slow to be put into practice. The European Commission estimated in 2012 that sales of assets from privatisation would be lower than expected, totalling EUR 25.6 billion by 2020 rather than the original target of EUR 50 billion by 2015 (European Commission 2012).

A **new privatisation and investment fund**, the Hellenic Corporation of Assets and Participations S.A. (HCAP), has now been put into place and this will manage state-owned assets and publicly-owned real estate, and prepare some for privatisation: these include ports, railways, transport services, energy, water, and postal services:

- Energy – Public gas utilities (DEPA & DESFA), Hellenic Petroleum (HELPE)
- Water – Thessaloniki Water (EYATH), Athens Water (EYDAP)
- Transport – Athens Airport (AIA), Regional airports, Railways (Trainose)
- Postal Services – Hellenic Post (ELTA)
- Arms Manufacturing – Hellenic Defense Systems (EAS).

These privatisation provisions triggered widespread protests and strikes by unions representing workers in public companies.

Privatisation is held to be an especially sensitive issue for the current Syriza-led government, which has been reluctant to complete a series of sales agreed by the previous centre-right government, despite having endorsed them last year as part of Greece's EUR 86 billion third rescue package (FT 2016).

There has been extensive **criticism of Greece's privatisation programme**, based on views that privatisations in an economic depression cannot achieve fair value and that only the Greek State—not the private sector—can effectively manage strategic assets such as ports, electricity production, and other utilities (Pagoulatos 2016).

In **Ireland**, the EU and IMF put into place a bailout worth EUR 85 billion in 2010. This was followed by a tranche of loans worth EUR 3.9 billion in December 2011. As part of this programme, the government agreed to privatise Bord Gáis EnergyElectricity (BGE) in the first half of 2013.

Steps by the new water utility, Irish Water, to start metering and charging customers, rather than continue to pay for water through taxation has met with public resistance.

In **Spain**, privatisations formed part of government programmes as early as the 1980s in order to increase the competitiveness of Spanish industry and reduce the large government sector (Bräuninger 2013). Efforts intensified during the 1990s as Spain sought to meet the Maastricht criteria for accession to the euro. However, the economy has not been in a favourable situation in Spain and as a result, many major privatisation projects have been cancelled or postponed. Although the pace then slowed, the privatisation trend has started to accelerate again in recent times. In 2007, the government disposed of its remaining stake in ENDESA, the energy utility. The sovereign debt crisis prompted the government to announce further privatisations in 2011, mainly in the airport and rail sector, although these have been delayed.

Portugal, which traditionally had a large public sector, **has repeatedly turned to privatisations for funding since joining the EU** in 1986 (Bräuninger 2013). The run-up to Portugal joining EMU saw an acceleration of privatisation activities, with more than 100 firms completely or partially privatised in the 1990s. These included Telecom Portugal and the energy utility EDP. In line with the western European trend, privatisation activities declined markedly in the 2000s.

However, following the sovereign debt crisis, the EU and IMF agreed a bailout of EUR 78 billion in May 2011, accompanied by a range of conditions, including a widespread privatisation programme. As part of the programme Portugal committed to generating EUR 5 billion via privatisations by the end of 2013. This was equal to 3 % of 2012 GDP. This provoked strikes among public sector workers in protest against these measures. The government has now partly or fully divested its stakes in the energy utilities EDP, GALP and REN and privatisation in other areas such as postal services, water and sewage and the airline sector are ongoing. Plans to privatise the country's national water company met with widespread protests.

2.5. Sectoral differences in speed and timing

There are also sectoral differences in terms of the speed and timing of privatisation:

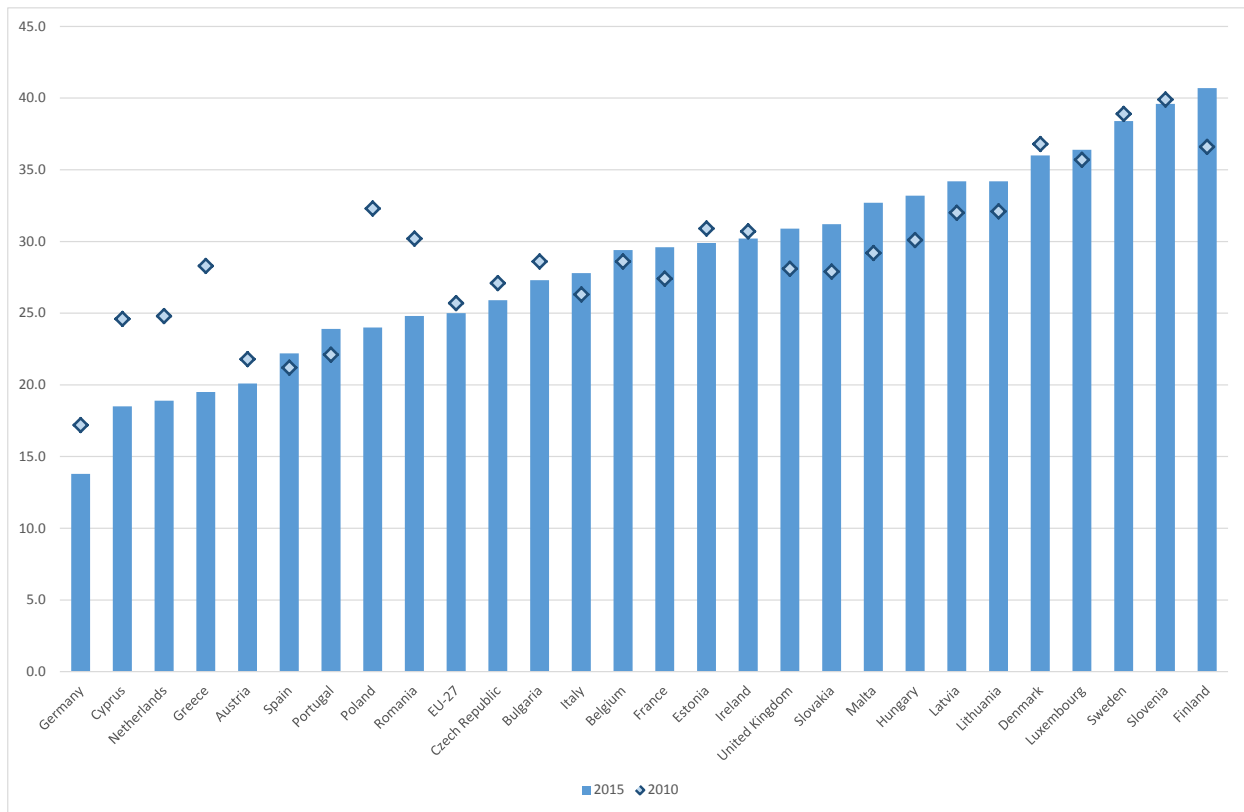
- **Telecommunications, energy, transport and postal services** all became subject to liberalisation and privatisation during the 1990s (OECD 2009; Keune *et al* 2008).
- **Water** is a slightly different case, in that privatisations took place later than in the other sectors listed above, and customers are encouraged, on environmental grounds, to consume less, rather than more, and therefore profits cannot be achieved through a rise in turnover (Becker 2007).

Overall, the OECD (2009) shows that between 2000 and 2007, 31 % of total privatisation proceeds originated with the telecom sector. A total of 19 % came from privatisations in the transport and logistics sector – mostly related to the selloff of railways, airlines and airports. Further, 17 % came from divestment of state holdings in (other) utilities companies, mostly in the energy sector. The shares of privatisation in manufacturing (10 %) and the financial sector (15 %) were relatively low.

2.6. Current situation: varying size of public sector

The current size of the public sector varies considerably between Member States, due to factors such as **different traditions and privatisation pathways**. The proportion of employees working in the public sector also varies significantly between EU Member State, which means that the public sector has varying degrees of importance by country. Finland, Sweden, Slovenia, Luxembourg and Denmark are at the high end, with the public sector accounting for between 35 % and 40 % of dependent employment. Eastern European countries have traditionally had a large public sector. At the **low end is Germany, below 15 %, and Cyprus, Netherlands, Greece and Austria**, all on or below 20 % (see Figure 2.1). It should be noted that this figure shows the trend in the proportion of employees working in the public sector over the five years from 2010 to 2015 and any **reductions in employment are likely to be due to events such as restructuring as well as privatisation**. It should also be noted that the line between public and private sector organisations is sometimes rather blurred. Therefore, when calculating these figures, joint private-public organisations, NGOs and other types of companies were not included in the public sector category. For the size of the public sector (in percentage and head counts) missing information in both years (2010 and 2015) is taken into account in order to control for changes in respondents' behaviour.

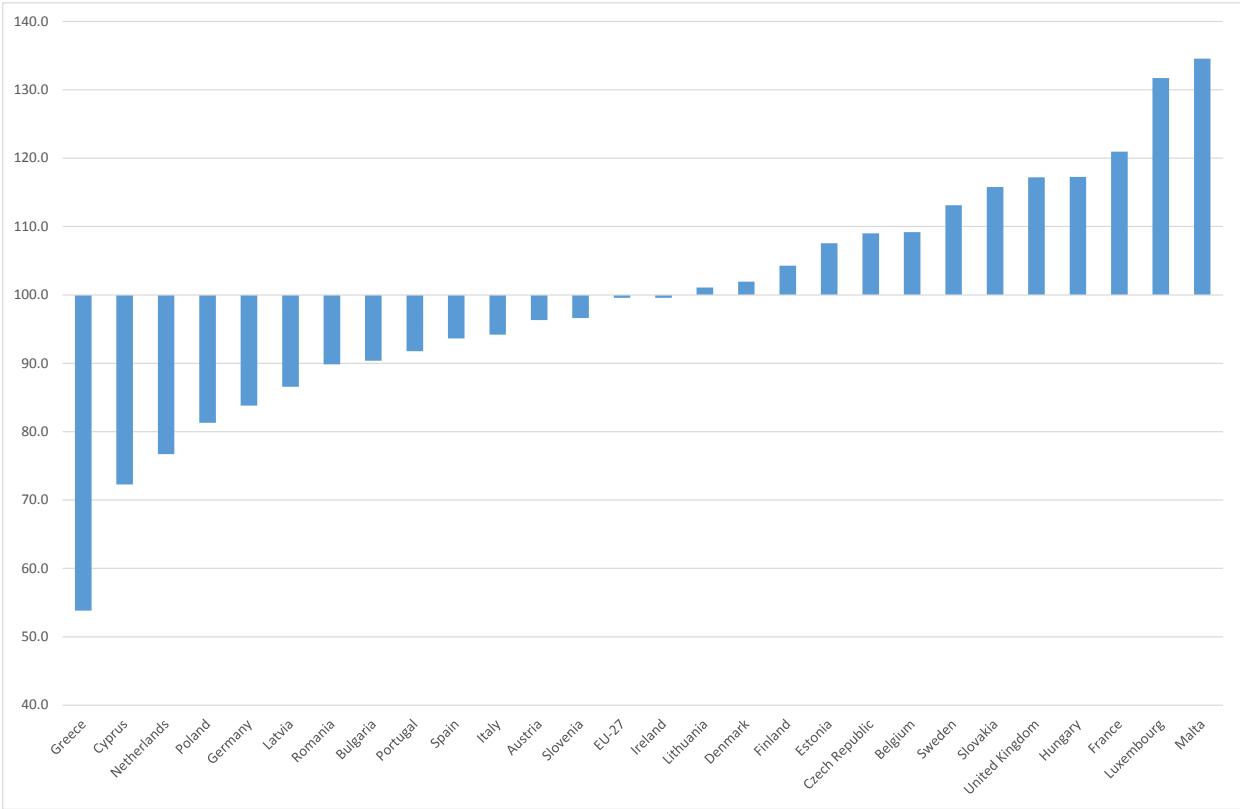
Figure 2.1: Proportion of employees working in the public sector by country, 2010 and 2015



Source: EWCS 2010, 2015, weighted results, own calculation.

Further, the trend in public sector employment between 2010 and 2015 varies according to Member State, with **large decreases** in the number of employees employed in the public sector seen in **Greece, Poland, Cyprus and the Netherlands**. Many southern European countries have public sector employment levels that were below or close to the EU average in 2010, before the crisis-related restructuring reforms took effect. Conversely, there have been **increases** in public sector employment in a number of countries, **including Finland, the UK, Slovakia, Malta, Hungary, France, Portugal, Latvia and Lithuania** (see Figure 2.2 below).

Figure 2.2: Change in number of employees working in the public sector 2015, (2010=100)



Source: EWCS 2010, 2015, weighted results, own calculation.

3. QUANTITATIVE EMPLOYMENT TRENDS

KEY FINDINGS

There was an overall loss of employment in organisations in the years immediately following privatisation. Job-cutting has been a key factor in increasing competitiveness in privatised utilities.

Job loss has been a feature of privatisation in electricity, gas and water, although there are differences between the sectors in terms of the timing and character of privatisation.

There has been a change in job patterns, with a decline in technical and maintenance staff and an increase in legal, marketing and sales staff. This in turn has contributed to increasing the number of women working in privatised utilities.

The age profile of workers in privatised utilities has changed, following early retirement of older workers.

Most recently, employment (EU27) in the largely privatised sectors such as electricity, gas, steam and air conditioning supply and water supply increased slightly between 2008 and 2015, although there has been a decrease in employment levels in many EU Member States, which may partially be due to privatisations, in particular in programme countries.

This section examines the quantitative effects of privatisation of public utilities, charting the difference waves of privatisation around Europe and the effect that this has had on employment levels in these newly privatised organisations. It should be noted that it is **difficult to isolate the precise effect of privatisation on employment levels**, as many factors are in play, including economic situation, restructuring following privatisation, and economic and labour market trends. In order to examine privatisation and its consequences in a comparative format, this section **examines the different privatisation patterns and trends in individual EU Member States**, focusing on the UK as an early privatiser, the Eastern European Member States, which embarked on a programme of privatisation following regime change in the 1990s, and the post-programme countries, which have been under pressure as a result of a need to reduce public spending in the context of the crisis over the past decade and resorting to use of the EU-IMF economic support mechanism.

3.1. Loss of employment in the immediate years following privatisation, but also some job creation

Much of the available literature shows that privatised utilities generally experienced a loss of employment in the years following privatisation (Hermann and Flecker 2012). The actual period of privatisation differs, of course, between sectors and between countries. For example, Pedersini (1999), based on research carried out using national-level research in Member States, notes that there are **two basic trends that follow on from privatisation**. Firstly, privatisation is likely to have an effect on employment levels because of the combined effect of company restructuring and the frequent accompanying **workforce reductions**, which are often connected to the involvement of private investors. However, privatisation may also involve **employment creation**, provided by new entrants when denationalisation is coupled with the liberalisation and opening-up of domestic markets, as has been the case with public utilities and services.

This is backed up by Clifton and Díaz-Fuentes, based on literature review and data analysis (2008), who found that for telecommunications, postal services and electricity, employment declined after restructuring network-based utilities. However, although they also found

evidence of new employment, they found that this was contracted on more flexible terms than previously.

Schmitt (2014) also supports this argument by citing data that confirms that privatisation leads to a reduction in the number of employees in privatised organisations. She analyses the effect of privatisation on employment dynamics, based on data analysis, noting that public enterprises are seen as being overstaffed before privatisation due to reasons such as low pressure to operate cost efficiently, objectives other than profit maximisation and less monitoring. She notes that privatisation leads to an increase in efficiency and productivity through a reduction in the number of employees and therefore labour costs. However, it is not typically the new investors themselves who implement the reduction: the **downsizing often takes place while the state is still the unique shareholder**. She also found that although left-wing parties also implement privatisation or at least do not hamper it, the **displacement of workers is lower when left-wing parties dominate the government**.

Atzmüller and Hermann (2005) also found that employment **numbers fell by up to 50 % in the first 10 years after privatisation**, although this was often achieved in a socially acceptable manner, such as generous severance packages. Their study examined the effects of privatisation in five sectors: rail, postal services, water, electricity and public transport, in Austria, Germany, Sweden and the UK. This research is case study-based, using literature review and data analysis.

However, the **net effect on employment of privatisation varies between countries**, depending on factors such as the post-liberalisation structure of the industry in question and the components of the sector that are taken into account.

3.2. Headcount reduction through outsourcing

Another way of privatising public utilities and services is to outsource the provision of functions, which also reduces headcount of core staff. Eurofound (2015a) also explores the **dynamics of the outsourcing** of public services, looking at four countries (Lithuania, Spain, Sweden and the UK), finding an expectation of quality and efficiency gains in the case of Sweden and the UK, and budgetary constraints in the case of Lithuania and Spain. Outsourcing of public services has increased in all four countries, based on initiatives such as public procurement schemes and voucher schemes that aim to increase consumer choice. It notes that *"public services are at the heart of the European social model, the ambition of which is to achieve high levels of employment in combination with a high degree of social protection and inclusion. While historically such services were largely provided by public agencies, and often with exclusive rights, the private sector (including both non-profit and for-profit organisations) is being increasingly relied upon for the provision of social services across the EU"* (Eurofound, 2015a, p.3).

The following section looks at employment trends in the specific industries of electricity, gas and water. The main differentiating characteristics are set out in Table 3.1 below.

Table 3.1: Main employment trends and characteristics of specific sectors

Sector	Characteristics
Electricity	<p>Substantial loss of employment in the decade from the mid-1990s (up to 60 % in the UK)</p> <p>Decline in technical and maintenance staff and an increase in legal, marketing and sales staff (based on research case studies in Belgium, Austria, Poland and the UK)</p> <p>Job cuts also targeted low-skilled roles</p> <p>More demand for customer service staff, resulting in an increase in women in the sector</p> <p>Increase in part-time work, temporary working and self-employment</p>
Gas	<p>Privatisations took place in most Member States during the 1990s</p> <p>Job losses of 12-13 % in the first half of the 2000s, and privatisation thought to be a major factor in this.</p>
Water	<p>Privatisation took place later in most EU Member States.</p>

Source: Ecotec 2007; PIQUE 2009; Atzmüller and Hermann 2005; Hall 1997; Becker 2007.

3.2.1. Job losses in electricity

The electricity sector has experienced a **substantial loss of employment since the mid-1990s**, although it should be noted that the sector has changed significantly over this time, due to **factors such as technological development and changes in climate and energy policies**. The energy sector is changing, due to factors such as the growth of green energy sources, including solar, hydro and wind power. Pedersini (2010), based on national questionnaire-based contributions based from researchers in **all EU Member States**, charts the employment history of the sector, noting the **decrease in employment that followed liberalisation and privatisation** in EU Member States. Within the EU-15, total losses in the electricity sector amounted to 246 000 jobs between 1995 and 2004 (Ecotec 2007). Around 50 000 jobs were lost during the same period in the 12 new Member States.

PIQUE (2009), based on research carried out in six public service sectors (electricity, postal services, local public transport and health services/hospitals) and six countries (Austria, Belgium, Germany, Poland, Sweden and the United Kingdom) states that, in the case of electricity: *"In relative terms the reduction between 1995 and 2004 amounts to between a quarter and a third of the previous employment levels (if we stretch the period to the early 1980s, the fall in employment in the UK would even amount to 50 %). Losses of 30 % and more were recorded in Germany, Sweden, between 20 % and 30 % in Austria, Belgium and the UK. Poland stands out in this comparison as the country with the smallest decrease in employment (9 % between 1995 and 2004)"* (PIQUE, 2009, p.53).

Ecotec (2007) also found a **shift in job patterns** in the electricity sector in EU Member States, with a **decline in technical and maintenance staff** (often through outsourcing) and an **increase in legal, marketing and sales staff** as companies devote more resources to winning customers from other companies. Most specifically, Ecotec notes that job cuts have mostly targeted low-skilled workers in roles such as maintenance, customer service and administration and low-skilled technician roles. Conversely, demand has grown for highly educated and experienced technicians and legal experts. This partly explains the increase in the proportion of women in the industry in some countries, from 24 % to 27 % in the UK and from 24 % to 28 % in Sweden. These emerging new occupational profiles are more attractive

to female employees than traditional 'technical' jobs. In terms of age structure, many EU Member States have seen large proportions of their older energy sector workforce retire early in response to corporate strategies seeking reductions in staff through early retirement. Also, however, young workers and technical graduates have suffered as new employment opportunities in the sector have declined due to restructuring and cost-cutting. Pedersini concludes that

*"The balance of evidence suggests that liberalisation and privatisation have been primarily associated with employment reductions rather than with employment creation and that, at the same time, **employment within the target sectors has become increasingly part-time**, often having greater recourse than when they were publicly delivered services to self-employed, and perhaps also temporary, workers"* (Pedersini, 2010, p. 21).

Atzmüller and Hermann (2005) found that **in the UK** electricity sector, which was split into several sub-sectors (production, grid, transmission, etc.) and privatised in the early 1990s, job losses were around 60 % over the period up until 2001. Likewise, in the Swedish electricity industry, liberalisation entailed significant staff cuts (by the late 1990s, one third of jobs in the sector had been cut). Cuts took place mainly in core areas, affecting technical workers, maintenance staff, middle management and administration. This was followed by the emergence of new employment profiles in the fields of marketing, customer services and sales. They also note that **staff reduction were usually carried out in a socially acceptable manner**; for example, enterprises such as Vattenfall and Sydkraft established internal training and job exchange facilities.

Since cutting employment is linked to attempts to increase productivity, there is a body of literature that examines productivity trends in privatised utilities. Accordingly, Borghi *et al* (2010) investigate the **relationship between ownership and productivity** in the electricity industry in the EU, taking into consideration the role played by governance and institutions. The focus is on firms active in generation, distribution and transmission of electricity and their ownership structure to empirically investigate the differences in productivity and performance between public and private firms. The study shows that for a very large sample of electricity firms in 24 EU countries, **public companies have a larger workforce compared to private firms and public ownership is associated with lower productivity**. This evidence points to differences in the management of employment, investment and their combination between public and private enterprises.

3.2.2. Gas privatisation linked to job losses

In the gas sector, where many Member States have embarked upon privatisations since the 1990s, a study by Ecotec found that **job losses are to be estimated at 12-13 % between 1999 and 2004 in 20 Member States**. This translates to a decline from around 174 000 in 2000/1 to 151 000 in 2004. It does also note, however, that the **exact impact of liberalisation** on these trends varies between sectors and countries and is **hard to isolate** as it has not been the only factor for the decline. However, it does note that the employment effects have been in general **more dramatic where liberalisation also involved privatisation**. Indeed, from the employment perspective, privatisation has been seen as a bigger threat for the industry than market opening.

Hall (1997), in a trade union-financed study looking at data and literature from 15 EU countries, found that there was an overall decline in employment between 1990 and 1995 in gas and electricity of 14.3 % in the countries covered by the study, although he admits that this might be an under-estimate. He also found that the employment reduction was greatest in electricity, and that in some countries, the workforce in the gas sector actually increased. Overall, **job losses were greatest in the UK**, in both electricity and gas. He notes that *"Overall, the figures point clearly to a major difference between the UK and other countries*

*in the extent of job reductions. If we assume that there were no major differences between the UK and the rest in technical or other trends during the period, then the obvious differentiating factor is that the **UK alone carried out wholesale privatisation** of its electricity sector during this period (the gas industry was already privatised)" (Hall, 1997, p.33).*

3.2.3. Job loss in the water industry

Privatisation of water companies in the EU has taken the **form of public-private partnerships, rather than full privatisation**. Becker (2007) identifies three main types of privatisation in the water industry: full privatisation, found in England and Wales; fixed-term or functional privatisation, in that the task of supplying water and operating water networks are temporarily delegated to private suppliers, as is the case in France; and organisational or formal privatisation, where the supply of water remains the responsibility of the state and the supplier is formally transformed into an undertaking through private law, for example into a municipal undertaking. This is the case in Germany, Austria and the Netherlands.

Privatisation in the water sector has **generally been accompanied by job loss**. In the UK, Becker (2007) notes that in the first few years following privatisation, the new enterprises in the water sector cut around 40 000 jobs. Since 1990, the workforce in the UK water sector has been cut by around 21.5 %.

Similarly, Hall (1997) found that **privatisation in the central and eastern European countries** in his study (Hungary and the Czech Republic) has brought **significant job reductions** and a lowering of labour costs, which the companies see as central to the financial viability of the project. However, he also pointed to the fact that in Hungary, the government was able to negotiate employment protection as part of the conditions of privatisation.

Atzmüller and Hermann (2005) found that in the **German water sector**, the largest water market in Europe, liberalisation and privatisation measures were accompanied by ongoing **staff cuts of around 25 %**.

Most recently, there is an **ongoing debate in Greece** about water privatisation, as the country had made a commitment under the EU bailout agreement in 2015 to privatise significant areas of the water utility coverage of Athens and Thessaloniki. The debate centred on fears from some quarters that privatisation of water would increase prices for consumers and lead to a deterioration in services (The Guardian 2015).

3.3. Recent trends: employment levels in privatised utilities declined in most Member States between 2008 and 2015

It is difficult to ascertain with any great precision the employment levels in recently privatised utilities. However, some insight can be gained by **examining those sectors that are most likely to consist of privatised utilities**. These are the Eurostat sectoral categories of electricity, gas, steam and air conditioning supply and of the water supply sector. Eurostat data relating to employment levels in these two sectors is contained in Table 3.2 and Table 3.3 below. They show the difference in employment levels in individual EU Member States between 2008 and 2015. Overall numbers of those working in these sectors vary significantly between Member States, ranging from 341 100 in Germany to just 1 500 in Luxembourg.

In terms of employment trends, the picture is **rather ambiguous**. At EU level, employment in the **electricity, gas, steam and air conditioning supply sector** increased slightly. However, it should be noted that **employment levels declined in a majority of Member States** and the **EU-level slight increase** is due to large employment gains in a limited number of Member States. For example, numbers increased significantly in the UK, from

151 500 to 184 300. Employment levels also increased in Spain, France, Luxembourg (although numbers are very small), Hungary, Austria, Poland, Slovenia and Sweden.

Table 3.2: Employment ('000s) in electricity, gas, steam and air conditioning supply, 2008 and 2015

GEO/TIME	2008	2015
European Union (27 countries)	1,537.5	1,549.1
Belgium	32.4	22.7
Bulgaria	42.1	39.4
Czech Republic	60.1	49.2
Denmark	15.3	13.8
Germany	307.5	341.1
Estonia	8.1	7.6
Ireland	11.5	9.5
Greece	34.6	26.3
Spain	74.4	92.3
France	153.1	176.1
Croatia	16.4	13.9
Italy	117.3	113.9
Cyprus	2.6	1.9
Latvia	15.3	12.6
Lithuania	19.8	10.6
Luxembourg	1.1	1.5
Hungary	32.1	33.6
Malta	1.9	
Netherlands	35.1	27.7
Austria	22.7	30.4
Poland	174.3	174.5
Portugal	22.6	19.0
Romania	125.4	82.5
Slovenia	9.8	10.2
Slovakia	29.9	25.0
Finland	14.5	13.3
Sweden	22.3	29.7
United Kingdom	151.5	184.3

Source: Eurostat.

As with the energy sector above, there is a marked difference in the **size of the water supply sector** between country, as would be expected, given differences in population size, ranging from 227 000 employees in Germany and 215 000 in the UK. The countries with the smallest water supply sectors are Luxembourg (1 100), Malta (2 100) and Cyprus (2 400).

Table 3.3: Employment ('000s) in water supply, 2008 and 2015

GEO/TIME	2008	2015
European Union (27 countries)	1 575.1	1 677.8
Belgium	26.7	36.7
Bulgaria	37.0	29.6
Czech Republic	52.7	57.1
Denmark	22.0	15.8
Germany	223.1	227.0
Estonia	2.4	3.0
Ireland	12.9	11.1
Greece	30.6	23.1
Spain	123.2	131.4
France	172.9	191.7
Croatia	27.2	28.8
Italy	177.9	237.6
Cyprus	1.9	2.4
Latvia	11.6	7.1
Lithuania	14.0	14.0
Luxembourg	0.7	1.1
Hungary	47.0	57.5
Malta	2.4	2.1
Netherlands	34.5	30.8
Austria	19.8	20.5
Poland	165.7	178.0
Portugal	34.2	29.4
Romania	74.2	85.7
Slovenia	7.9	9.2
Slovakia	35.1	26.2
Finland	10.9	10.8
Sweden	17.9	23.3
United Kingdom	215.9	215.5

Source: Eurostat.

The overall number of workers increased in this sector in the EU between 2008 and 2015, from 1 575 100 to 1 677 800 (see table 3.3). Employment levels increased in 16 Member States, with the increase being significant in France, Italy and Poland. However, it should be noted that employment levels declined in 11 Member States and remained constant in one (Lithuania). It is difficult to determine whether privatisation as such is an important factor in the decline of employment levels in those 11 Member States, although this is likely to be the case in the programme countries (Ireland, Greece, Portugal).

4. QUALITATIVE EMPLOYMENT TRENDS

KEY FINDINGS

Part-time working increased slightly in energy and water between 2008 and 2015.

The incidence of temporary working in energy and water increased between 2008 and 2015. However, there is contradictory evidence regarding trends and practices around temporary employment in the public and private sectors.

Nevertheless, the overall picture is rather nuanced and complex, with a variety of factors playing a role in shaping employment trends, including sectoral and national country characteristics.

There is no conclusive evidence that privatisation of utilities results in lower pay for workers. Nevertheless, there is evidence that for new workers, inferior terms and conditions can be put into place.

There is evidence of more working time flexibility in privatised utilities, in areas such as time banking, reference periods and shorter breaks.

There is mixed evidence on trade union representation and functions in privatised utilities, with some evidence of very little effect and some evidence of decentralisation and fragmentation of bargaining. It is also difficult to distinguish between the more general trend towards a decrease in union membership and a more specific "privatisation-related" effect.

There is some evidence of increases in the measures of stress-related ill health among employees after privatisation involving company downsizing.

This section examines the qualitative employment effects of privatisation of public utilities. It looks at the incidence of part-time working, temporary work, working time flexibilisation, health and wellbeing at work, including trends in stress at work, and the effects of privatisation on pay. It also looks at the impact of privatisation on industrial relations and the measures that can be taken to cushion the potential negative impacts of privatisation.

4.1. Temporary working rose considerably

If we look at the **sectors in which privatised utilities are most likely to operate** (electricity, gas, steam and air conditioning supply, and water supply), the incidence of temporary working increased in electricity, gas, steam and air conditioning supply, from 97,900 in 2008 to 106,100 in 2015. It also increased in the water supply sector, from 163,700 in 2008 to 187,200 in 2015. See Table 4.1 below.

Table 4.1: Trends in temporary working by sector ('000s)

Sector	2008	2015
Electricity, gas, steam and air conditioning supply	97.9	106.1
Water supply; sewerage, waste management and remediation activities	163.7	187.2

Source: Eurostat.

However, the **overall picture is rather nuanced**: from the literature review, Eichhorst and Tobsch (2017) found that the share of fixed-term employment was stable between 2010 and 2015, at 12 % in the private and 10 % in the public sector. Bordogna (2015) found that temporary working in the public sector fell across the EU between 2011 and 2013, but that

there was wide difference between the EU Member States. He also noted that the fall in the number of temporary workers was greater in public administration, defence and social security than it was in the education and health sectors. He found high increases in temporary working in France (15 %), Malta (23 %), Hungary and Croatia (55-57 %). Overall, he found that the proportion of staff employed on a temporary basis in the public sector as a whole varied from around 7-8 % in Bulgaria, Greece, Luxembourg, Malta, Slovakia and the United Kingdom, to between 15 % and 19 % in Germany, France, Cyprus, Hungary, Portugal and Sweden and to above 20 % in Spain and Finland. He notes that *"despite these variations, temporary employment continues to be used more systematically in the public sector than in the entire economy, the only exceptions to this being the Netherlands and Poland, and, to a lesser extent, Bulgaria, Croatia and Italy"* (Bordogna, 2015, p.23).

4.2. (Slight) increase in part-time work between 2008 and 2015

Between 2008 and 2015, part-time work increased in both electricity, gas, steam and air conditioning supply, and water supply, although only marginally in the latter sector (see Table 4.2). Eichhorst and Tobsch (2017) note that the share of part-time employees is 20 % in both the private and the public sectors, but increased in the private sector from 14 % in 2010.

Table 4.2: Trends in part-time working by sector

Sector	2008 (‘000s)	2015 (‘000s)
Electricity, gas, steam and air conditioning supply	86.8	90.1
Water supply; sewerage, waste management and remediation activities	123.0	123.9

Source: Eurostat.

Looking specifically at the **electricity sector**, PIQUE (2009) found that, with the exception of Poland, all six countries in its research (Austria, Belgium, Germany, Poland, Sweden, UK) experienced an increase in part-time employment in the electricity sector. In Austria the part-time rate increased from 3.5 % to 9.4 %, but in all countries the proportion of part-time working in the electricity sector is still well below the percentages for each economy as a whole. In Poland the proportion of part-time workers in the sector actually fell according to Eurostat data between 1996 and 2004/5. It should be borne in mind, however, that there has been a general trend towards an increase in part-time working over the past two decades, mainly among women who return to the labour market after having had children.

4.3. Flexibilisation of working hours common

Some of the literature looks at whether privatisation has had any effect on working time, in terms of the length of working time and the scheduling of working hours. For example, Atzmüller and Hermann (2005) found that **privatisation results in flexibilisation of working hours** in order to increase competitiveness and productivity, through means such as part-time work, reference periods for averaging out working time and the introduction of time banking accounts. They also found evidence of **different working time regulations introduced for different groups of workers**, a shortening of breaks and rest periods, a lengthening of so-called productive periods, for which customers pay directly, and incidences of additional working hours and increases in overtime. Other means included reduction of collectively-agreed additional off-duty time, a lengthening of operating hours in order to improve service range, and a lengthening of the maximum working day, although there were also instances of daily hours being shortened in order to minimise hours for which customers do not pay. In the UK electricity sector, they found an increase in individualisation of

employment contracts, such as simplification of pay systems and the introduction of performance-related pay components.

This differs from an earlier study which found that employees in privatised utilities tended to have slightly shorter working hours than their public sector counterparts, although there was no consistent pattern across the 15 European countries analysed.

4.4. Evidence of some negative impacts on stress levels and health

Any initiative involving organisational restructuring is likely to risk negative effects on employee health and wellbeing, as this may result in increased levels of stress and uncertainty for the workforce. As privatisation is a form of restructuring, it is to be expected that this will increase the risk of stress on the privatised organisation's workforce. For example, Egan *et al* (2007), based on a systematic review of literature and 11 case studies of the health impacts of privatisation on 11 sectors (construction, water, paper, cement, bus, rail, mining, electricity and gas) found **increases in the measures of stress related ill health** among employees after a privatisation intervention involving **company downsizing**. However, there was **no robust evidence to link privatisation with increased injury rates for employees** or customers. There was, however, some evidence that suggests that adverse physical and mental health outcomes could result from redundancies associated with privatisation. This is on the basis that privatisations are often associated with company downsizing and redundancies: the authors found epidemiological evidence to suggest that redundancies can adversely affect physical and mental health. In particular, they identified one study that found evidence of health deterioration among employees who had to seek new work or take a less secure employment following redundancies linked to privatisation.

Atzmüller and Hermann (2005) found that **work intensity and requirements on employees** to perform **increased considerably after privatisation**. They found this to be the case, for example, in the German water sector. Further, traditional job profiles underwent transformation due to the increased importance of customer service and the need to compete. They also found an increase in stress levels due to enforced internal mobility within privatised organisations, following relocation and other organisational changes. Stress also resulted from the uncertainty triggered by restructuring and fear of loss of employment.

Further, research in Austria (PIQUE 2009) used a sample of six public service sectors – electricity, postal services, local public transport and health services/hospitals – in six countries (Austria, Belgium, Germany, Poland, Sweden and the United Kingdom) to analyse the effect of material privatisation, on labour. It shows that in most countries privatisation has led to a **significant reduction in employment and a higher workload**, particularly in the electricity and postal sectors.

4.5. Mixed picture on pay

There is a range of studies that aim to analyse the effects of privatisation on pay. **Studies dating from the 1990s** found that there is **no solid evidence** to support the view **that employees are worse off in terms of pay**, following privatisation. For example, Hall (1997) found that trade union surveys in the water and energy sectors, suggest that there is no general pattern of privatised water or energy employers offering markedly better or worse conditions than public sector employers. He cites a 1995 Public Services International (PSI) survey of the pay and conditions of energy workers in western and eastern Europe. While the survey showed that there was a considerable gap between western and central and eastern Europe, within western Europe there was also a wide range of pay rates. Overall, the private sector rates appeared to be slightly higher than the public sector rates, but there was no consistent pattern.

Pendleton (1997), based on data analysis, looking at privatisation of public companies, including utilities, in the **UK**, also found that a **change of ownership per se does not appear to have a strong or consistent effect on pay or working conditions**, in line with the argument that profit maximisation can be secured by changes in product pricing rather than adjustments to inputs such as pay and conditions of workers. He notes further than continuities in pay and employment among some monopolistic privatised utilities with industry-specific technology may be partly explained by the lack of alternative labour supply.

However, **more recent research** has found that there does seem to be a **connection between privatisation and pay reduction, at least for some workers, or a general widening of differentials** depending on hierarchical position in the organisation. For example, Parker (2004), examining the effects of privatisation on utilities in the UK, notes that one of the pay outcomes has been an increase in pay differentials: on the one hand, senior management benefitted from stock options and profit-related bonuses; on the other hand, job losses, de-unionisation and changes to collective bargaining in a number of privatised enterprises produced a widening of pay differentials between unskilled workers and skilled workers and top management. There was **not, however, an overall obvious fall in average wages in privatised companies**. Parker notes further that *"in some cases when large-scale redundancies occurred, e.g. BT in the early 1990s, many of those made redundant received generous redundancy packages. This means that in assessing the net benefits from privatisation, the effect on workers is particularly difficult to assess"* (Parker, 2004, p.19).

This rather nuanced and complex picture of pay is reinforced by Atzmüller and Hermann (2005), who found that although reduction of labour costs was a key objective of the privatisation and liberalisation process, **cuts in basic pay were rare; more common were cuts in bonuses, additional payments, company benefits**, such as company sick pay, and company pensions. They also found changes in pay scales and pay categories. Bonuses for working at weekends and working unsocial hours were eliminated through the decoupling of working time and pay, by means of working time accounts and longer working time assessment periods, during which working time is averaged out over a specific period. They also found that newly privatised companies often introduced performance-related pay and individualised pay structures, piecework or customer frequency-dependent pay. **For new workers, inferior terms and conditions were put into place**. New providers would also be able to employ their workforce on inferior terms and conditions if they were exempt from collective agreements covering the sector. Atzmüller and Hermann (2005) also found that, following privatisation, there was a deterioration in basic and advanced training offered, and development options were limited to core staff.

This picture of the emergence of a **two-tiered workforce**, distinguishing between those who were **in post before privatisation and those in post after privatisation**, is highlighted by PIQUE (2009). This research shows that privatisation and liberalisation have resulted in the establishment of a differentiated workforce containing civil servants at the core and private sector workers on the periphery. This study also found that a transfer of public ownership to private investors can be associated with a deterioration of working conditions caused by wage dumping and labour cost competition (PIQUE, 2009:46). This study is based on case studies, entailing a total of 185 qualitative interviews.

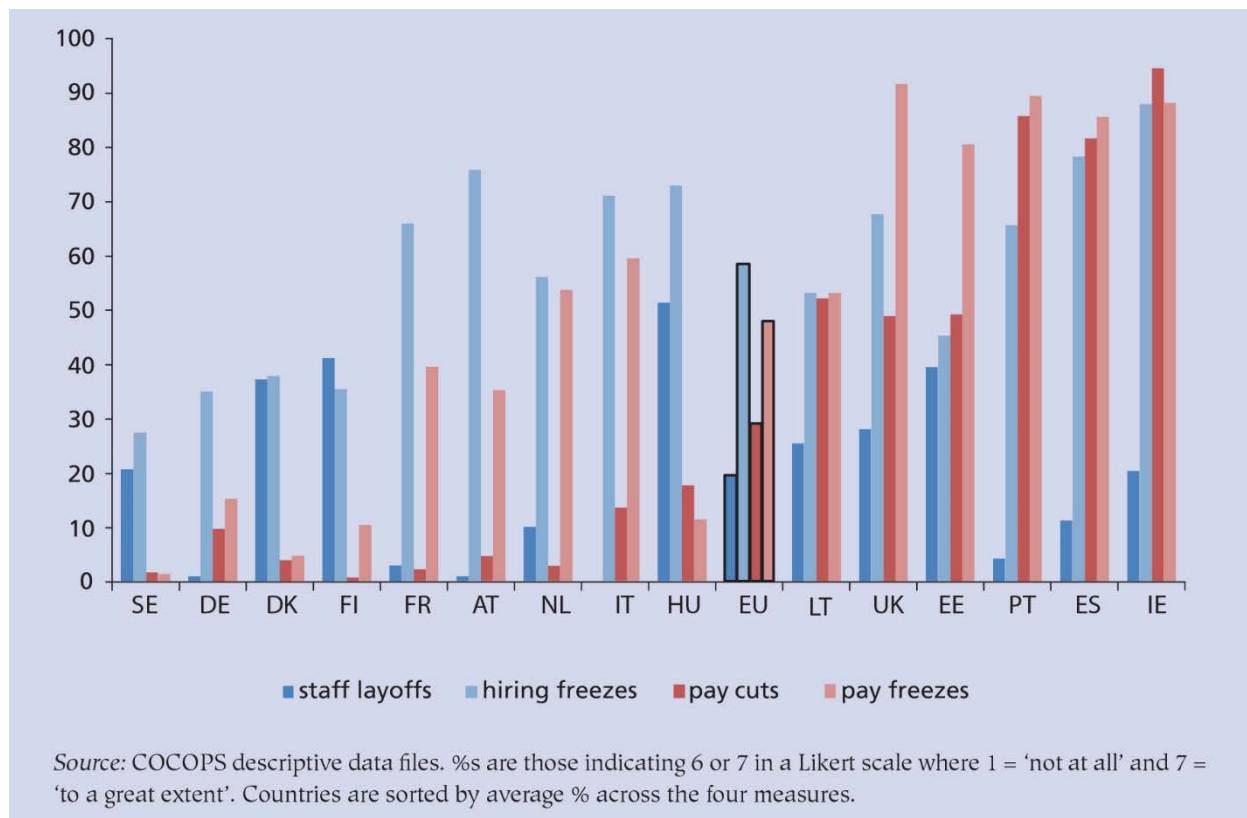
Restructuring of public utilities and services has been a prominent part of public sector reforms during the fiscal crisis that began in 2008. Eurofound (2015) reported on the impact of these more recent restructuring practices, based on interviews with public sector executives. This shows the extent to which different policies, such as pay cuts, pay freezes, headcount reductions, early retirement and cuts in working time, have been implemented in different countries in order to reduce or limit the growth of wage costs in the public sector.

Figure 4.1 below shows the extent of staff layoffs, recruitment freezes, pay cuts and pay freezes in selected countries.

This study showed that the **countries that suffered the most from the financial crisis (Ireland, Portugal and Spain) were more likely to have introduced public sector pay cuts or pay freezes, in addition to recruitment freezes.** Pay flexibility was also much more likely in the programme countries, Spain, the UK and the Baltic countries and was much less likely to be reported in the Nordic countries and Germany.

Recourse to redundancy and workforce reductions was reported by this study to be largely uncorrelated with other measures. Levels were reported to be relatively high in the Nordic countries and relatively low in those economies most affected by the crisis: Greece, Ireland, Italy, Portugal and Spain.

Figure 4.1: Incidence of measures accompanying public sector restructuring in selected EU Member States during the financial crisis



Source: Eurofound (2015).

4.6. Privatisation and industrial relations: mixed effects on industrial relations and collective representation

Involvement in a trade union is also a significant point of difference between public and private sector employees. **Trade union density is in general held to be higher in the public sector than in the private sector** around the EU.

Atzmüller and Hermann (2005) found that **privatisation had resulted in a decentralisation and fragmentation of collective agreements in some cases**, such as in the UK, and their replacement with performance-based individualised contracts. This included outsourcing of functions to organisations that are not covered by collective agreements. In terms of trade unions, in the countries and sectors examined by Atzmüller and Hermann, **trade unions largely accepted the liberalisation and privatisation of public services and cooperated with management** in order to ensure that they were involved in

the transformation process, although lengthy conflicts were part of the process. Concessions were often made by trade unions in order to ensure that the privatisation process was more socially acceptable. There have, however, been instances of organisations attempting to terminate collective bargaining processes or collective agreements in force, for example in the UK.

Pedersini (2005) also found evidence of **trade union fragmentation in privatised** utilities, also he also found that in some cases trade unions merged in order to occupy new spaces opening up as a consequence of privatisation.

Atzmüller and Hermann also found evidence of **fewer works council members** or employee representatives being elected following privatisation. They note that the trade unions themselves have faced the challenge of having to transform themselves **from being company unions to sectoral unions**. Pedersini (2005) found, meanwhile that the presence of both civil servants and private law employees in an organisation, following privatisation, may have consequences for company-level employee representation. In Germany, for example, there is a duplication of representation structures, with both staff councils for civil servants and works councils for employees covered by private law.

However, Pedersini (1999) notes that trade union membership does not appear to have decreased following the privatisation of specific enterprises, generally remaining at the relatively high levels that are typical in the public sector. *"There are some signs of reductions, but it is **hard to distinguish between the more general trend towards a decrease in union membership** that seemingly affects many countries, and a more specific **"privatisation-related" effect**. To the extent that there is some weak link between privatisation and falling union membership, it probably operates through workforce reduction: redundancy often hits older workers who are more likely to be unionised, while new recruits are generally young, higher skilled and less likely to become trade union members"* (Pedersini, 1999, p. 10).

Hall's trade union-funded study into privatised utilities in 15 European countries (Hall 1997) found that while formal consultation procedures may not allow for real influence by the social partners, there is **repeated evidence of active political campaigning by trade unions** as a way of influencing the decision-making process. In Hungary, for example, the social partners were able to negotiate an agreement protecting jobs and providing for benefits as part of the privatisation contract in the energy sector.

In **sectoral terms**, the **picture is somewhat mixed** and possibly dependent on sector and country. From the studies available, it would seem that industrial relations has not been greatly affected by privatisation in the electricity sector, while in the water sector in Germany, collective agreements, which provide for more advantageous rates of pay, have been under threat.

Pedersini (2010) notes that even though there has been significant **privatisation and restructuring in the electricity sector, this has not made a significant impact on the industrial relations landscape** in this sector, which remains relatively stable, with the social partners and collective bargaining strongly positioned. He notes further that collective bargaining is well established in the sector and generally follows national patterns in terms of degree of centralisation vs. decentralisation. Bargaining coverage rates are also relatively high, often covering the whole workforce. This is due to factors such as the strength of employer and trade union representation in the sector, the high proportion of large employers and the presence of extension mechanisms in countries such as Belgium and France. Nevertheless, Atzmüller and Hermann (2005) found that in the UK electricity sector, liberalisation and privatisation led to the decentralisation and fragmenting of industrial relations. Overall, although trade unions were able to defend their position, membership

rates decreased by nearly 30 % to slightly under 60 %. Only the promotion of the “social partnership” ideology by the new Labour government made it possible to develop new forms of co-operation with trade unions in the companies in this sector.

5. CUSHIONING PRIVATISATION

KEY FINDINGS

There are a variety of ways in which the potential negative effects of privatisation can be cushioned, including: early involvement of trade unions and employee representatives; protecting the terms and conditions of employees; and offering support to those at risk of redundancy.

There also measures in place to protect civil servant status in some countries, such as Austria and Belgium.

Where the transfer of ownership affects the job security, wages and benefits of incumbent staff, contractual rights should continue to be honoured. However, the automatic or uncritical “grandfathering” of the rights of civil servants and other public employees is considered to be counter-productive.

The good practices detailed in this section include advance warning and consultation, overall support for workers and financial compensation for workers.

Given that privatisation can have some detrimental effect on employment levels and a range of working conditions, there are a range of ways, generally accepted in the literature (eg Cedefop 2010; Broughton 2009; Bergström *et al* 2010) in which this can be mitigated or cushioned. These include:

- **early involvement of trade union and employee representatives** in the discussion about options (information and consultation);
- **offering some sort of protection**, either in the form of red-circling the terms and conditions of specific employees who used to be employed by the organisation when it was in public hands;
- agreeing some form of **temporary protection of former employment terms and conditions**, including civil servant status and the benefits that are attached to this;
- offering **redeployment** to those at risk of losing their jobs;
- offering **training and development** to those at risk of losing their jobs;
- helping redundant employees to find alternative employment (outplacement services);
- offering enhanced levels of financial compensation, in the form of **severance packages**.

It is generally held that redundancy should be a last resort and so the above measures can all be useful in helping to mitigate the negative effects of privatisation, depending on the precise situation. Where redundancy is unavoidable, help with finding alternative employment and financial compensation can cushion the redundancy.

5.1. Good practice includes guarantees of wages and employment

The OECD (2009) looks at what could be considered to be good practice in terms of the terms and conditions of employees of privatised companies. It finds that where the transfer of ownership affects the job security, **wages and benefits of incumbent staff, contractual rights should continue to be honoured**. However, the **automatic or uncritical “grandfathering” of the rights of civil servants** and other public employees is considered to be counter-productive: *“a corporatized SOE [state-owned enterprise], in particular, will find it difficult to compete with private sector operators if it is weighed down by heavier obligations than these. In the case of direct transfers of corporate entities such as trade sales the buyers are of course free to discount the price they offer in case of obligations toward*

incumbent staff. However, the continuing company will be staffed by 'class A and B employees', which is rarely an efficient outcome" (OECD, 2009, p.55).

Where public sector organisations are restructured prior to privatisation, the **time at which the restructuring takes place should be the point at which future employment conditions, wages and benefits should be discussed with employees**. It also states that specific types of contractual rights, such as pension rights, may be best dealt with by rescinding them up front in return for compensation corresponding to their market value.

Finally, the OECD states demands for the buyer to guarantee wages, employment or benefits for a transitory period is not optimal from an economic efficiency perspective, but if fully disclosed prior to privatisation, this may not be inconsistent with good governance practices.

Employment status is something that defines public sector employees in many countries. Pedersini (1999), in a study based on questionnaire responses by national researchers in EU Member States, notes that employment status is important since specific guarantees and benefits are usually attached to the status of public employee, and that privatisation of the employment relationship applies mainly to workers in public utilities. In **France**, for example, the employees of France Télécom retained their civil service status, which legally protects them against redundancy, even after the transformation of the telecommunications operator into a limited company and its partial privatisation. In **Germany**, one of the many problems in privatising the posts and telecommunications sector has been the complicated transition of former public employees to the completely different employment patterns and principles of private industry. Difficult legal questions have included statutorily defined rights to career public servants (Beamte).

The OECD (2009) confirms that in Austria and Belgium employees are legally entitled to retain their civil servant status as employees of a privatised company. Conversely, in **Denmark**, employees are obliged to give up civil servant protections as part of the privatisation process and are offered reassignment within the government administration or financial compensation for termination of employment. In **Sweden**, public employees are asked to agree to a change in their employment conditions in negotiations with unions and the government retains the option of discontinuing the employment of individuals who refuse to shift to the new regime. In countries such as **Finland, Portugal** and in some cases **Ireland**, certain rights such as preferential pension schemes can be retained after privatisation. The countries where the new owners are expected to guarantee salaries and job security in a transitory period following privatisation include Hungary, Italy, Spain and Poland (the latter case subject to negotiations). Further, the legal framework of some countries, such as the **UK**, includes "successor rights" in labour contracts, which apply equally to the purchasers of a privatised company. The OECD (2009) states that "*the practice of demanding that the buyer guarantees wages, employment or benefits for a transitory period, whilst hardly optimal from an economic efficiency perspective, is not inconsistent with good governance if the extent of such guarantees is fully disclosed and reflected in the privatisation proceeds*" (OECD, 2009, p.55).

Despite the recommendations of the OECD (see above), the practice of permitting civil servants to retain specific employment status exists. Table 5.1 below shows the **countries in which civil servants are entitled to retain their status** if they move to a privatised company. These cover whether civil servant status is protected, whether pensions and other employment rights are maintained, whether the buyer of the public company is obliged to continue employment or provide some income security and whether there are any generic protections that apply to privatisation. There are **some provisions in place in most countries**, but they vary considerably, according to the legislation in force and relevant collective agreements.

Civil servant status is **protected** in all or at least some cases in six countries, pension and other rights are maintained fully or partially in eight countries (although they used to be more generous in Finland), five countries impose some sort of employment or income security upon buyers and only the Czech Republic and Slovakia provide generic protections to employees of privatised companies.

In the case of **pension rights**, in some countries, such as Ireland, it depends on the legislation establishing the company. In Greece, the transferability of pensions will be aided by ongoing pension reforms.

Job or income security is sometimes **agreed on a temporary basis** among the parties in Greece. In other countries, such as Hungary, collective agreements can safeguard employment for up to five years. In Italy, employment and salary may be protected for up to three years. In Poland, 80 % of agreements between the parties involved include wage and employment guarantees. In Spain, working conditions and employment may be guaranteed for up to five years.

In terms of where civil servants are employed, in Austria it is mostly in the telecommunications and postal sectors, while in Germany it is in the telecommunications, rail and postal sectors. In France, the status of staff depends on sectoral legislation.

Table 5.1: Employment conditions during and after privatisation in selected EU Member States

Country	Civil servant status protected	Pension and other rights maintained	Temporary job or income security imposed on buyer?	Generic protections applying to privatisation
Austria	Austria, Belgium, Denmark (Offer of redeployment or compensation for rescinding status), France, Germany, Greece (no civil servant status, but similar employment protections)	Austria, Belgium, Finland, France, Germany, Greece, Ireland (sometimes), Portugal	Greece (sometimes), Hungary, Italy, Poland (sometimes), Spain	Czech Republic, Slovakia

Source: OECD 2009.

5.2. Good practice in individual organisations

This section reviews a selection of good practices concerning privatisation of public utilities in individual EU Member States. The case studies below, contained in boxes 5.1-5.3, cover the issues of advance warning and consultation, overall support for workers and financial compensation for workers. They are taken from a **Eurofound report on good practice in company restructuring** (Eurofound 2009) They all concern public sector organisations that have been restructured and privatised, at least in part. Good practice centres around issues

such as: early information and involvement of trade unions and affected workers; the provision of support for workers at risk of redundancy, including redeployment, training, outplacement and other assistance with finding alternative employment; and enhanced levels of financial compensation in order to cushion redundancy. The individual case studies are set out below and summarised in Table 5.2.

Table 5.2: Key points from Eurofound report on good practice in restructuring (2009)

Country	Organisation	Information and consultation	Worker support	Financial compensation	Outcome
Bulgaria	CEZ Bulgaria AD	Statutory obligation to inform at least 45 days before changes take place. Company organised a series of roadshows to inform employees.	Redeployment within the group, training where needed, relocation assistance, help with cv and job applications. Support deemed to be higher than usual.	Severance packages beyond the statutory norm.	Company support widely praised. The majority of redundant employees found alternative employment.
Malta	Malta Shipyards Ltd.	Government and trade unions reached agreement with the help of a mediator.	Maltese public employment service provided support such as training and redeployment programmes.	Enhanced severance packages, not subject to tax.	Around 1,000 redundancies, largely early retirement and
Slovakia	Slovak Railways	Statutory requirement to consult employee representatives one month in advance. This was complied with.	Redeployment within the company, help with job search, retraining.	Enhanced severance package.	High level of support due to political sensitivity and the strength of the rail unions. Negative social impact mitigated, although re-employment not significantly supported.

Source: Eurofound 2009, own compilation.

Box 5.1: Example of good practice in the privatisation of public utilities: CEZ Bulgaria AD

At the end of 2004, the Bulgarian state-owned electricity distribution and transmission companies, covering the whole of Bulgaria, were privatised as three partly or wholly foreign-owned companies – EVN, E.ON and CEZ Bulgaria AD – in a drive to improve efficiency and profitability. The company covers parts of the Yugozapaden region in south western Bulgaria, including the Sofia District and the city of Sofia, as well as the town of Pleven in the northwest region of Severozapaden. Redundancies were first announced in October 2006. Before restructuring began, the company had 4 700 employees. By 2009, this number had fallen to 3 650 employees.

Advance warning and consultation

According to the Bulgarian Labour Code, employers must inform worker representatives and trade unions at least 45 days before any organisational changes take place, in addition to the appropriate governmental institutions, such as the employment agency, within three days of the trade unions being informed, and at least 30 days before any redundancies take place. This information must include the reasons for the restructuring, a description of the proposed new organisation, the criteria for the selection of employees to be made redundant, the timing of the redundancies and the measures the employer intends to take in order to limit the negative impact on redundant employees.

In this case, the company has, since privatisation, organised a number of ‘road shows’ to inform employees of proposed changes, including presentations on the new organisational structures, how these will affect the employees, what the effects will be on the workforce, and what measures will be taken to minimise the effects of any redundancies.

Support for workers

Prior to any redundancies, all vacant positions within the group were posted on information boards and on the company’s intranet site, and all employees whose workplaces were to be downsized were invited to apply. Recruitment and selection then followed the usual procedure, with approved candidates offered a suitable position within the group.

If training was required for a new job, the company provided this. Additionally, a relocation programme was put into place to provide financial support for 12 months in cases where an employee relocated to another town. In the case of redundancies related to outsourcing, all redundant workers were invited to apply for a job with the new supplier.

Employees who were made redundant could also choose from a range of training courses aimed at upgrading their qualifications and helping them to find a new job, with BGN 100 allocated to each redundant employee for training. This training includes computer literacy programmes, language training and technical skills.

The National Employment Agency was actively involved in assisting employees who were made redundant and who registered with the agency.

Financial compensation

Employees received a single redundancy payment if they remained unemployed one month after they were made redundant, with the size of the payment – between two and five times the gross monthly salary – depending on length of service.

In addition, a severance programme was provided to support redundant employees who accepted voluntary redundancy. The size of the payment depended on the length of service with the company – four to 14 times gross monthly wages. Normally, a company only offers severance payments in line with the legal minimum set out in the Labour Code (one

month's gross wage) or at best as in line with collectively-agreed rates – for example, in the energy sector, payment will be between two to five times the gross wage.

Bulgarian legislation does not provide for early retirement, but redundant employees may register with the National Social Security Institute and receive social support for four to 12 months, depending on their previous work history. Neither the public authorities nor the trade unions provide finance for redundancy payments, but the employment agency has a budget for financial support for those who become unemployed, for the provision of training and for outplacements.

Outcome

No information has been published by the public authorities concerning the impact on employees or the local economy, although it is recognised that, in small towns with high levels of unemployment, such a restructuring measure would have a major impact, given the importance of the company as an employer. Information obtained from the company suggests that the majority of the redundant employees found jobs elsewhere, and that those who did not were mainly older people close to retirement age.

Source: Eurofound 2009.

Box 5.2: Example of good practice in the privatisation of public utilities: Malta Shipyards Ltd

In June 2008, the Maltese government announced its decision to privatise Malta Shipyards Ltd (MSL). During the EU accession negotiations, the Maltese government had obtained a derogation allowing it to continue to subsidise the enterprise up to the end of 2008 but, as that date approached, and with the enterprise still not economically viable, the government decided to proceed with privatisation. In order to make the business more attractive for potential bidders, the decision was made to downsize and to reduce the workforce from 1 800 to 700 workers, which caused controversy between the government, the workforce and trade unions.

Advance warning and consultation

Following the government's announcement of its intention to privatise the enterprise and offer early retirement schemes to reduce the workforce to 700 workers, the trade union GWU protested, claiming that the government was not acting in accordance with the law. As a result, GWU asked workers not to apply for the retirement schemes. The government, in response, threatened to declare the enterprise bankrupt, thereby removing employee entitlement to compensation. The government held consultations with GWU during July and August 2008, which ended in deadlock. Subsequently, a mediator was appointed and an agreement was reached.

The consultation resulted in better financial benefits than those originally proposed. Employees who did not apply for early retirement were entitled to be transferred to new employers, with the provision of training schemes for workers.

Normally, in collective redundancy cases, the employer cannot declare any redundancies before it has informed the worker representatives in writing, with a view to them being consulted on the matter. This case was not typical, however, in that the government made an offer of an early retirement scheme on the condition that it had to be taken up by at least 1,000 employees, or the enterprise would be declared bankrupt.

Support for workers

Guidance services were to be provided by the Maltese public employment service, the Employment and Training Corporation (ETC). According to anecdotal evidence, the majority of skilled workers managed to find employment in the private sector. GWU officials participated in the meetings held by ETC for the employees, and the trade union also held discussions with the Department of Social Security about pensions and other social benefit entitlements of redundant employees.

Financial compensation

The Employment and Industrial Relations Act (EIRA) 2002 stipulates that employees who are declared redundant should be given a notice period that can either be worked or converted into an equivalent sum of money. In this case, the employees were required to define their period of notice.

Employees who applied for the voluntary early retirement schemes were legally entitled to a sum of money stipulated in the MSL collective agreement. The amount depended on length of service, with a maximum of EUR 121.13 a year for those with more than 29 years of service. GWU also managed to negotiate other financial benefits over and above those first offered, and in addition to statutory payments. The government also agreed that all such payments would not be subject to tax.

Job creation measures

No coherent regional or local development strategy was in place before the restructuring was announced. However, during the campaign leading up to the general election in March 2008, the two main political parties developed projects for revamping the Grand Harbour, which is the hub of industrial activities in Malta. Such projects are likely to affect MSL, the facilities of which are located in the inlets of this harbour area, and GWU, ETC, the Cooperatives Board and the Ministry for Social Policy are currently involved in efforts to create jobs in the area.

The involvement of the ETC and the trade union representing the majority of the employees at the company is typical of what happens in such cases. The involvement of the Cooperatives Board is less typical. Some evidence is apparent that the public authorities have in recent times made greater efforts to respond to job losses resulting from restructuring.

Outcome

MSL has remained operational and still has contract work with foreign companies. Given that the majority of workers then employed (about 1 750 workers) opted for the early retirement schemes and severance pay, a number of foreign workers have had to be hired in order to complete these orders. Thus, the company (or companies) that takes over the operations of MSL is likely to need to recruit afresh, and it is possible that, given the type of skills involved, many of the workers who opted to accept the government 'offer' were likely to be re-employed by the newly formed company, but probably on different pay and working conditions.

Source: Eurofound 2009.

Box 5.3: Example of good practice in the privatisation of public utilities: Železnice Slovenskej republiky

In 2002, Slovak Railways (Železnice Slovenskej republiky, ŽSR) was a state monopoly railway transport services company, with headquarters in Bratislava. In the same year, the company was restructured and split into two state shareholding companies: the Railway Company (Železničná spoločnosť, ZSSK) responsible for the transport of passengers and cargo, and ŽSR which covers operations and the maintenance and development of the railway infrastructure.

Since January 2005, ZSSK has been further divided into the Railway Company Cargo Slovakia (Železničná spoločnosť Cargo Slovakia, ZSSK Cargo) and the Railway Company of Slovakia (Železničná spoločnosť Slovensko, ZSSK).

Before the 2002 restructuring, ŽSR employed 22 750 people but by 2007, employment was reduced to less than 18 000 workers. The main reason for the restructuring was the fact that ŽSR was operating at a loss and was only being kept afloat through state subsidies.

Advance warning and consultation

In cases of collective dismissals, legislation requires close cooperation between the enterprise management, employee representatives and the public employment authorities. The employer is obliged to consult with employee representatives at least one month before launching the dismissals. In the case of ŽSR, these procedures were fully respected and the company management submitted information on: the reasons for the planned redundancies; the number and types of workers to be made redundant; the number and types of workers normally employed; the period over which the planned redundancies would take place; and the criteria proposed for the selection of the workers to be made redundant.

Restructuring issues and the regulation of collective dismissals were specified in collective agreements concluded by the ŽSR management with their respective trade union organisations during the restructuring period. Since the restructuring started, the ŽSR management has regularly discussed organisational changes and issues concerning redundancies and dismissals in advance with the trade unions, sometimes three months in advance in accordance with the collective agreement.

Partly because of these collective agreements, the impact of the collective dismissals was less significant than it would normally be, and the employee-friendly approach of the ŽSR management was maintained throughout the entire restructuring process.

Support for workers

According to the collective agreements, the ŽSR management has to provide assistance to redundant employees in the form of guidance and mediation aimed at helping them to find other jobs. The company established four regional advice centres to provide information for redundant workers about available vacant jobs within ŽSR, ZSSK and ZSSK Cargo.

The company management also agreed to give preference to workers threatened with redundancy with regard to any vacant positions, even if this required retraining, which the company would then provide. Trade unions were actively involved in the interviews conducted by management with redundant employees.

This case of restructuring was more favourable to redundant employees than normally the case. The level of support maintained throughout the restructuring process may be

explained by the state ownership of the business, the political sensitivity of collective dismissals, and the strength of the railway trade unions.

Financial compensation

The Labour Code states that the standard redundancy payment should amount to two months' average salary. However, the ŽSR collective agreement allowed for employees who left the company earlier to receive higher levels of redundancy pay, ranging from three to five months' average salary.

Redundant workers also received special financial compensation according to length of service, which amounted to up to 10 months' average monthly salary. In some cases, early retirement schemes were applied to redundant employees, with these workers receiving an extra retirement payment amounting to up to 14 months' average salary. Normally, they are entitled to the standard amount of one month's salary. Additionally, dismissed railway workers were able to retain non-financial benefits such as extra low rail fares for five years after the termination of their employment.

The restructuring of ŽSR was an exceptional case in which a large number of dismissals as well as extraordinary financial compensations took place, recognising that railway dismissals were a sensitive political issue at the time, with a real threat of industrial action.

Outcome

Efforts to minimise the impact of restructuring were successful in reducing the negative social impacts of organisational changes on redundant employees, but did not contribute significantly to their re-employment in national or regional labour markets. According to the trade unions, this could be blamed on the lack of a comprehensive strategy with respect to the re-employment of dismissed workers.

The restructuring that took place helped ŽSR to survive for several years more, during which time it continued to make losses until 2007 when it recorded a profit of SKK 18.9 billion (EUR 629 357). However, one negative effect of the restructuring was a reduction in the level of vocational education and training provided by ŽSR.

Source: Eurofound 2009.

6. CONCLUSIONS

This paper has charted the history of privatisation of public utilities in the EU over the past 40 years and its effects on employment and has aimed to examine the risk of precariousness in recently privatised utilities. Within the framework of EU deregulation and liberalisation policy, **privatisation of public utilities has been extensive**, with different waves based on different drivers. The earlier waves were based on ideological factors and a desire for greater competitiveness and efficiency. Privatisations in the central and eastern European countries during the 1990s formed part of economic transition, while the programme countries over the past decade have embarked on privatisations as part of bailout conditions linked to the financial crisis. Although the bulk of privatisations of public sector utilities has now been carried out in Europe, there remain some countries, such as Greece, where this is still under discussion.

Privatisations in public utilities have largely been followed by **job losses**, particularly in the years immediately following privatisation, due to efforts to increase efficiency and effectiveness and to enhance competitiveness in newly opened-up markets. Nevertheless, most recently, in the seven years to 2015, there is a **more nuanced picture**: employment in energy and water has increased slightly in the EU overall, although it has decreased in the majority of EU Member States.

In qualitative terms, there is a mixture of evidence, which makes it difficult to determine the precise extent to which risk of precariousness has changed in privatised utilities. There does appear to have been an **increase in atypical forms of working**, such as temporary work, and to a lesser extent part-time working. There is also evidence from the literature to suggest that the composition of the workforce has changed, based on a decline in technical and maintenance staff and an increase in service occupations, such as marketing and sales. There is also some evidence of an **increasing working time flexibility**, based on the introduction of practices such as time banking, reference periods and shorter breaks. On pay, however, there is **no conclusive evidence that privatisation has resulted in lower pay** for those working in privatised utilities. There is also **mixed evidence on trade union representation and functions** in privatised utilities, with some evidence of very little effect and some evidence of decentralisation and fragmentation of bargaining, although this is consistent with general developments in European employment relations. There is also some evidence of **increases in the measures of stress-related ill health** among employees after privatisation involving company downsizing.

The potential negative effects of privatisation can be **cushioned** in a variety of ways, including making sure that employee representatives are informed and consulted, protecting the terms and conditions of employees, at least temporarily, and offering support to those at risk of redundancy. The good practices detailed in this section include advance warning and consultation, overall support for workers and financial compensation for workers.

6.1. Policy recommendations

There is limited literature available on the precise employment-related impacts of privatisation of public utilities. Impacts are also nuanced and vary according to sector, circumstances and country-specific factors. It is also **difficult to disentangle the effects of privatisation from general labour market trends**, in terms of developments such as more flexible working, increases in work-related stress and reduced influence of trade unions and collective bargaining. It is therefore advisable to consider each case on its own merits, bearing in mind these caveats.

Given that there does seem to be some evidence of an increase in atypical and more flexible forms of working in privatised utilities companies, workers in these companies may be at an

increased risk of precariousness. It may therefore be advisable to focus on ensuring that employees in these companies are adequately **protected from the risks associated with more atypical and flexible forms of working**, as identified in previous European Parliament studies on precarious work.

The good practices highlighted in this report that relate to cushioning the effects of privatisation and restructuring could form the basis of policy focus, specifically in areas such as ensuring the **implementation of information and consultation of workers, supporting those at risk of redundancy and ensuring that the remaining employees are treated fairly**.

There is debate on whether good practice extends to the prolongation, following privatisation, of some of the special rights and statuses that accrue to civil servants. This should be considered carefully and a **balance should be struck**: a newly privatised organisation should not be hampered by labour costs that are not matched by other private sector organisations against which it is competing, but care should be taken that workers do not have rights and entitlements taken from them suddenly and without compensation.

Collective bargaining and trade union presence have traditionally been stronger in the public sector than in the private sector in most EU Member States. Where there are trade unions and collective bargaining arrangements already in place in privatised utilities, these should be encouraged as this can provide a **strong framework to help a smooth transition from public ownership into the competitive market**.

6.2. Research recommendations

This study recommends that further research could be carried out to determine the **specific effects of privatisation of public utilities in the programme countries**, which have most recently experienced privatisation as part of austerity programmes.

In addition, European **comparative case study research** looking at specific privatised utility organisations would yield some interesting insights into the specific qualitative and quantitative impacts of privatisation in cross-country comparison.

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