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Public Services

Privatisation, TNCs and Democracy

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Privatisation, TNCs and Democracy

Introduction

Privatisation and competitive tendering of public services have gained ground everywhere during the past two decades. Driven by strong economic interests and the neo-liberal offensive, there has been a massive transfer of assets from the public to the private sector. In addition to geographical expansion, encroachment on the public sector has become the most important way for many transnational companies (TNCs) to capture new markets. That part of the economy which during the last century was removed from the market and made subject to democratic governance, is gradually being reduced in size and scope, to the advantage of big corporations.

Privatisation in the European Union

According to the OECD, assets of more than US$ 150 billion were transferred from the public to the private sector in 1997 – an increase of fifty per cent from the previous year. A new world record was established in 1998: By the end of that year, Europe accounted for over half of all privatised assets in the world.

In addition to the general ideological pressure, EU's own research institute, the European Foundation for the Improvement of Living and Working Conditions (the so-called Dublin Institute), recognises two main factors which have contributed to increased privatisation in the European Union during the last fifteen years. One was the establishment of the Single Market, which resulted in a number of directives on deregulation starting in 1986; this created an institutional framework for and a political project of privatisation. The second major factor was the Maastricht Treaty of 1992 which created pressure for privatisation in member-states by forcing them to comply with very strict "convergence criteria," including a maximum budget deficit of

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three per cent and a national debt no greater than 60 per cent of gross national product.

Thus, liberalisation of markets and fiscal constraints have been used as effective means to force privatisation in the member-states.

Great Britain which, during the Thatcher era played a leading role in the global neo-liberal “revolution," was in the forefront of deregulation and privatisation in Europe. At first, it privatised all state-owned manufacturing industries, then telecommunications (1984), public bus transport (1985), gas (1986), water and electricity (1990), railways (1996) and nuclear power (1997). This policy was continued under the New Labour/Old Policy government of Tony Blair. In tandem with privatisation, many laws and regulations were abolished. Now, there are not many public utilities left to privatise.

There has also been widespread privatisation in the healthcare and social-service sectors. Prisons have been privatised and, in the municipal sector, more than half of all blue-collar work has been taken over by private companies.

Three phases, three stages

The process of privatising state assets typically involves three phases and three stages. The first phase is the privatisation of state-owned manufacturing industries and financial institutions (banks and insurance companies). These are already integrated in competitive markets and, with the shift in policy from market interventionism to market liberalism, all the old arguments for keeping these branches under state-ownership vanished like dew in the morning sun.

The second phase involves the privatisation of utilities, the core infrastructure of society. This includes energy, water, telecommunications, postal services and railways. Many EU countries are currently in the midst of this phase. This kind of privatisation has provoked more heated debate and confrontation -- between trade unions and governments, in particular -- than the privatisation of manufacturing industries. But since such policies have been pursued by all types of governments -- right-wing, centre and social democratic -- trade unions and other social movements have mainly been on the defensive.

The third phase of privatisation has just started in Western Europe. It includes sectors like health care, education, social services, pension schemes, etc. These are the last remaining elements of the welfare state, which are now being attacked by corporate interests and governments. The European Union is playing a key role in this process: Its requirements for the harmonisation of social conditions, professional qualifications and social benefits in order to facilitate the free movement of labour between member-states, and thus the creation of a much more flexible workforce, are being used as arguments for the deregulation and subsequent privatisation of the remaining public sectors.

Parallel with the three phases of privatisation, there is an ongoing effort to transfer as many municipal services as possible to the private sector, primarily through the use of competitive tendering.

The three stages of privatisation apply especially to public utilities. The first stage is deregulation of the market in question; every privatisation process starts with the liberalisation and deregulation of the market. The second stage is the transformation of public agencies into publicly owned joint-stock companies. In the third and final stage, the state sells its stocks to private interests.

A common experience of many countries is that, at every successive stage, governments try to soothe the trade unions by promising that “we are going to go so far, but no further." This is particularly true of social democratic governments, But experience has shown that such promises are usually no good for more than a couple of years, at most.

The role of the TNCs

One of the most striking features of current developments in both the global and the European economies is the enormous concentration of power and resources in the hands of transnational companies. At a very rapid rate, they are seizing control over a growing portion of the global economy. More and more gigantic corporations are being formed in the mega-merger wave that is currently engulfing every continent. Through the privatisation process, they are taking possession of a rapidly growing portion of the public services in every corner of the world. Some of the most expansive TNCs, many of them European, have specialised in basing their growth on the take-over of public services. This is especially true in areas where competitive tendering is being used to open markets for transnational players.

When the Swedish corporation, Linjebus, acquired a Norwegian bus company some years ago and was awarded a couple of contracts in public transport, when British Onyx Co. acquired the biggest Norwegian waste-management company, and when Danish Krüger Co. tried to take over a water-distribution company, it was not immediately clear to us that all of these companies were subsidiaries of one and the same multi-national– the France-based giant, Vivendi.

Vivendi is the largest private company in France. Some parts of the conglomerate have specialised in taking over public services in many sectors and in all parts of the world. It forms cartels and combinations in order to prevent and reduce competition all over the world. It is a giant in energy and water; it has extensive activities in Europe, in South and North America, in Asia and in Australia. It has grown from nothing to become the biggest public transport company in Europe, and it is also big in waste management, in construction and, more recently, in telecommunication, media and entertainment. It also controls the biggest private education institution in France, Educinvest, with 250 schools. The total number of Vivendi employees is about 340.000, and the conglomerate has experienced enormous growth during the past fifteen years -- that is until last spring, when its aggressive policy of acquisitions and high debt recoiled when the latest stock-market bubble burst.

In many areas, markets are tacitly being divided up between big corporations. Water supply provides a good example. Two French companies are dominant on a global scale: Suez-Lyonnaise and Vivendi. They do encounter competition from four others; SAUR, Anglian Water, Thames Water/RWE and International Water. (Through mergers and acquisitions, the number was reduced from nine a few years ago). However, the six companies co-operate a great deal, both on and behind the scenes. When the water supply of a major city is privatised, two or three of them often establish combines and take over the entire operation; the alliances vary from city to city. It is fairly easy to imagine how fiercely they compete in one city, when they work together in the next!

It is the same with waste collection and management. Four companies dominate the European and world markets; Sita, Onyx, RWE and Rethman. The first two are subsidiaries of Suez-Lyonnaise and Vivendi, respectively. Five years ago, there were four additional companies: Fabricom, FCC, WMI and BFI. They offered real competition in the global marketplace; but they have all been devoured by the four giants, primarily Sita and Onyx.

The same development can be observed in the energy sector. In Europe, there are many indications that there will be only five to six major energy companies within a few years. The German giant RWE will surely be one of them. Another may be Tractebel, owned by Suez-Lyonnaise. A third may be the new company which is now being developed by the French state monopoly EDF (Energi de France) in co-operation with Vivendi for the purpose of acquiring energy companies and win contracts outside of France.

One of the multi-national giants‘ strategies is to underbid -- purposely submitting a bid that does not even cover the costs of providing the service in question -- in order to squeeze out competitors, in the belief that it will pay off in the future when a more or less monopolistic situation makes it possible to raise prices and increase profits.

The behaviour of Onyx in Great Britain during the mid-1990s illustrates this phenomenon. Onyx had been successful in winning a number of waste management contracts in southern England, but year after year had run up an enormous deficit. Unlike other companies in similar situations, however, Onyx did not go bankrupt. Every year, the company received a check from its parent company in France, which at that time was named Générale des Eaux (now Vivendi). Everybody knew very well what was going on: Onyx had submitted a number of underbids in order to get rid of competitors. Soon afterward, Onyx simply bought its main British competitor, further reducing the competition.

In short, the net result of the competitive-tendering system is not greater competition, but greater monopolisation. In Great Britain an investigation in the mid-1990s found that five companies controlled more than 60 per cent of all tendered contracts in waste management. There are even fewer now. The equivalent figure for the home-care sector was 65 per cent.

When competitive tendering was introduced for public transport in Sweden at the start of the 1990s, it took only six-seven years in order to restructure a branch with about 250-300 bus companies to the current situation in which three companies control more than two-thirds of the market. Two of the companies, Swebus and Linjebus (now Connex), were rapidly taken over by multi-nationals.

These are not exceptions. They illustrate what usually happens when a segment of the public sector is made subject to competitive tendering. It has happened again and again, in country after country. The only ones who do not seem to notice this development are the advocates of privatisation and competitive tendering. They routinely deny that this very well-documented process is taking place. Negative experiences -- and there are a lot of them -- do not have any influence whatsoever on their policies and decisions.

Recent attack

I will conclude by drawing your attention to one of the most recent attacks on public services in the European Union. About two years ago, the European Commission proposed a “Regulation concerning public service requirements and the award of public service contracts in passenger transport by rail, road and inland waterways (COM(2000)7).“ This regulation advocates a policy of compulsory competitive tendering in public transport.

This is a dramatic development in EU policy, as it breaches the subsidiary principle which says that decisions should be made at the lowest possible level by those who are directly concerned. It thus represents a serious threat to local democracy, hindering national, regional and local authorities from developing alternative systems to strengthen and improve public transport. It will lead to further privatisation, and thereby redistribution of power in society from democratically elected officials to market forces and multi-national companies.

The European Commission argues for the “necessity“ of introducing compulsory tendering in public transport in a way that will eventually apply to any public service which has been opened to competition from multi-national companies in at least some of the EU member-states. This is now the case with most public services. Should the Commission succeed in introducing compulsory tendering in public transport, the same kind of attacks could be expected on a number of other public services, such as water and gas supply, electricity, waste collection, healthcare and social services, education, etc. In other words, the proposed regulation is a privatisation trap.

Today, EU member-states and local authorities have organised their public transport in different ways. With compulsory tendering in force, regional and local authorities will be deprived of the right to decide how to organise public transport; a policy of privatisation will be imposed upon them. Most likely, this is the intent of the proposal. It is no secret that the European Commission has long been impatient with and irritated by what it considers to be the too-slow pace of privatisation -- especially at the local level, where politicians are closer to the people who elect them and must therefore take into account the lack of popular support for privatisation.

Thus far, compulsory tendering for public services has been tried only in Great Britain during the reigns of Margaret Thatcher and John Major. Under their governments the British Parliament introduced compulsory tendering in municipal services -- first with regard to blue-collar work, then later to white-collar work. Even supporters of competitive tendering concluded that this was an unsuccessful policy, and the system was abolished shortly after the electoral defeat of the Tories in 1996. Now the European Commission has adopted the same failed policy.

The proposal is currently in the rather complex decision-making process involving both the European Parliament and the Commission. Even if opposition is strong in some countries, most politicians at the local level hardly know anything about this proposal. Among those who are informed, many do not see the privatisation trap which the proposal represents for all kinds of public services.

Organise resistance

It is important to stop proposals like this one from the European Commission. We should therefore organise resistance, mobilise trade unions and other social movements, local politicians and municipalities and put pressure on the governments. It is true that national governments usually try to avoid their responsibility for EU policies. However, the final political decisions at the EU level are made by the Council of Ministers, which consists of representatives of all national governments. We should make them accountable for the neo-liberal policies they have been pursuing, regardless of their governments‘ political colour.

In the longer run, we will have to build broad national alliances against these policies. In Norway we have organised the so-called Campaign for the Welfare State which includes trade unions in both the private and public sectors, as well as organisations representing women, students, pensioners, small farmers, users of welfare services, etc. It is not yet e massive popular movement, but we have established a political, social and organisational infrastructure based on the broad alliance which is necessary if we are to stop the policy of privatisation and make another world possible.

In his book Public Services or Corporate Welfare, British expert Dexter Whitfield notes that, “Privatisation is more than asset-stripping the public sector. It is a comprehensive strategy for permanently restructuring the welfare state and public services in the interest of capital.“

Well said! Organise and fight: People against the corporate take-over of our general-welfare states!

Address to an alternative “people’s conference” (ASEM4People), held in Copenhagen 20-22 September 2002 in connection with a summit meeting between the European Union and countries of Southeast Asia (ASEM).

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