Re-municipalisation

and the role of public services in economic, social, and green development

by

David Hall d.j.hall@gre.ac.uk

Public Services International Research Unit (PSIRU)

University of Greenwich, UK www.psiru.org

December 2016

r3

Summary

- Privatisation
- Remunicipalisation trends and cases
- Saving the banks
- Public advantages, private problems
- Vision
- Public sector: positive economics

Typology of privatisation and remunicipalisation

	Asset ownership	PPPs/ concessions	Out-sourcing	
Privatisation	Sell asset/company e.g. Endesa	25+ year contract e.g. Aguas de Valencia	5 year contract e.g. FCC	
Remunicipalisation	Buy asset/company	Termination or expiry > inhouse operation	Termination or expiry > inhouse operation	
Sectors	Energy, housing, water, rail, etc	Roads, ports, energy, water, rail, hospitals, etc	Waste management, cleaning, social care etc	

History

- Prehistory: Fascists and Nazis
  - Denationalisation 1920s Italy (telecom, roads), 1930s Germany (Bel 2006, 2011)
  - Aim to build corporate political support, reduce budget deficit

- Post WWII: dominant trend to public services and welfare state
  - but some counter-trends:
  - outsourcing in USA
  - water/waste private growth in France > Suez, Veolia
  - sale of municipal companies in Germany > Eon, RWE

- 1980s: Fiscal rules, reduced role of state, more scope for business
  - Chile privatisations under Pinochet,
  - UK Thatcher privatisations: sales, outsourcing (and later PPPs)
  - EU liberalisation through internal market and state aid rules
  - Other OECD sales and outsourcing: Japan, USA, NZ, Australia
  - Central/east Europe post-communist privatisations
  - IMF, World Bank impose in developing countries via conditionalities

2000> return of the public

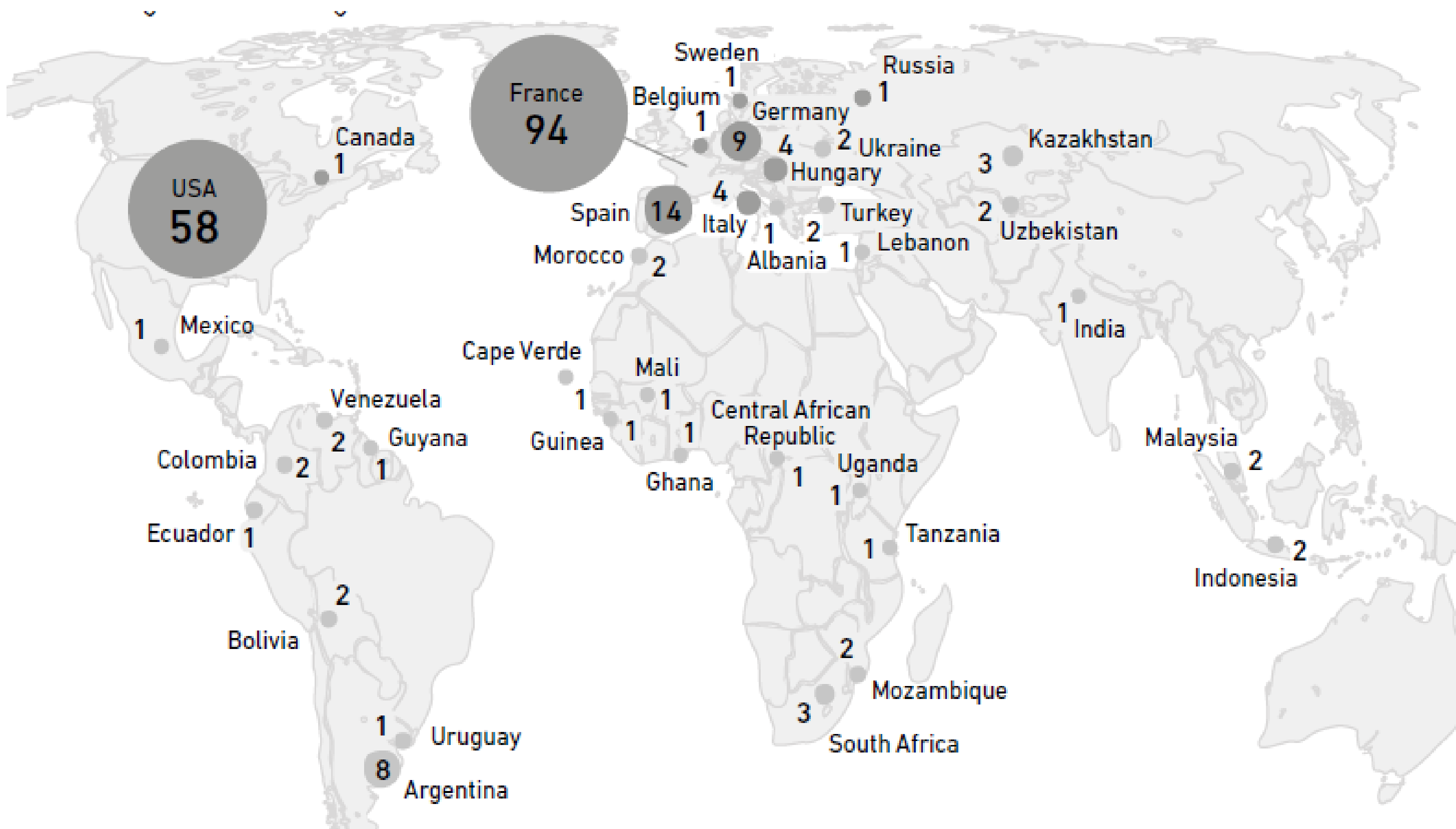
- Political and economic reactions
  - Political reaction against failures of privatisations
  - Corporations withdraw from unprofitable business
- Economic crisis 2008 rescued by state action
  - public spending boost in 2009, and
  - public ownership of banks (and others e.g. General Motors)
- … but austerity backlash against public sector
  - EU imposition of stronger fiscal and economic controls
  - IMF/Troika privatisation conditionalities
- Remunicipalisations and new public policies
  - In Europe and elsewhere (Florio 2014, Hall & Lobina 2014, TNI 2015, Wollman et al 2016)
- ….But a continuing contested process, not 'the end of history'
  - corporations/neoliberalism still dominant

Re-municipalización de servicios en europa

Sector	Proceso	Países	Factores
Agua	Re-Municipalisación, no renovación de contratos	Francia, Hungría, Alemañia, Italia	Incumplimiento, costo, control
Electricidad	Compra pública de empresas privadas (>€9bn), nacionalización, no renovación de contratos	Alemanía, Hungría, Lituania	Incumplimiento, costo, control
Salud	Renacionalización del seguro médico	Slovakia	Costo, eficacia
Transporte público	Municipalisación de contratos y concesiones	Reino Unido, Francia	Costo, incumplimiento, objetivos públicos, control
Residuos sólidos	Contratos reasignados a entidades públicas, no renovación de contratos	Alemania, Reino Unido, Francia…	Costo, control
Limpieza	Contratos reasignados a entidades públicas, no renovación de contratos	Reino Unido, Finlandia	Costo, empleo
Vivienda	Contratos reasignados a entidades públicas	Reino Unido, Alemania	Costo, eficacia

Source: Re-municipalisation in Europe Nov 2012

Remunicipalisación de servicios de agua 2000-2014



Sources: PSIRU, France Eau Publique, Food & Water Watch, Corporate Accountability International, Remunicipalisation Tracker

Source: **Our public water future** ed. Kishimoto et al 2015 https://www.tni.org/files/download/ourpublicwaterfuture-1.pdf

TNI Monitoring of remunicipalisations across all sector, with partners in countries: new report due April 2017 https://www.tni.org/en/public-sector-alternatives

Germany: Energiewende and remunicipalisation

- **Strong commitment to renewable energy: ‘Energiewende’**
  - All nuclear plants close by 2022
  - 33% of all electricity in Germany renewable in 2015

- **Municipal companies - ‘stadtwerke’ -develop strong role**
  - over 72 new Stadtwerke have been created since 2005
  - 80% of the distribution networks now owned by regions and municipalities
  - Popular: referendum in Hamburg votes to remunicipalise, narrowly fails in Berlin
  - Stadtwerke supply half of all the electricity in Germany to households.
  - Stadtwerke also develop a greater role in generation of electricity, mainly in order to develop renewable energy, but also buying or extending fossil fuel generators

Wagner, Oliver, and Kurt Berlo. 2015. ‘The Wave of Remunicipalisation of Energy Networks and Supply in Germany
http://epub.wupperinst.org/frontdoor/deliver/index/docId/5920/file/5920_Wagner.pdf

Germany: the Munich programme

- "Today, energy supply is characterized by oligopolies of private energy suppliers. There is practically no competition on price. The transition to renewable energies is made rather reluctantly.
- By 2025, our utility company aims to produce so much green energy, that the entire demand of the city can be met. That requires enormous investments around 9 billion euros by 2025 and can only be successful if the long-term goal is sustainable economic success rather than short-term profit maximization
- ….German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past. There are many examples of newly established or revived municipal utility companies, especially for energy and water supply, or of the repurchase of municipal transport services."
- Dieter Reiter, Mayor of Munich: Welcome address to Munich Economic Summit May 2011. http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf ; https://www.swm.de/english/company/about/annual-report.html

Global re-nationalisations of electricity

Country	Date	
Germany	2005-	Re-municipalisation of electricity distribution networks, creation of new municipal renewable generation
Lithuania	2011	Renationalisation and integration of electricity companies privatised in 2000s
Finland	2011	Bought out transmission company Finngrid
Argentina	2009-2013	distribution companies Edecat, Edelar
Argentina	2013	Metrogas, gas distribution company
Belize	2009	2 electricity distribution companies, Belize Telemedia Ltd (BTL) and Belize Electricity Ltd (BEL)
Bolivia	2010 - 2013	2 electricity distribution companies, transmission company, and generating companies
Brazil	May 2007	Return to majority public ownership of distributor Light
Dominican Republic	2003	distribution companies EdeNorte and EdeSur.
Egypt	2005	3 IPPs
Japan	2012	Nationalisation of nuclear company Tepco
USA	2013	Boulder City, Colorado, creates new municipal utility
Venezuela	2007	distributor EdC, generation companies

Public ownership of energy companies is common and crucial

- Public ownership of electricity companies is common in Europe, USA, Asia including China, India, Indonesia, South Korea
  - Many transmission, distribution and generating companies in Europe are owned and operated by the public sector
  - Privatisation of energy illegal in Indonesia, Thailand (courts)
- In USA, about 48 million Americans in over 2000 cities get electricity from public sector companies
  - this represents 14.5% of the total market – and a further 13% are supplied by electricity co-operatives.
  - price of public companies is on average 12% lower than price charged by private energy companies.
- In all developing countries govts and public utilities invest and deliver countrywide connections: v little by private capital
  - Big advances to 100% connections in last 15 years, inc Asia
  - Same in water: nearly all is public investment

UK: termination of $30billion transport PPPs in London

PFI project	Start date	sector		Value (£m)	Status	End date
Metronet SSL	2000	LU	Renovation	6700	Terminated	2008
Metronet BCV	2000	LU	Renovation	5400	Terminated	2008
Tubelines	2000	LU	Renovation	5500	Terminated	2010
Prestige	1998	LU	Ticketing	1300	Terminated	2010
Croydon Tramlink	1996	Light rail	Light rail	205	Terminated	2008
Powerlink PFI	1998	LU	Power system.	133	Terminated	2013
Woolwich DLR	2005	Light rail	Extension	177	Terminated	2011
City Airport DLR	2003	Light rail	Extension	147	Terminated	2011
Connect	1999	LU	Communications	475	continues	
Lewisham DLR	1995	Light rail	Extension	142	Built	
Total value				20179		
Value terminated				19562		
% terminated				97%		

LU=London underground; DLR=Docklands Light Railway. US$ values estimated using exchange rate of USD$1.50 =£1)
Source: TfL evidence to parliamentary Treasury select committee 2011
http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146we05.htm;
TfL news releases http://www.tfl.gov.uk/corporate/media/3119.aspx

The failure of Metronet

- “The return anticipated by Metronet’s shareholders appears to have been out of all proportion to the level of risk associated with the contract…”
- “In terms of borrowing, the Metronet contract did nothing more than secure loans, 95% of which were in any case underwritten by the public purse, at an inflated cost…”
- “Metronet’s inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale..”
- “The Government should remember the failure of Metronet before it considers entering into any similar arrangement again. It should remember that the private sector will never wittingly expose itself to substantial risk without ensuring that it is proportionally, if not generously rewarded. Ultimately, the taxpayer pays the price…”
- “we are inclined to the view that the model itself was flawed and probably inferior to traditional public-sector management. We can be more confident in this conclusion now that the potential for inefficiency and failure in the private sector has been so clearly demonstrated. In comparison, whatever the potential inefficiencies of the public sector, proper public scrutiny and the opportunity of meaningful control is likely to provide superior value for money. Crucially, it also offers protection from catastrophic failure. It is worth remembering that when private companies fail to deliver on large public projects they can walk away—the taxpayer is inevitably forced to pick up the pieces.”

(UK House of Commons Transport Committee January 2008)

New developments: Europe

Country	City	Service	
UK	Nottingham, London	Energy	New municipal supply companies eg Robin Hood Energy https://www.robinhoodenergy.co.uk/ , Switched On London http://switchedonlondon.org.uk/
UK	Hinching-brooke	Healthcare	Hospital privatised to Circle in 2012, terminated 2015 http://www.psiru.org/sites/default/files/2015-01-H-Circlebriefing.pdf
Germany	Hamburg	Energy	Remunicipalise electricity/gas/heating networks 2011-2019, with transparency, public participation Hamburg – European Green Capital
Estonia	Tallinn	Public transport	Free public transport since 2013 Guardian 11/10/2016
Poland		Pensions	Renationalise pension funds (also Hungary, Argentina)

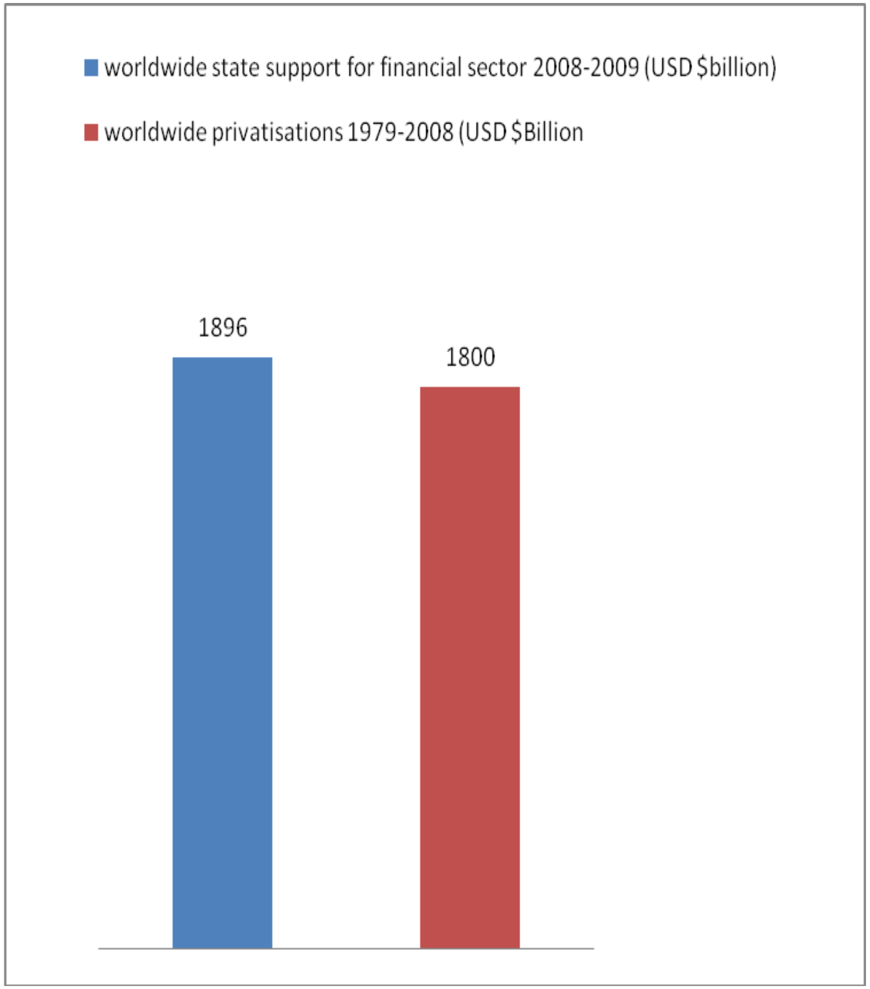
New developments: outside Europe

- **Colombia: Medellin's infrastructure reclaimed as public space**
  - dark and dangerous sites in the peripheral areas of the city corresponded to more than a hundred energy and water infrastructure sites, owned by municipal company EPM. EPM and the city council worked together to inject new public spaces and sources of light into the neighbourhoods while maintaining a fully functioning infrastructural network: *Unidades de Vida Articulada (UVA)*

- **Canada: municipalities bring range of services back inhouse**
  - 15 Canadian municipalities have ended outsourced contracts for a range of services and re-municipalised the work. The services include water and wastewater, refuse collection, snow removal, sidewalk construction and repair, recreation arenas, police and fire infrastructure. The main reason was cost and efficiency

- USA: Public delivery remains the most common form of service delivery across local governments in the US
  - 60% of services in USA municipalities are provided by inhouse employees

Nationalising the banks



- Public ownership and public finance rescues banks in USA, UK, France, Italy, Spain etc etc
- "an unparalleled transfer of risk from the private to the public sector". (IMF 2008)
- "These leaders... are using the state to defeat the marketplace's most dangerous historic enemy: widespread depression. And they are right to do so." (Financial Times 2008)
- Spain has recovered only €2.69bn of the €53.55bn it spent on bailing out the country's banking system in 2012 (FT 06/09/2016)

Why public? Reasons given by municipalities

- Achievement of public service objectives
  - most important factors in energy re-municipalisations in Germany were greater degree of control and effective delivery of public service objectives
  - Same for other German insourcing, UK insourcing, French water remunicipalisations.
  - Key objectives left-green: energy, water, transport
  - note also fair pay and employment as objective

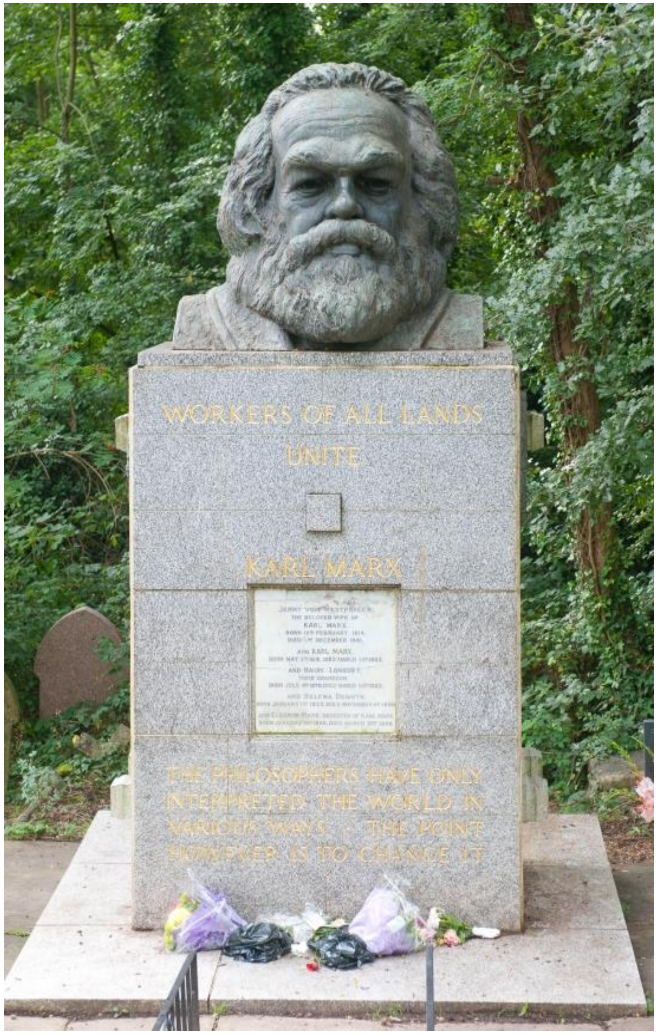
- Efficiency
  - expectation of savings is a key factor e.g. UK munics reduce costs and improve efficiency/flexibility by bringing work back in-house
  - water re-municipalisations in France partly driven by an expectation of greater efficiency, demonstrated by the 8% price reduction in Paris.
  - Private sector failure can force municipalisation eg London PFIs, banks
  - Empirical evidence: no systematic efficiency difference public-private

- Planning
  - both Paris water and London transport found large gains from systematic and long-term plans, which private companies did not have

Economic and political problems of privatisation

- Under-investment, over-charging, pressure on labour
  - under-investment: common problem across sectors eg telecomms
  - over-charging: prices invariably rise, to increase profit eg water
  - labour: reducing numbers, pay, conditions, unions: more precarious
- Higher cost of capital
  - Dividends and interests rates higher
  - E.g. remunicipalisation of London transport PPPs was extended to other PPPs because of the savings from refinancing with public money
- Higher transaction costs: tendering, monitoring
  - Key reason for keeping work inhouse: note Coase wins Nobel prize 2016 for theory why firms do not outsource everything, same applies to e.g. prisons
- Political problems: corruption, mistrust
  - Privatisation creates great incentive for corruption –one possibility to capture 20 years profit eg water France, Italy, USA
  - even in UK 60%+ want water, energy, rail to become public

Two lessons from the grave of Karl Marx



- **Lesson 1: private companies exit if no profit**
  - In 1836 new cemeteries opened by London Cemetery Company. People pay for a grave. Karl Marx buried in Highgate Cemetery.
  - The company made proft in the 19th century, less profit in 20th century, collapses in 1960, cemeteries became derelict.
- **Lesson 2: public value is not the same as market value**
  - Highgate cemetery has great public value: for families, and as cultural landmark.
  - But it has no market value at all: “Highgate Cemetery is **inalienable, has no open market value,** and as a result, **no value is reported for this asset** in the Balance Sheet.” Friends Of Highgate Cemetery 2015 Section 1.8

Vision and future

- Public services and new political vision
  - Re-shaping economy and society for people
  - Different from Trump/Clinton, neoliberals, old sd parties
  - Public services as a different economy: driven by solidarity, planning, democratic controls

- Economic vision and policies
  - Public goods at centre e.g. employment (and role of public sector in future employment), health, education
  - challenge relative roles of public goods and market
  - How and why support and regulate market economy? E.g. is finance sector failing to provide public service of money?

- Democratic control and culture
  - New public systems with real transparency and public control

Some strategic issues

- Focus
  - Look forward not back eg renewables not thermal energy; social care not only acute healthcare; more and cheaper/free public transport
  - Create new bodies and systems, need not just buy old ones eg energy cos
  - EU framework: exists as real constraint eg energy market, procurement directives, but push boundaries of what is possible
  - Make new democratic structures:
    - Governance eg Hamburg energy
    - Openness eg Paris water
  - Protect for future e.g. referendum required before any privatisation (New Orleans); inalienable property

- Compensation:
  - Don't believe what finance sector say re compensation: eg UK law says parliament can fix whatever it thinks reasonable
  - Note other factors and arguments for limiting compensation e.g. past state subsidy/gift/tax relief; performance audit of concessions/contracts

- Compensation and focus
  - Don't buy stuff which is becoming obsolete eg thermal power plants

Part 2: Public services, economy and future

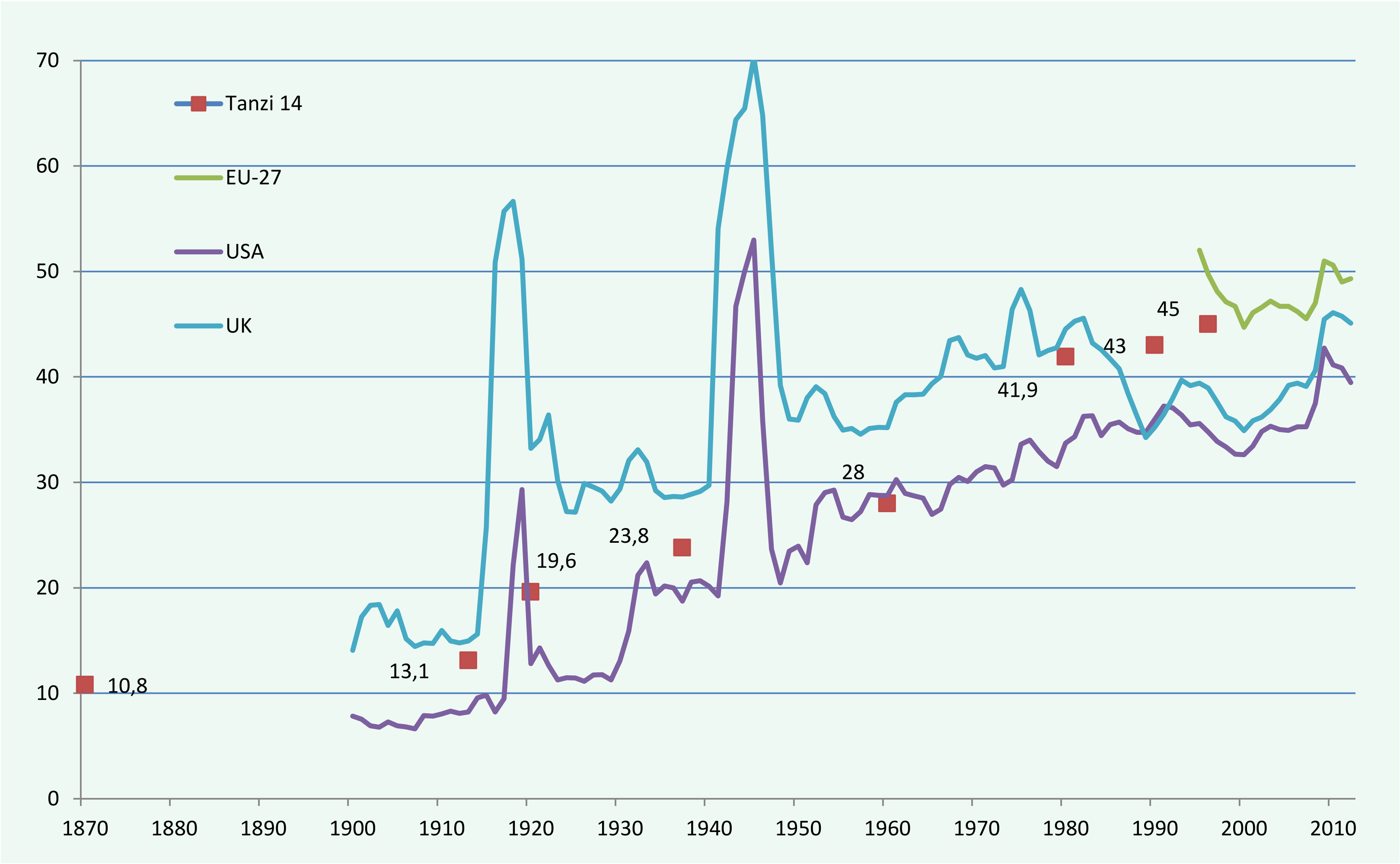
- Public spending and economy
  - Long-run positive connection (Wagner's law)
  - Efficiency and the public sector
  - the role of public employment
- Equality: the missing public services dimension
  - beyond income equality and equal distribution of wealth
  - the role of public services
- The public future
  - Alternative policies and public goods: health, social care, climate change, economic development
  - Political organization and international institutions

Public spending linked to growth, employment, development

- Long-term data shows that as GDP per capita rises, public spending as a % of GDP also rises
- These benefits arise from public spending, however financed, not simply the Keynesian macro-economic benefits of boosting demand by fiscal deficits.
- There are four key mechanisms explaining this link:
  - Infrastructure: Public spending is necessary for infrastructure investment, in which private capital underinvests (Calderon 2008), and also plays key role in financing innovative technology (Mazzucatto 2013)
  - Efficiency/effectiveness: public services are the most efficient way of producing many services e.g. healthcare (Beraldo et al 2009)
  - Productivity: is improved by a healthy, well-educated workforce and greater social stability (Gintis and Bowles 1982)
  - Increased consumption: public services are an efficient collective long-term insurance mechanism: public healthcare and social security allows people to spend more instead of using savings to protect themselves: “additional income in the hands of families with relatively high marginal propensities to consume” (Cameron 1982)
- Supports direct and indirect employment, improves conditions and security (and labour share)
- Public services/spending also key to ‘green’ development
  - Waste management policy and regulation framework
  - Direct investment, ‘feed-in tariffs’, and technology development for renewable electricity generation

Public spending: positive long-run link with economic growth

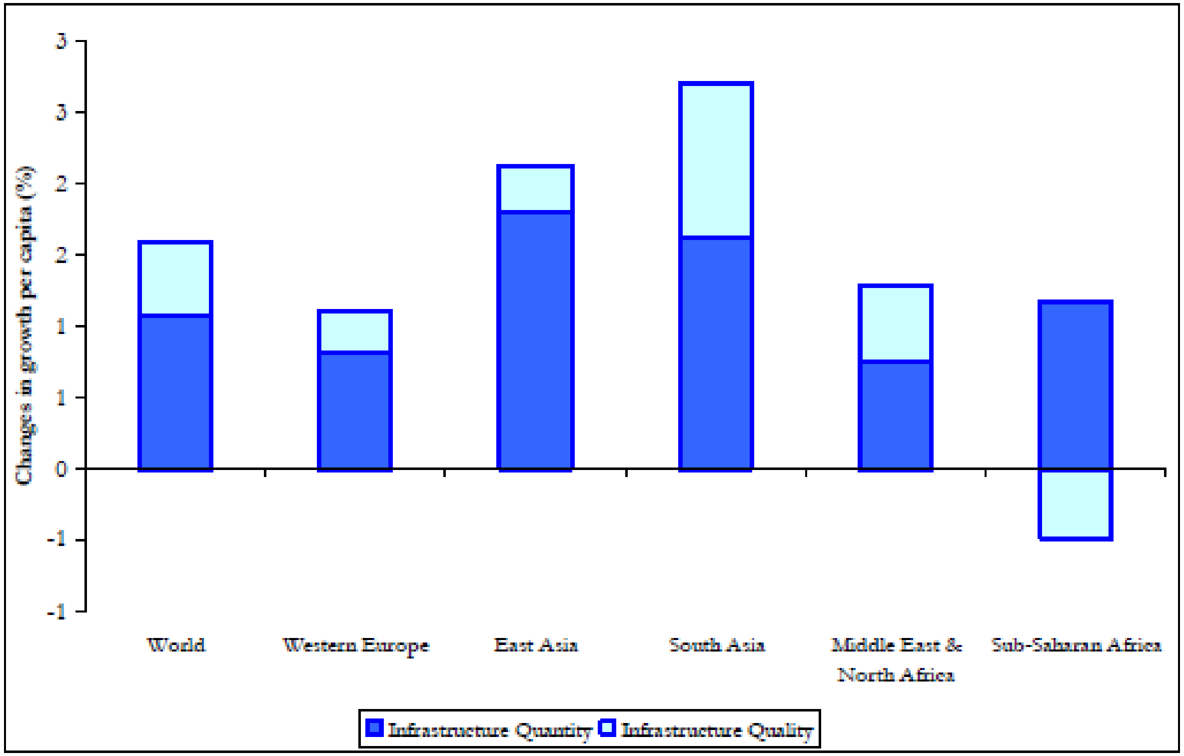
Government spending as % of GDP 1870-2012, high income countries (Tanzi 2000, USA 2013, UK 2013, Eurostat 2014)



Public spending and growth: infrastructure and innovation

- Infrastructure key for growth: OECD and developing countries
  - Key mechanism for investment in infrastructure is public finance through public sector, even in technically advanced privatised sectors
- Public finance also key driver of innovation e.g. iPhone: “All the technologies which make the iPhone ‘smart’ are state-funded … the internet, wireless networks, GPS, microelectronics, touchscreen displays and the latest voice-activated SIRI personal assistant.” (Mazzucato 2013)

Change in average per capita growth between 1991-1995 and 2001-2005 due to infrastructure development (Calderon and Serven 2008)



Public sector: no less efficient

- Across all sectors and all forms of privatisation and outsourcing the empirical evidence shows that there is no significant difference between the efficiency of public and private operators delivering the same service.
  - The private sector is not intrinsically more efficient.
  - The same result emerges from analyses of the results of studies focussing on specific sectors which have been subject to privatisation by sale or outsourcing: buses; electricity; healthcare; ports and airports; prisons; rail ; telecoms; waste management; and water." (Hall 2014)
- "It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services..... Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed." (IMF 2004)
- Studies of UK privatisations have concluded that there is "little evidence that privatisation has caused a significant improvement in performance" (Florio 2004)
- Telecoms: global comparative study finds: "privatizations exhibit weaker performance relative to public sectors … for up to 10 years" (Knayezeva et al 2013)
- Outsourcing: ": "it is not possible to conclude unambiguously that there is any systematic difference in terms of the economic effects of contracting out technical areas and social services" (AKF 2011)
- "In the short-run, outsourcing firms are able to reduce costs. In the long-run, firms that engage in outsourcing suffer lower productivity growth than firms that do not engage in outsourcing." (Windrum et al 2009)

Public sector and effectiveness

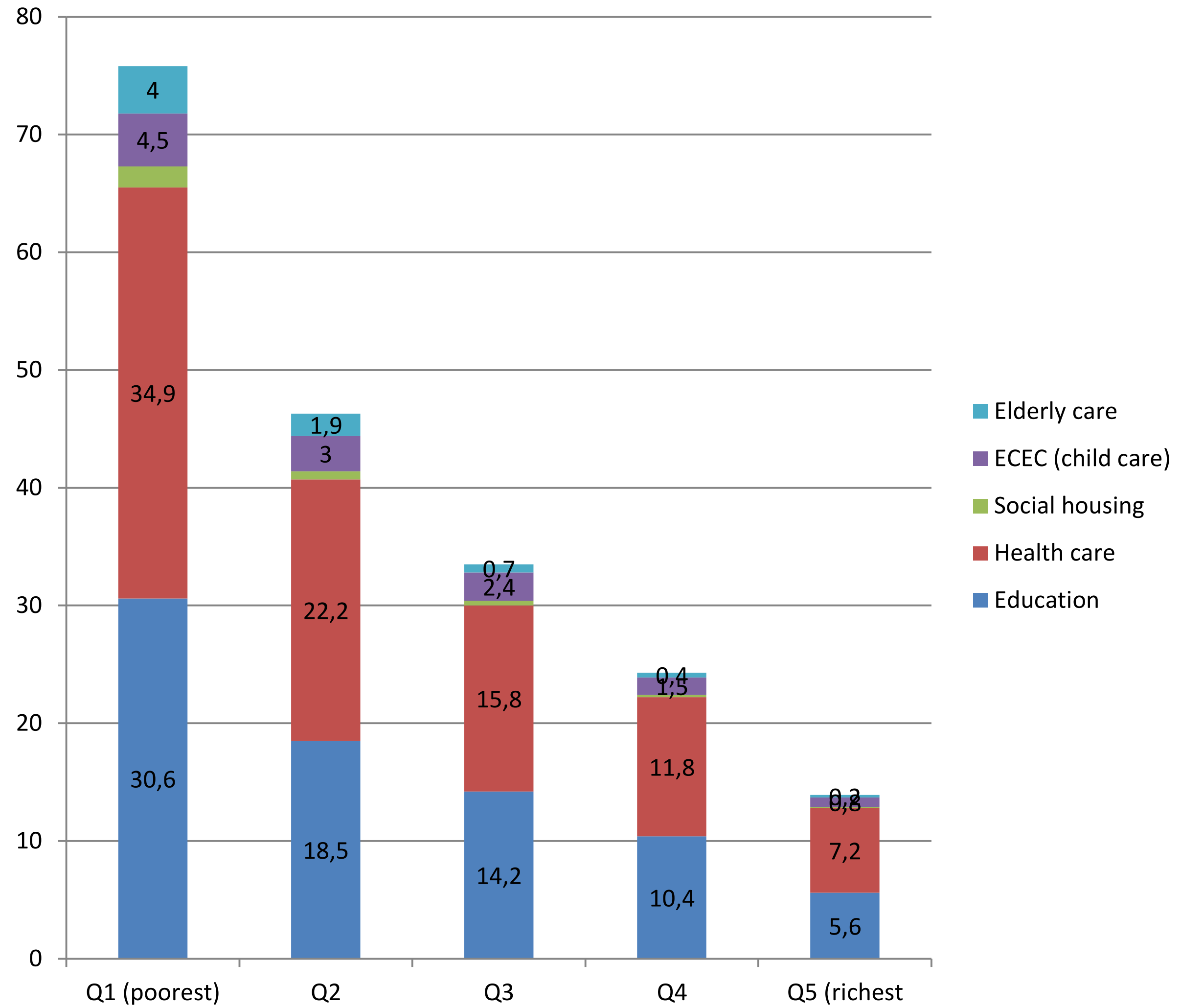
- Greater effectiveness of public spending on providing services e.g. healthcare :
  - Higher *public* spending on healthcare produces better health outcomes for everyone.
  - But higher *private* spending on healthcare has the opposite effect – because it makes healthcare less affordable.
- An analysis of 163 countries found that "an increase in public funds is significantly correlated with a lower infant mortality rate" but "private health care expenditure is associated with higher, not lower, infant mortality rates" (Tacke, Tilman, and Robert Waldmann. 2011. 'The Relative Efficiency of Public and Private Health Care'. CEIS Tor Vergata RESEARCH PAPER SERIES Vol. 9, Issue 8, No. 202 – July 2011 SSRN eLibrary (July 5). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1879136 .)

Public and private healthcare in USA, Belgium, Cuba: spending and outcomes
Source: OECD Health Statistics 2013, www.oecd.org/health/

	Spending on healthcare (% of GDP)				
	Public	Private	Life expectancy (2010)	Infant mortality rate (2011)	GNI per capita US$(2011)
USA	8.29	9.10	78.2	6.4	48450
Belgium	8.17	2.71	79.9	3.5	46160
Cuba	9.72	0.91	79.0	4.5	5460

Public services: equality relative to disposable income

- In OECD countries, education, healthcare, social care for children and older people, and social housing, total 13% of GDP - more than the total value of social security benefits. (Verbist et al 2012)
- The equal distribution of benefits contrasts strongly with the unequal distribution of money incomes.
- As a result, public services are far more important to poorer households, and are equivalent to a substantial proportion of their disposable income - worth 76% of disposable income for the poorest 20%.
- Even for households around average income, they are worth an extra one-third on top of disposable income.



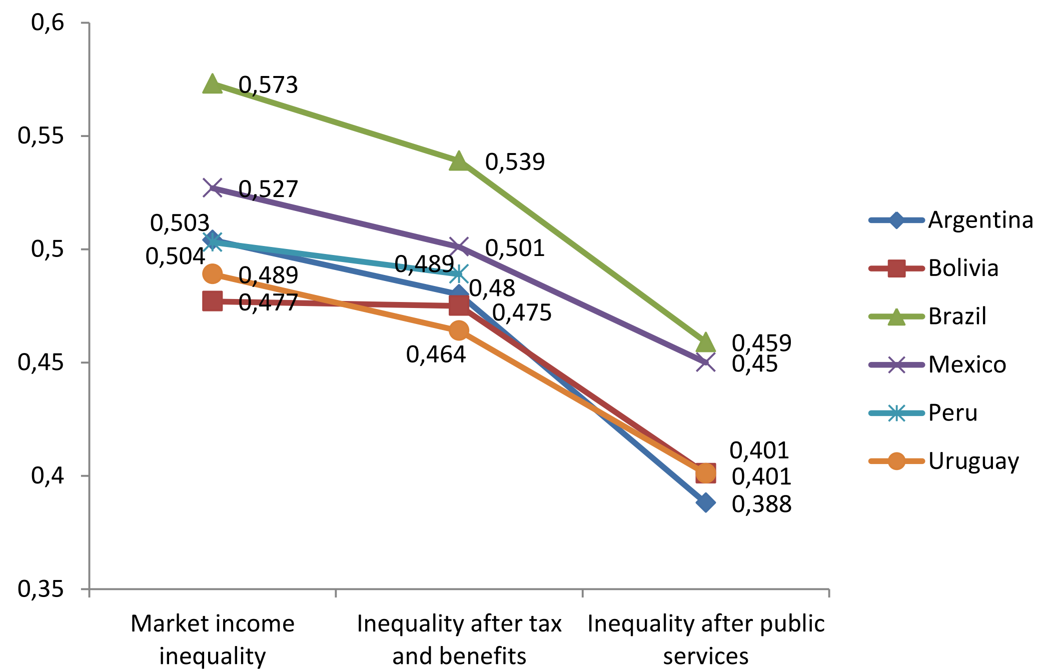
Value of public services relative to disposable income, 27 OECD countries (: calculated from Verbist et al p.35)

Greater equality impact than benefits

- A study of 150 countries from 1970 to 2009 found that spending on public health and housing has an even greater impact on improving equality than the same spending through social security benefits: "higher shares of GDP on social welfare, education, health, and housing public expenditures have a positive impact on income distribution, individually and collectively." (Martinez-Vazquez, et al 2012)

- Study of Latin American countries shows that public services reduce inequality even more than social security benefits (Lustig at al 2012-2014)

- **Impact on inequality of taxes and benefits, and public services (Gini coefficient, 6 Latin American countries) (Lustig et al 2012)**



Employment

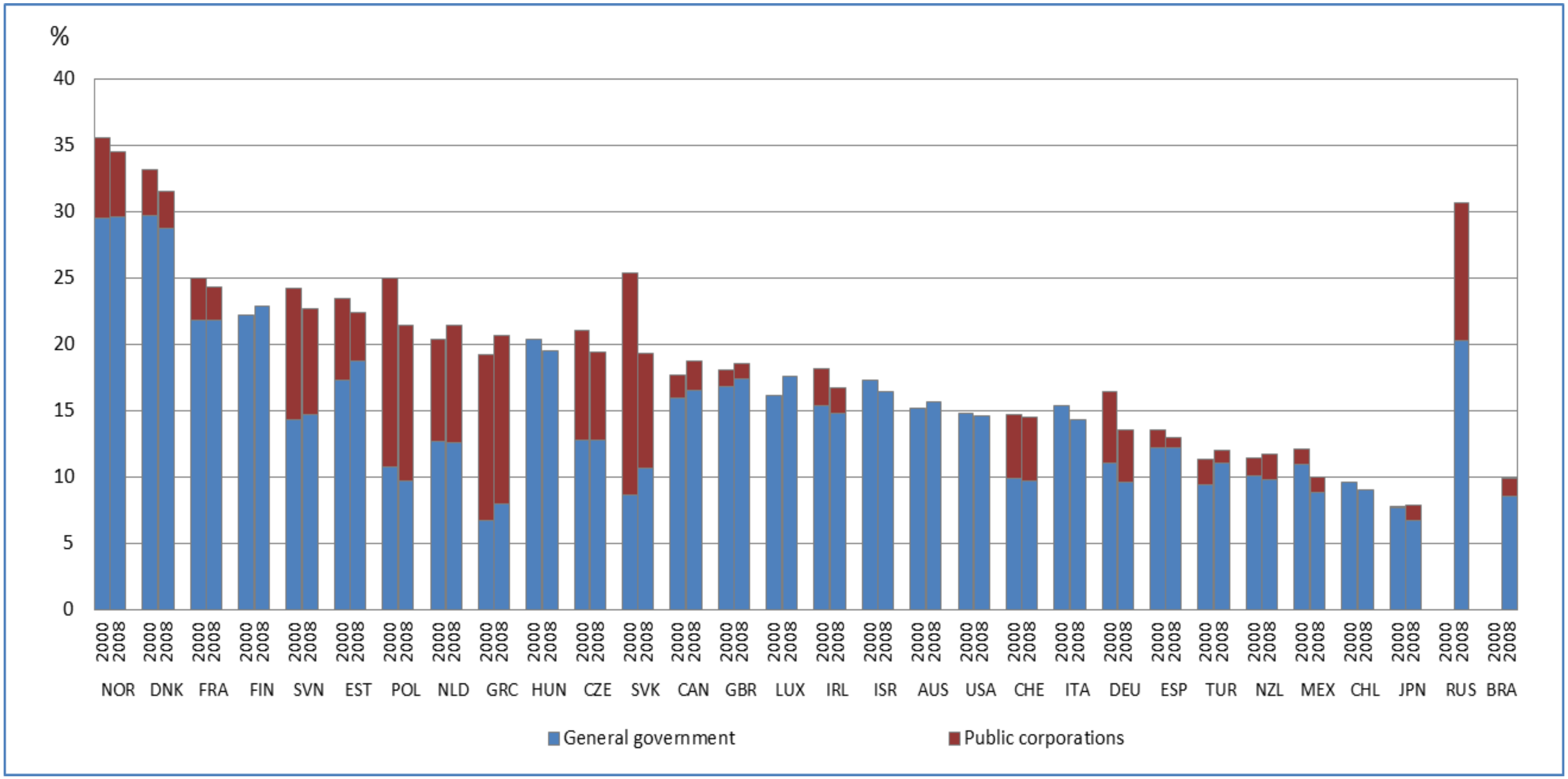
- Public spending supports employment in a number of ways:
  - direct employment of public service workers;
  - indirect employment of workers, by contractors supplying outsourced goods and services, employment of workers on infrastructure projects.
  - extra demand and jobs from the spending of these workers and of recipients of social security benefits (the ‘multiplier effect’)
  - subsidies to support employment by private companies, or by providing employment guarantees.

- combined effect: supports half the formal jobs in the world
  - decent pay and conditions, also ILO94: government procurement is used to require ‘fair wages’ from private contractors, to reduce gender and ethnic discrimination

- Privatisation, outsourcing and PPPs reduce the employment effects
  - By claiming a proportion of the relevant spending for profit/return on capital

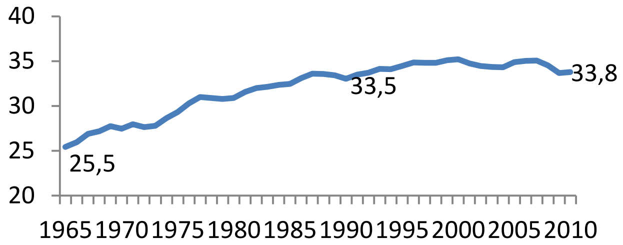
Public sector employment OECD countries

- **Employment in general government and public corporations as % of total labour force, 2000 and 2008, OECD countries (OECD 2011)**



Taxes – and scope for increase

Total tax as % of GDP 1965-2010 (OECD average)



- The table shows estimates of the potential extra revenues from taxes on high incomes, wealth, company profits, financial transactions, and from land and property.
- Total potential extra revenue equivalent to 11% of GDP.
- = huge increase in tax revenues: 33% in high income countries, 50% in middle income countries, 70% in low income countries.
- IMF estimates that government debt of all countries could be restored to the levels of 2007 by a general tax of 10% on private wealth (IMF 2013A)

- **Potential extra revenues from taxing the rich and companies (IMF 2013, Schulmeister 2009)**

Sources of additional tax revenues	Potential extra tax revenue as % of GDP	Source of estimate
Top incomes: higher rates	1.9	IMF 2013A
Wealth tax	1.1	IMF 2013A, Piketty
Property tax	3.0	IMF 2013A, Piketty
Financial transaction tax	2.0	Schulmeister 2009
Corporate profits tax	3.0	IMF 2013A
TOTAL	11.0	
Implied increase in tax revenue for:		
- High income countries	+33%	
- Middle income countries	+50%	
- Low income countries	+75%	

Problems and contradictions with privatisation

- There are systemic incentives for private companies to underinvest, underperform, and be selective
- They can and do exit if activity is not profitable

Future: more public spending, more public services

- Globally, public spending will rise because :
  - economic development needs public infrastructure/services
  - climate change will add 1.5%-5% of GDP to public spending levels
  - pensions and healthcare for ageing populations will add 4.5% of GDP
  - restoring economic growth and reducing unemployment in OECD countries requires new increases to public spending
  - There is great scope for major increases in tax revenues

- Public services advantages
  - democratic systems for delivery of public objectives
  - can use solidarity finance via tax-spending, national insurance
  - direct provision allows control, planning, flexibility, efficiency
  - direct public sector employment

Reasons to expect a more public future

- Trends from private towards public
  - Germany (energy+), France (water+)
  - Prices, monopolies, trust, public accountability
  - EU liberalised markets not working, USA deregulation halted after 2001
  - Renewables: easy entry for local co-ops, farms, municipalities
  - UK initiatives for municipal supply companies eg Robin Hood Energy https://www.robinhoodenergy.co.uk/ , Switched On London http://switchedonlondon.org.uk/

- Public guarantees/finance key for energy investment
  - Renewable generation: investment or feed-in tariffs (FITs)
  - Nuclear e.g. Hinckley Point
  - 'Capacity contracts' via National Grid for existing power plants

- Globally, public spending will probably rise because :
  - ➢ economic development needs public infrastructure
  - ➢ climate change policies add 1.5%-5% of GDP to public spending
  - ➢ great scope for increases in tax revenues : IMF says 11% of GDP

Alternative policies: increased infrastructure, services

Figure 3. Impact of the German fiscal stimulus on GDP

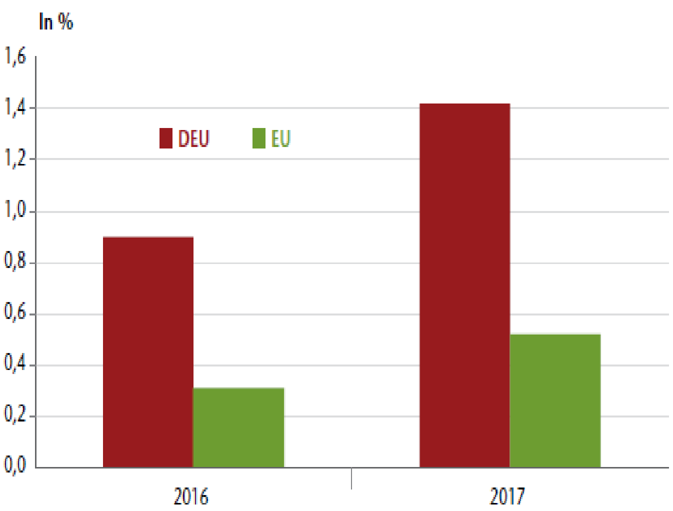
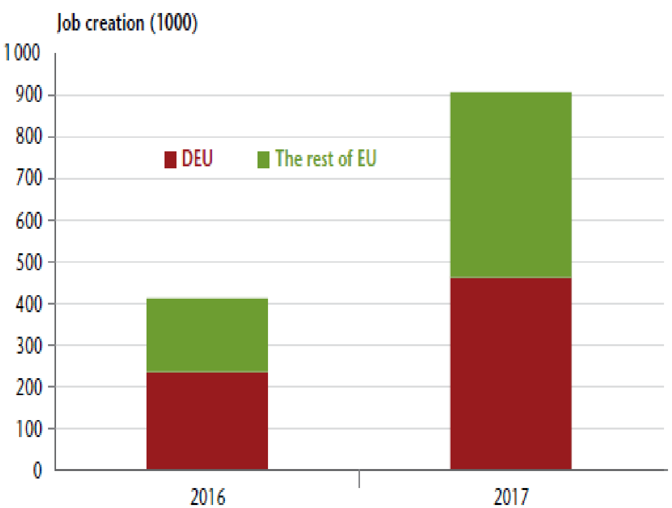


Figure 4. Job creations after the German fiscal impulse



Note: Accumulated effects.
Source: Calculations with HEIMDAL.

- All advanced economies have developed a dense network of interacting non-market and interventionist institutions. The welfare outcome of changing such institutions in an apparently market-oriented direction is therefore ex ante unclear…
- …The calculations show the effects of a once-and-for-all rise in public investment in Germany by 1 percent in 2016 (roughly equivalent to a rise of 30 billion €) [financed by deficit].
  - (iAGS independent Annual Growth Survey Fourth Report 2016: for Euro Area http://www.iags-project.org/documents/iags_report2016.pdf)
- "Neither monetary policy nor the financial sector is doing what it's supposed to do…….large increases in public investment in infrastructure, education, and technology will be needed. These will have to be financed, at least in part, by environmental taxes, including carbon taxes, and taxes on the monopoly and other rents that have become pervasive in the market economy – and contribute enormously to inequality and slow growth."
  - Stiglitz, Joseph E. and Rashid, Hamid 2016. 'What's Holding Back the World Economy?' *Project Syndicate*. February 8. https://www.project-syndicate.org/commentary/whats-holding-back-the-global-economy-by-joseph-e--stiglitz-and-hamid-rashid-2016-02
- policymakers have a variety of options ….some governments [Iceland, Ecuador] are actually increasing subsidies and the wage bill, and expanding coverage/benefits of social protection and health, despite their contractionary fiscal environments
  - Ortiz and Cummins 2015 http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53192

Alternative policies: green, care,

- “The public debt is not our major worry. The more urgent need is to increase our educational capital and prevent the degradation of our natural capital….this would represent public spending on a vast scale, far vaster than any previous public spending by the rich countries”
  - Thomas Piketty, Capital in the 21st Century

- …A caring economy, where care for people as well as for the environment is the central objective, means that any progressive policies should not only focus on investing in physical, and in particular green, infrastructure but also on social infrastructure…. policies must be developed in order to enhance the quality of jobs in the social services sector.
  - Rémi Bazillier, Giovanni Cozzi, Amandine Crespy, Ferdi De Ville and Angela Wigger. 2015. ‘Alternatives to Neo-Liberal Austerity’. In *Progressive Structural* SOLIDAR. http://solidar.org/IMG/pdf/2015_11_30_social_progress_lab_struc_reforms.pdf

Democratic process and democratic control

- Political organisation for alternatives will involve conflicts with main international institutions: European Commission, IMF, OECD, World Bank
  - Global institutions matter to Europe too e.g. IMF has been involved directly and indirectly in austerity packages for many EU countries
  - Reversing EU rules on balanced budgets etc requires EU-wide political organisation

- Also need to democratise national processes, re-invent political institutions/parties

Privatisation, public services and beni comuni

- Public services as common goods
  - democratic systems for delivery of public objectives
  - Not only property/assets e.g. network, hospitals
    - Valued for rent/profit by private sector, but public value is use value as part of collective system
    - include eg legal system provides public space, human rights
  - Include public finance system able to invest and distribute
  - Include skilled labour force able to develop and deliver services

- Public objectives not commercial objectives
  - Universal access key form for effectiveness and equality
  - Public health, education, childcare, care of old people: for benefit of economy and social system, not just consumer good
  - Also environmental: waste management, renewable energy
  - also social: e.g. more equal pay structures, culture
  - Multiple objectives in some services e.g. public transport for social mobility, movement of workforce, reduction of congestion, reduction of pollution

Public service systems

- Public service systems cannot themselves be privatised
- Private companies cannot have public objectives
  - Can only pursue commercial objectives
  - Can only follow contractual or regulatory terms
- Privatised utilities, or PPPs, or outsourced contractors operate commercially with public benefits as externalities – they can and do walk away if activity is not profitable
- There are systemic incentives for private companies to underinvest, underperform, and be selective

Solidarity finance: pensions

- State/public sector pensions can rely on solidarity instead of funds
  - 'pay as you go' PAYG pensions mean that current pensions are paid out of current contributions
  - so contributions vary as pensions in payment change (in either direction)
  - Payments are guaranteed by solidarity across generations
  - No need for fund, or fund management, or returns
- Funded schemes instead use model of individual's own savings accumulated to pay her/his own pension later
  - forces accumulation and is at risk of returns
  - no solidarity, but extra costs of managing funds
- Unfunded PAYG pensions are much cheaper to run, and not exposed to risks of market

Solidarity finance: healthcare

- Public healthcare systems funded from taxation, free at the point of use
  - Solidarity principle that risk of illness is 'pooled', so all have predictable taxes, no expenses shock from illness
  - Everyone covered for all illness or injury, no exceptions
  - No incentives to avoid or reduce treatment (or to encourage unnecessary treatment)
- Private insurance based on principle of individual payments cover only the individual
  - So insurers charge more, or reject, high risk people
  - Also accumulates funds from contributions, returns cover cost of payouts; incentive to refuse to pay treatments
- Private hospitals have incentive to over-treat
  - Unnecessary appendectomies, hysterectomies, etc

Solidarity finance: water - investment without capital

- Brazil Porto Alegre DMAE wastewater treatment 2002: 18% rise in water and sewerage bills, participatory budgeting gets public agreement

- Toronto 1930s-1950s: water and sewerage built using city taxes, uses 5-20% of total

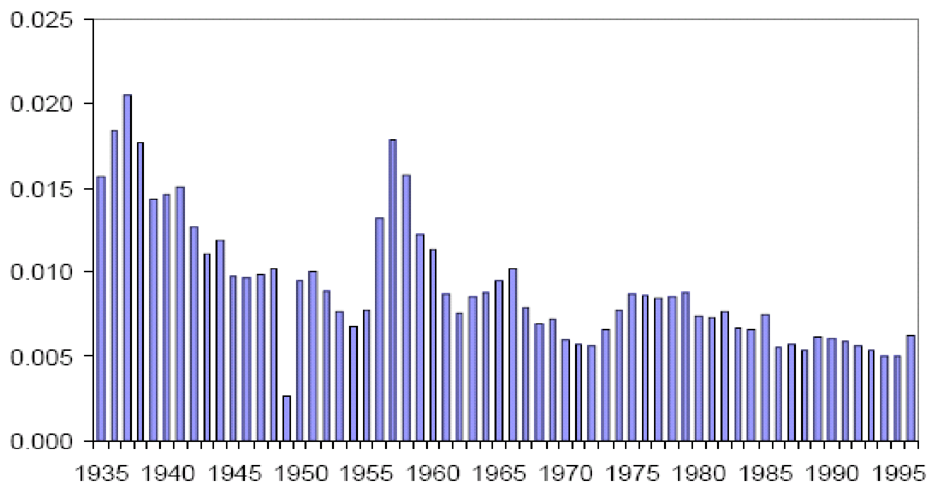


Figure 9. Ratio of total water and sewer expenditures (capital and operating) to total income

- London 1856 and 2012
  - 1856: creation of Met Board of Works as institution, finances/builds interceptor sewers in London within 2-3 years using rates
  - Cf 2012 Thames Water plans investment in new 'super-sewer' by increasing charges to consumers and govt guarantees for mobilising pension funds to lend money on favourable terms: will provide 25% return on capital for Thames

Control, planning and accountability

- Direct public provision allows for managing services with longer-term focus on public objectives
  - Many remunicipalisations in Germany, France and the UK were undertaken primarily to improve control and efficiency in delivering public objectives

- In private and public sectors, sustainable efficiency gains require the long-term capacity for re-organisation and re-invention of processes and inputs to achieve the desired objectives in response to changing requirements – and this process is weakened by outsourcing because: "outsourced activities are no longer available for splitting and recombining with other activities into new, more effective organisational modules."
  - Private manufacturing companies which rely more on outsourcing have worse productivity performance

- Transport for London (TfL) has been able to make large efficiency gains since remunicipalising its PPPs for the London underground metro system. The workforce became directly employed and managed by TfL, which achieved efficiency savings of £2.5 billion by removing duplication and improving back office services (£1.2bn.), competitively tendering sub-contracts which Metronet and Tubelines had awarded to themselves (£0.5 bn), and improving planning and scheduling (£0.8bn.).

- Since water services in Paris were re-municipalised in 2010, Eau de Paris, has been able to make efficiency savings by reducing the cost of sub-contracts, by rationalisation and merger of previously separate functions, by eliminating the profit margins of the private companies, and by overall improvements in coordination and planning. These efficiency savings have been used to finance investments and a sustainable wages bill, as well as reducing the price of water by 8%. The city has also created a set of mechanisms to ensure it is constantly responsive to its public objectives, including a long-term 'contract of objectives' with the city council, an inddpendent observatory for public participation in debates, and a consultative committee for representative bodies.

References

- Bel, Germa. 2006. 'The Coining of "Privatization" and Germany's National Socialist Party'. *Journal of Economic Perspectives* 20 (3): 187–94.
- Bel, Germà. 2010. 'Against the Mainstream: Nazi Privatization in 1930s Germany1'. *The Economic History Review* 63 (1): 34–55. doi:10.1111/j.1468-0289.2009.00473.x.
- Hall, David 2014 Why we need public spending PSIRU http://epsu.org/a/10489
- Hall, David 2015 **Services of general interest under regimes of fiscal austerity PSIRU** **http://www.psiru.org/reports/services-general-interest-under-regimes-fiscal-austerity**
- Piketty,Thomas 'Capital in the 21st century' 2014
- 'iAGS_2016.book - iags_report2016.pdf'. 2016. Accessed February 9. http://www.iags-project.org/documents/iags_report2016.pdf
- Isabel Ortiz, Matthew Cummins, Jeronim Capaldo, and Kalaivani Karunanethy. 2015. 'The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries'. ESS Working Paper No. 53. ILO and Columbia University and the South Centre IPD. http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53192
- Verbist, G., M. Förster and M. Vaalavuo (2012), "The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods", OECD Social, Employment and Migration Working Papers, No. 130, OECD Publishing. http://dx.doi.org/10.1787/5k9h363c5szq-en
- Stuckler and Basu 2013 The Body Economic: Eight experiments in economic recovery, from Iceland to Greece. Allen Lane 2013 http://www.penguin.co.uk/books/the-body-economic/9781846147838/ ; How Austerity Kills. New York Times 12 May 2013 http://www.nytimes.com/2013/05/13/opinion/how-austerity-kills.html?_r=0