

# The Provision of Public Services in Europe

Between State, Local Government and  
Market

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# 11. From public sector-based to privatized service provision. Is the pendulum swinging back again? Comparative summary

**Hellmut Wollmann and Gérard Marcou**

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The research group set up by GRALE with the support of the Villa Vigoni programme has investigated reforms and trends in municipal services in four European countries that reflect very different administrative traditions. The shift from public sector to privatized service provision is common to all countries, although it is less salient in France, where the private sector has been involved for a long time. Nevertheless, there is some indication that we might once again be at a turning point, with the pendulum swinging back to the public sector. This development can be summarized in four steps.

First, in line with the historical approach referred to in the introductory chapter, the historical roots of public/social service provision in the local government tradition and their profile in the advanced welfare state in the 1960s and 1970s are briefly recalled.

This is followed by summaries of the findings of the policy field chapters.

Convergence and divergence in institutional developments since the 1980s are then discussed on the basis of the sectoral policy chapters.

Finally, we consider whether traditional local government has been replaced or essentially modified by local governance.

## **HISTORICAL BACKGROUND OF PUBLIC SERVICE PROVISION**

Historically, public utilities and social services were largely provided by local government or local charitable organizations. From medieval times, local authority responsibility for the 'local poor' made social assistance

and care a crucial local commitment. In the face of the mounting sanitary and infrastructural problems caused by rampant industrialization and urbanization in the course of the nineteenth century, local authorities also came to play a key role in the provision of public services (e.g. water and energy supply, sewage disposal). Critically labelled 'municipal socialism' by contemporary conservatives, the multifunctional profile of local government amounted to an early form of a 'local welfare state' (*den lokale staten*, Pierre, 1994) that foreshadowed the emergence of the national welfare state.

There were three main aspects to the advance of the national welfare state, which, showing the handwriting of social democracy, climaxed in the 1960s and early 1970s in most countries.

First, the public sector in the advanced welfare state had extensive functions and responsibilities centred on a broad range of public and social services.

Second, functions were expected to be carried out by the public sector, that is, by public sector organizations and personnel, with the non-public non-profit and private for-profit sectors playing at best an ancillary role. The fixation on public sector delivery came first from a belief that public administrative structures and personnel were equipped (by 'self-sufficiency'; see Stewart, 2000, p. 51) to carry out the tasks in a professional and trustworthy way. Furthermore, the rationale was that elected representative bodies (parliaments and local councils) could thus best guide and control activities for the common good and in the best interests of the public (see Wollmann, 2004, p. 255 ff.).

Third, welfare state policies and services were implemented by a Weberian bureaucracy bound externally by legal rules, with hierarchical internal structures and professionalized personnel.

Whereas the institutional development of the advanced welfare state and its public sector exhibited these three aspects, which from a cross-country perspective constitute an ideal-typical, convergent macro trend, the countries under study showed significant divergence in institutional development at the micro level, mainly attributable to differences in historical tradition and path-dependence (as suggested by 'historical institutionalism') and country-specific actor constellations (as proposed by 'actor-centred institutionalism') (on the variants of 'neo-institutionalism'; see Chapter 1).

Few examples are needed to illustrate such divergence within the generally convergent macro trend.

After 1945, the macro trend towards public sector delivery of a broad range of functions and services was particularly pronounced in the UK, where, under a ('semi-socialist') Labour government, energy was

nationalized in 1947, water supply in 1948, and the National Health Service was introduced in 1958. In postwar France, too, energy was nationalized (in 1946) by establishing state-owned monopolists (EdF for electricity and GdF for gas). In striking contrast, energy provision in Norway has remained the exclusive domain of a multitude of municipal hydropower companies. In Germany the energy market has been dominated by largely private capital energy companies, with municipally owned companies (*Stadtwerke*) playing a considerable role.

There is also significant divergence between the countries under study in the provision of social services within the institutional framework of the advanced welfare state.

The UK was again at the forefront in putting the public sector (local authorities) in charge of social service delivery by in-house administrative units and personnel. Until decentralization in 1982, social services in France (funded by *aide sociale légale*) were similarly delivered mostly by state employees and non-profit organizations at the level of the *département*, although largely financed by the *conseils généraux*, the elected assemblies of the *départements*. The situation has differed in Germany, where, under the 'subsidiarity' principle (a compromise between State and Church in the nineteenth century) the lion's share of social services have been provided by non-public, non-profit organizations.

Finally, the countries under study also differ in public/municipal administrative structures. The common law and civil culture tradition of Anglo-Saxon and, to some degree, Scandinavian countries and the Roman law and rule-of-law tradition in continental European countries differ strongly, each providing a quite different cultural and legal setting for public administration (see Wollmann, 2000, pp. 4 ff., Pollitt and Bouckaert, 2004, pp. 52 ff.).

In the following analysis of institutional developments, the starting conditions in each country, the given mix of commonalities and differences between countries need to be taken into account to ascertain the rate and direction of convergence and divergence in policy and services.

## CHALLENGES TO THE ADVANCED WELFARE STATE AND SERVICE DELIVERY SINCE THE 1980s

Since the 1980s, the model of the advanced welfare state and public sector service provision that had developed between 1945 and the early 1970s largely under social democratic auspices has been challenged and partly dismantled in three crucial dimensions:

- the functional scope of the advanced welfare state has been criticized as an excessive burden on public finance and hence on private business, and lean government has been propagated, involving the transfer of major functions to the private sector, with government limited to an enabling role in service provision;
- public sector dominance, if not monopoly of service provision, has been criticized for causing inefficiency; the introduction of market, or market-like, structures and privatization to provide competition has been promoted as the key to efficiency;
- the traditional Weberian model of administration has been criticized for giving priority to externally legal correctness over cost-efficiency and to internal hierarchical routine over responsiveness.

Three overlapping political and conceptual currents have driven change since the 1980s:

- ‘neoliberalism’, first promoted by the Conservative Thatcher government from 1979, aimed at replacing the allegedly ‘excessive’ welfare state by ‘lean government’;
- the new public management (NPM) movement which, again originating in Anglo-Saxon countries, sought to replace public-sector-focused Weberian administrative structures by private sector managerialist concepts;
- finally, and most importantly, EU moves to introduce market competition in key public and social services in the single European market.

## SUMMARIES OF POLICY CHAPTERS

Against this background, the following summaries of the chapters on policy outline institutional convergence and divergence trends.

### ***Pre-school child care (Chapter 4)***

Pre-school child care displays strong similarities across the four countries (for example, similar approaches in child protection involving the courts and key roles for public agencies; a low level of child care provision in the early years with strong independent sectors; strong emphasis on pre-school education, with the main institutional provision linked with the regular education system, except in Germany).

In many respects, dissimilarities arise from differences in local government systems and/ or the relationship between central and local government,

such as relatively uniform systems in France and the UK (with different kinds of control and monitoring in the two countries, and stronger emphasis on this kind of service in France), variations between *Länder* in Germany, greater autonomy at the regional and local levels as a source of diversity in Italy.

The strong central policy drive towards pre-school education and child care to facilitate parental labour force participation is causing some convergence. In this respect developments in Italy, the UK and Germany may be reducing differences between their systems and that of France (action against de facto diversity in Italy despite central legislation, increased central control of local authorities in the UK and federal government intervention in family policy in Germany).

### ***Long-term Care (Chapter 5)***

Until the 1970s, the UK maintained an elaborate version of the advanced welfare state, with local authorities exercising a quasi-monopoly in social services delivery, including long-term care, through municipal personnel. The self-sufficiency rationale (Stewart, 2000) of in-house delivery was backed by the assumption that local authority personnel were best equipped to provide these services. This delivery pattern changed dramatically in the 1980s when the Thatcher government adopted the neoliberal procedure of 'compulsory competitive tendering' (CCT), obliging local authorities to put service provision out to tender, which resulted in extensive outsourcing of services, including social care, to external non-public, mostly for-profit providers. Although New Labour formally revoked CCT in the late 1990s, competitive outsourcing has persisted, replacing in-house provision by contracted-out delivery by a multitude of external providers.

Until the early 1980s, social services in France, funded by *aide sociale légale*, were delivered almost entirely by government personnel and non-profit private organizations under state supervision (at the *département* level). After 1982, responsibility for social services was transferred to local authorities (*collectivités locales*) at the *département* level in a major move to decentralize traditionally centralist government. These *collectivités locales* both stocked up human resources for direct service provision and increasingly contracted them out to external providers, mostly in the non-profit (*à but non-lucratif*) sector; but this has not been a dramatic change. Indeed, decentralization in this case has involved the horizontal transfer of functions from the *préfet* and field agencies of the social affairs ministry to the *département*, included transfer of human and other resources.

In Germany, social services provision has traditionally been shaped by the 'subsidiarity principle', under which it was primarily assigned to

private, non-for-profit organizations (so called ‘welfare organizations’, *Wohlfahrtsverbände*), which in the past divided local markets among themselves to form virtual oligopolies. Given the traditional preponderance of non-profit organizations, local authorities have played an ‘enabling’ role (in current NPM parlance), ensuring that such services are delivered at the local level and, where necessary, delivering them directly. In 1994 the federal Long-Term Care Insurance Act (*Pflegeversicherungsgesetz*) abolished the *Wohlfahrtsverbände* oligopoly in long-term care provision, opening the market to all providers: non-profit, for profit and municipal. This has profoundly changed long-term care provision. Domiciliary care, in particular, is now mainly delivered by private/commercial providers.

In Italy, too, personal social services were traditionally provided by non-profit, charitable organizations, often affiliated with the Catholic Church. Since the social reforms of 2000, which failed to clearly define institutional responsibilities in the intergovernmental setting, a plurality of providers, *comuni*, *province*, *regioni*, as well as the traditional non-profit organizations, have been involved.

### **Health Care (Chapter 6)**

Health care is the sector under study where decentralization has probably been most problematic. In most countries with well-developed welfare structures, the health system as a whole has tended to be managed centrally, with other actors, among them local and regional governments, being involved in various ways and to varying extents. However, decentralization in the health system does not mean devolution to local or regional governments, although this may have been the case, as in Italy; it can also mean decentralized sectoral service delivery organizations, with local authorities participating, as in France, albeit only as stakeholders, not policy-makers, and for specific functions within the system.

It might be useful to consider the three countries under review and the role of local government in a wider, international context. Bruno Palier (2008, 2009) distinguishes three main types of health system: tax-financed national health systems; health systems based on health insurance and a mix of public and private infrastructure; and liberal health systems based on mainly private delivery and private health insurance, with only minimum public service provision. Systems do, of course, change, and countries may display features of several systems. In France, for example, the share of social contributions in the financing has diminished from 97 per cent in 1980 to about 56 per cent in 2007, whereas most of the rest has been covered by tax revenues. In Denmark and Sweden, in contrast, where health care has been financed mainly by tax revenues, the share



of social contributions increased significantly from 1990 to 2005 (Cour des Comptes, 2008). Of the countries under review, Italy belongs to the first category, and France and Germany, despite their differences, to the second.

Tax-funded national health systems ensure free access to health care for all citizens, and health care is organized by the state, but they may be centralized or decentralized with respect to local or regional government. In the UK it is centralized through the National Health Service, and was recently recentralized in Norway. In Sweden and Denmark it is decentralized at the county level (regions instead of counties in Denmark since 2007), and in Italy and Spain at the regional level. Systems based on health insurance may also be more or less decentralized. France and Germany belong to this category, as well as Belgium and the Netherlands. In these countries, services are decentralized to local health insurance agencies, and not to local governments, which play only a marginal role. In Germany, the system appears to be more decentralized because of the responsibilities assigned to the *Länder*, since they manage most government functions of domestic scope. In Europe, there are traditionally few countries with a liberal health system: Ireland is one, but this system was widely adopted in Eastern Europe after the collapse of socialism. However, common to all systems is the marginal role of municipal government and the upper tier of local government (*département/provincial/Kreis*), even if there is some room for local initiative.

This situation is a departure from historical practice and is the result of central government expanding social protection in all three countries. Where decentralization has been addressed in recent reforms, it is in managerialist terms rather than in terms of territorial decentralization.

However, the three countries differ basically in four regards: financing (taxation in Italy; insurance in Germany and France); the scope of the public sector (high in Italy and France, medium in Germany); the degree of centralization in decision-making (high in France, medium in Italy, mixed in Germany); the role of professional groups (strong in Germany, medium in France, low in Italy). But all three are under constant pressure to reform to cope with demographic developments and financial constraints. They are in search of a new balance between competition (with quasi-market procedures) and cooperation (for greater economies of scale), between centralization of health system management to meet financial challenges and decentralization of delivery to increase provider efficiency. The three countries also differ in the relationship between social and health care: whereas the two are quite separate in the UK, they are closely interlinked in Italy on the basis of health districts; and in France there is a move to link these two functions, with the *départements* in charge of social care and the new regional health agencies established by the new

law of 21 July 2009 in charge of both regional health care and regional medicalized social care.

In Italy, regions (*regioni*) are now the main players, with responsibility for financing, planning and organizing the provider network, subject to central regulation to enforce constitutional rights and supervise expenditure. However, municipalities are only ‘consultants’, directors of local health authorities subordinated to the region. In France, hospitals were originally local public corporations headed by the mayor; over time, mayors have lost all control of hospitals, but have opposed redundancies in the health system. Decentralization has transferred mother and child health protection (*protection maternelle et infantile* – PMI) to *départements*, as well as the fight against ‘social plagues’, but the latter was recentralized some years later. Municipalities may be in charge of several public health tasks through their ‘hygiene boards’ (vaccination). The law of 2004 transferred several areas of health personnel training to the regions, and made it possible to co-finance hospital investment, but this has not been successful. For Didier Truchet, the main trend in the health system is centralization, which decentralization reform will not reverse (Truchet, 2004). This view has been confirmed by more recent reforms, even if municipal ambulatory health care is supported by the new law, especially in deprived urban and rural areas, and despite the fact that municipalities are sometimes involved in local initiatives to overcome the lack of health practitioners in their area. In Germany, too, few service areas are organized and financed by local government; following recent reforms, their main roles are in supporting local psychiatric health care and planning ambulatory nursing services. The chief future role of municipalities will probably be to coordinate health and social care.

### ***Provision of Electricity (Chapter 8)***

In the UK, where in 1947 the Labour government nationalized the entire electricity sector, both local power plants and private power companies, placing the sector under the control of a government central board, another dramatic shift took place in 1989, when the Conservative government handed the public energy sector over to private companies in a wave of asset privatization. The 1989 legislation also introduced the concept of ‘unbundling’, namely, the institutional separation of the three key functions of energy provision (production, transmission, distribution/supply), establishing competition in the energy sector by ensuring competitive (discrimination-free) access to transmission grids. While the neoliberal shift from public to private sector electricity supply was exceptionally abrupt and complete, it provided a conceptual and institutional model for

subsequent similar, albeit less radical, moves in other EU member countries in 'marketizing' energy provision.

In Norway, where electricity had traditionally been provided entirely by the municipal sector, that is, by a large number of municipally owned hydropower companies (this exceptional circumstance being the reason for Norway's inclusion in the study), major changes in the system occurred in 1990. The hydropowered plants and short-distance transmission grid continued to be owned and operated by municipalities, but a national electricity agency was established as a key market mechanism that collects local power production, which it then sells to consumers at 'market-regulated' prices. Although Norway has formally remained outside the EU, the Norwegian marketization formula in the electricity provision concept has provided a model for EU member states.

As early as 1989, the Conservative UK government turned to wholesale asset privatization and competitive unbundling in pursuit of neoliberal innovation, and in 1990 the non-EU member Norway 'invented' a national market mechanism on the institutional basis of municipal hydro plants (see above). It was only in the course of the 1990s that other EU member states moved to make electricity provision in national energy markets more competitive. The EU played an increasingly active role in promoting this development, particularly by way of directives that EU member states were required to transpose into national legislation. The Acceleration Directive (2003/54 of 26 June 2003 and 2009/73 of 13 July 2009) obliged member states to unbundle transmission grids to ensure competitive, that is discrimination-free, access and establish national regulatory agencies to 'watchdog' competition.

The countries under study differ significantly in the timing and extent of measures taken in the course of the 1990s, depending on national particularities, especially specific starting conditions.

Since nationalization of the French energy sector in 1946, the electricity market has been dominated by the state-owned electricity company (EdF), while the small number of municipal energy corporations exempted from nationalization have played a marginal role. During the 1990s, the French government, arguably keen to maintain the position of the state-owned EdF in both national and international markets, was tardy in transposing EU directives. Although EdF was formally privatized in 2004 as a stock company (with a 30 per cent ceiling on private participation) and unbundling has been legally stipulated, EdF remains the dominant actor on the national energy market, whereas municipal companies may not expand and no new such enterprise may be established.

After nationalization of the Italian electricity sector in 1962, the energy market came to be dominated by the state-owned ENEL, while the

traditional municipality-owned, often multi-utility companies (*municipalizzate*), which were exempted from nationalization, continued to play a significant role. In 1992, in response to the EU's market liberalization drive, the Italian government transformed the formally privatized ENEL into a state-owned stock company, obliging it to sell shares to outside investors (material privatization). Also in line with EU directives, an independent regulatory agency (*autorità per l'energia elettrica ed il gas*) was set up in 1997 to monitor market liberalization. The municipal companies that avoided nationalization in 1962, particularly in big cities, have not only defended their position in the energy market but have recently extended it by, for example, buying into ENEL and expanding production and transmission resources. A certain degree of remunicipalization is thus in evidence in the electricity sector.

In Germany, electricity was provided by largely privately owned stock companies with the lion's share of the market and by municipality-owned, mostly multi-utility enterprises, in first place *Stadtwerke*. In the early 1990s, the first phase of EU-promoted market liberalization had the paradoxical effect of accelerating concentration in the energy market and ushering in the market dominance of the 'Big Four' (E.on, RWE, EnBW, Vattenfall, the latter being Sweden's state-owned energy company), which increasingly acquired *Stadtwerke* by way of 'asset privatization' (*Stadtwerkesterben* = *Stadtwerke* decline). Particularly in reaction to the EU Acceleration Directive of 2003, federal legislation required unbundling from the mid-1990s, and a federal regulatory agency (*Bundesnetzagentur*) was established in 2005 to oversee developments. Despite the continuing market dominance of the 'Big Four', the *Stadtwerke* have consolidated and even reinforced and expanded their role for a number of reasons. First, they have adapted to market competition. Second, most were not required to unbundle, because the federal government – intent on protecting them against additional competition – exempted companies with fewer than 100 000 customers. Third, and politically perhaps most important, a new coalition formed between the EU Commission, the federal government and German local authorities to check the dominance of the 'Big Four' by strengthening small companies, especially *Stadtwerke*. In fact, a trend towards remunicipalizing energy provision appears to be gaining momentum as *Stadtwerke* have expanded their operations, new *Stadtwerke* have been established, and local governments have been increasingly motivated to re-enter direct service provision upon expiry of concessions. At the same time, the 'Big Four' appear increasingly disposed to give up the minority holdings they had acquired in *Stadtwerke*. In sum, although the 'Big Four' still dominate the German energy market, the municipal sector appears to be regaining ground through remunicipalization and

expanding its market share, as evidenced by the recent spectacular acquisition of an E.on subsidiary by a *Stadtwerke* consortium for €3 billion.<sup>1</sup>

### ***Water Provision (Chapter 9)***

In the UK, water provision was transferred from a multitude of local enterprises to ten public regional water authorities in 1974, thus coming under indirect state control. In 1989, in line with the Conservative government's neoliberal faith in the private sector and market forces, water provision was privatized, being sold to private British and international companies.

In France, the municipalities (*communes*) have been traditionally responsible for water provision. Since the late nineteenth century, urban services have been developed primarily by various kinds of concession agreement, in particular for water supply. This was stepped up in the late twentieth century in the prevailing enthusiasm for private sector service delivery, despite disputes about payments to political parties. In 1993, legislation enforced transparency in contracting procedures. Direct water supply by a municipal enterprise is more widespread in smaller communities or joint authorities or in those with local resources. Seventy-two per cent of the population are served by private suppliers, among which three companies hold over 95 per cent of the market.

In Germany, water supply, also traditionally a local government task, is still highly fragmented, being operated by some 6500 enterprises, mostly in-house municipal administrative entities or formally privatized municipal companies, the latter primarily in the form of multi-utility *Stadtwerke*. Particularly for budgetary reasons, municipalities began during the 1990s to sell off their water facilities either fully or in part to both domestic and international private companies, such as RWE and E.on, Veolia Water – previously Vivendi – and Suez. One much-publicized example was the 50 per cent sale of the Berlin waterworks to RWE and Veolia in 1999. However, more than 80 per cent of the German population are still serviced by municipal water facilities. In the municipalities and cities concerned, for instance in Berlin, a public debate about the remunicipalization of water supply has recently been gaining momentum.

In Italy, too, water provision was a traditional responsibility of the individual municipalities (*comuni*). Because of the great number and comparatively small size of municipalities (8100 municipalities averaging 7200 inhabitants), this has caused the organizational 'pulverization' (Citroni's term) of water supply. In reaction to this development, in 1994 national legislation (*Legge Galli*) sought in 1994 to overcome this organizational

fragmentation by a scheme for the technical and economic optimization of water supply. ‘Agencies of optimal territorial scope’ (*autorità di ambiti territoriali ottimali*, ATOs) were established throughout the country with four main institutional features. First, they generally coincide territorially with the 110 *province*, with competence to define their territorial coverage lying with the *regioni*. Second, they are organized on lines similar to those of the intermunicipal bodies, *consorzi*, whose decision-making bodies are composed of the mayors (*sindaci*) of member *comuni*. Third, each ATO is expected to integrate the entire water provision cycle (source, transmission, supply, and wastewater disposal) horizontally in a single enterprise, private or public. Fourth, the commissioning and contracting out of these services is to be subject to competitive public tendering. In sum, the ATO concept is complex but remarkably innovative in that it aims to overcome the territorial and functional fragmentation of the entire water cycle, involving local actors (mayors) and introducing NPM-inspired competitive tendering. In view of the novelty and complexity of the scheme, it is no surprise that the ATO architecture has so far had a relatively slow start. By 2006, 91 ATO (of the 103 *province*) had been established, in a considerable number of cases with foreign companies as minority shareholders (see Chapter 9). As a result, there has been a privatization effect as the ATO scheme has opened up to the private sector and actually invited private companies, not least international water companies, to become involved.

### **Waste Management (Chapter 7)**

While waste collection and disposal was another classical local government responsibility prompted by sanitary and health concerns, waste-related issues have been on the national policy agenda since the 1970s, along with growing environmental concerns, and have also increasingly been taken up by the EU by way of directives with a particular focus on landfill reduction.

In Germany, the 1972 Waste Management Act (*Abfallgesetz*) introduced a distinction between household and industrial waste – with counties (*Kreise*) and county-free cities (*kreisfreie Städte*) being responsible for household waste, while industrial waste management, particularly recovery, was to put on the market as proposed by the EU. Municipalities have usually outsourced operations to municipal corporations and to mixed or private sector companies, the latter becoming more and more prevalent (see Bogumil and Holtkamp, 2006, 2008).

In France, waste management is the responsibility of municipalities, which outsource to municipal companies, often in the form of intermunicipal bodies (*syndicats*), and to external, mostly private, companies. While

just 13 per cent of waste management is handled by municipal companies, the lion's share goes to private companies, essentially two large private enterprises, Veolia-Environnement (formerly Compagnie Générale des Eaux) and STA-Suez (formerly Lyonnaise des Eaux).

In Italy, too, waste management was traditionally handled by municipalities (*comuni*) and intermunicipal bodies (*consorzi*). In response to widespread inefficiency, the Italian government introduced an entirely new institutional scheme of ATOs in 2006 on the same lines as those introduced in 1994 in the water sector. The territorial coverage of waste management ATOs is hence defined by the regions (*regioni*), and organized in intermunicipal form (*consorzi*), horizontally integrating the full waste management cycle and operated by a single company selected by competitive tendering. So far, the strikingly novel and complicated system of waste management ATOs has been slow in getting off the ground (see Citroni and Lippi, 2009). Inefficiency and corruption in waste management in the southern region of Campania prompted central government to install a special regime (*poteri commissariali*) in 1996 to regain direct control of waste management in the region (see Iannello, 2007).

In the UK, responsibility for waste management lies with counties and unitary authorities. Since 1990, they have established ('arm's-length') local authority waste disposal companies which have outsourced waste management to waste disposal contractors, either local government-owned entities or, in most cases, private commercial companies. In 1995, a country-wide regulatory quango, the Environment Agency, was established.

## CONVERGENCE OR DIVERGENCE?

The trends discussed invite a somewhat ambivalent, if not contradictory, conclusion. On the other hand the model of the advanced welfare state with its essentially public-sector-centred concept of service delivery has been profoundly affected by the combined onslaught of neoliberal concepts ('lean government'), NPM tenets ('marketization') and EU policy ('market liberalization'). Both the extent of public sector involvement and its organizational forms have changed enormously. A convergent mega trend is apparent from public-sector-based service provision to privatized, in part marketized, provision.

On the other hand, there is significant divergence between the countries under study in developments at the micro level within and notwithstanding this general trend with the role of local government differing significantly from sector to sector and country to country.

In key analytical dimensions, these shifts can be summarized as follows.

## Material/Asset Privatization

The public sector has retreated most conspicuously where government has abandoned public ownership and operation, and transferred assets to private ownership. The UK offers the most pronounced example. After nationalizing the energy and water sectors after 1945, Britain, in pursuit of neoliberal policies, led the way in the 1980s in selling off these sectors.

When, from the 1990s, France and Italy – having transformed their market-dominating, state-owned electricity enterprises into private stock companies – sold holdings to private investors, they fell short of significant asset privatization, particularly in the case of France.

## Formal/Organizational Privatization

Under formal/organizational privatization, also referred to as ‘corporatization’ (see Chapter 10), public services are transferred to organizations, which, while still publicly owned, particularly by local authorities, are organizationally and financially self-standing. In the past, local authorities often used such ‘para-public’ or ‘para-municipal’ entities to gain a measure of organizational flexibility. The Italian *municipalizzate* and German *Eigengesellschaften (Stadtwerke)* – often multi-utilities – are cases in point. This also applies to mixed or hybrid, public–private enterprises such as *sociétés d’économie mixte locales* (SEML) in France, which enable municipalities to establish cooperative ties with the private sector.

While corporatized forms of municipal service provision have long been well entrenched in local government practice, they have recently expanded significantly as local authorities, in obedience to NPM concepts, have sought to increase organizational and budgetary flexibility by transferring in-house activities to corporatized, municipality-owned entities. In German municipalities, for instance, up to 50 per cent of personnel were formally employed in corporatized units (see Chapter 10).

## Outsourcing, Contracting out, Commissioning

Outsourcing or contracting out describes an organizational form of public service provision in which the local authority is responsible for providing the service (in NPM parlance: ‘enables’ provision), which is, however, delivered by an external, non-profit, for-profit or public operator under a short- or long-term contract.

Outsourcing has long since been established local practice, particularly in France, where *gestion déléguée* now covers a wide range of contractual arrangements deriving from the former concessionary model with the



purpose of contracting out service delivery and eventually investment costs. Common to all variants is that a substantial proportion of the operator's earnings must come from operational results, so that the operator bears part of the risks. Such contractual arrangements have been used since the end of the nineteenth century for all urban services, especially water and energy supply, sewage disposal and urban transport. Public procurement contracts have also been used in contracting out service delivery under direct local government responsibility, in particular for refuse collection and waste management.

Since the 1980s, neoliberal policy and NPM approaches, introducing the imperative of competitive tendering, have reduced local authority in-house delivery of social services in favour of competitive outsourcing to external, preferably private, providers. After devolution of social services to the *département* level in France, contractual outsourcing also expanded. In Germany, too, the market for long-term care has been oriented on competitive outsourcing since 1994.

Such forms of contractual, in part competitive, outsourcing have been extended to an array of public services originally provided by local authorities themselves either in house or in corporatized form, and have increasingly been taken over by outside providers, often operating on a commissioned/contractual basis. Italy's ATO schemes for water supply and waste management, under which services are outsourced to outside providers by competitive tendering, have created a notable opportunity for outside providers.

### **Intra-administrative Managerialism**

Finally, mention should be made of local authority intra-administrative reforms since the 1990s, embarked on under the influence of the international NPM debate (see Chapter 3). To overcome shortcomings attributed to the traditional, Weberian model of administration, private sector managerialist concepts were introduced, such as 'de-hierarchized' resource management and control. In France, discourses on the 'entrepreneurial city' flourished in the 1980s, but failed to take root, probably because of the traditional involvement of the private sector in municipal service delivery. Nevertheless there was a genuine, albeit piecemeal, trend towards performance management, partly under the influence of state budgetary reform. In Germany, municipalities revamped their internal organization, adopting a 'holding model' (*Konzernstruktur*) borrowed from the business sector – with traditional departments treated as 'profit centres', the traditional mayor as 'CEO' and the local council as a kind of stockholder meeting (see Bogumil and Holtkamp, 2008, pp. 93 ff.).

## ASSESSING PROS AND CONS OF SERVICE PROVISION PRIVATIZATION

Ideal-typically, traditional multifunctional service delivery by the public sector was premised on the assumption that the public was best served if services were delivered by public personnel and if elected local councils were thus able to act as guardians of the common good and the interests of the local community. Local providers operated essentially for and within the community, constituting a 'protected' territorial market, if not a quasi-monopoly.

Since the 1980s, this model of public service provision has been increasingly confronted by the assumption, promoted by EU market liberalization policy, that the common interest would best be served by a single European market for goods and services that would eliminate the price inefficiency and quality distortions inherent in service provision by local markets. Service provision by the multifunctional, quasi-monopolist municipal sector and its Weberian bureaucracy was to be replaced by a plurality of single-purpose outside providers selected by competitive tendering, each intent on making a profit but ideally competing in price and quality (for a discussion of multifunctional, public-regarding versus single-purpose, private-regarding logic see Wollmann, 2004; Wollmann and Bouckaert, 2006).

Since the 1980s, the transformation of the public sector, which has affected service provision in the countries under study in various ways, has undoubtedly had a number of positive effects. For one, the scope of service providers has become broader, now going beyond the one public/municipal provider to both non-profit and for-profit commercial providers. Second, competition has been introduced in service provision, so that the consumer can now choose between different providers, for instance in the energy sector.

On the other hand, serious drawbacks have emerged. First, there is empirical evidence that consumer prices have been rising despite competition. Certain developments in Germany indicate that private providers, having made price concessions to secure a market position, tend to raise prices.

Furthermore, the privatization of public services in its various stages and types tends to depoliticize them in the local arena, eroding the influence and control of local authorities and the elected local council.

This holds true for formally privatized or corporatized municipal companies, which are increasingly disposed to operate as single-purpose organizations intent on pursuing and optimizing their specific interests, while ignoring the common interest postulated and defended by elected councils (see Wollmann, 2004; Bogumil and Holtkamp, 2008, pp. 96 ff.).

As these corporatized units (in Germany also called *Beteiligungen*, ‘holdings’) have developed their own entrepreneurial and centrifugal dynamics, controlling such holdings has become a critical challenge for councils.

This also applies to contractors of outsourced services, which local authorities often have difficulty defining and subsequently monitoring, owing to a lack of staff and time. Finally, once the municipal service provider has been sold (asset privatization), the local authority has practically forfeited all influence.

The increasing pluralization and expansion of single-purpose actors ‘in orbit’ around local authorities has been described as the ‘satellization’ (Huron and Spindler, 1998; Chapter 3 in this volume) and even ‘atomization’ (Dieckmann, 1999) of the local arena.

## IS THE PENDULUM SWINGING BACK?

Sober assessment of service privatization – particularly by material/asset privatization, which constitutes a full retreat of the public sector – has provoked some rethinking about the pros and cons of this strategy, most notably among the local authorities concerned. In Germany, an increasing number of local authorities appear to be interested in reversing the trend they had themselves initiated in the 1990s. Realizing that it is in their financial and political benefit in both the short and long run to retain and expand municipal corporations (*Stadtwerke*), they have begun to invest in the economic basis of their assets, establishing new *Stadtwerke*, even for power generation, particularly of the renewable and environment-friendly sort. The term ‘remunicipalization’ (*Rekommunalisierung*) appears to have captured not only the political imagination of local politicians, but to have made it onto the practical local agenda (for the ‘pilot city’ of Bergkamen, including energy, waste management, see Schäfer, 2008; Verbuecheln, 2009).<sup>2</sup>

In Italy, too, municipal corporations (*municipalizzate*), particularly in big cities, have recently shown an interest and the economic potential to expand their role in the national energy market. Such a debate is also growing in the French water supply sector, some cities having decided to resume direct municipal operation on expiry of concessions; the decision of Paris to move in this direction had a big impact. In public transport, the municipal enterprise and the SEML are still competitive alternatives to *gestion déléguée* (see Baldersheim et al., Chapter 8 in this volume).

An international trend towards reversing the privatization wave of the 1990s appears to be gaining momentum, water supply in the USA being a recent instance (see Hefetz and Warner, 2007).

Finally, intervention by national governments and supranational organizations to combat the global economic crisis signals a conspicuous comeback of government and the public sector, which might well silence the neoliberal battle-cry 'private is better than public', ushering in a profound and lasting reappraisal of the public sector and the public good.

Similarly, reappraisal of NPM-guided modernization of public administration has begun. During the 1990s, NPM, championed not only by Anglo-Saxon countries but also by influential international organizations, appeared to be triumphing worldwide. However, continental European countries, notably Germany and France, rooted in the Roman law and rule-of-law traditions, have exhibited considerable resistance to NPM radicalism while integrating useful elements into traditional structures. The resulting mix has (with positive connotations) been called 'neo-Weberian' administration (see Pollitt and Bouckaert, 2004; see also Chapter 3 in this volume).

Similarly, the pendulum of change has swung back from NPM-inspired attempts to reshape local government to a 'holding' design borrowed from the private sector. Experience with such innovation has been discouraging, so that a return to the traditional organizational fabric appears to be under way.

## GOVERNMENT AND/OR/VERSUS GOVERNANCE?

Making allowance for differences between countries, the transformation of the advanced welfare state has been marked by institutional differentiation and 'fraying out' owing to the multiplication of institutions and actors beyond the formal institutional structures of government, comprising self-standing, municipally owned or mixed corporations, non-profit and for-profit companies, whether or not under contract to local government. While such institutional fraying out has a long tradition in local government operations, corporatization, outsourcing and asset privatization have lent it unprecedented dimensions.

To capture – heuristically, analytically and possibly theoretically – the maze of actors and networks that have evolved beyond the formal structures of traditional local government and to conceptualize how this new multi-actor world relates to traditional government, the term 'governance' has found its way into the current social science debate (see, above, all, Rhodes, 1997). Notwithstanding definitional and conceptual uncertainties, it is widely agreed that, in a descriptive understanding, the term governance can serve heuristically and analytically to identify the institutions and actor networks that have emerged at the fringes of and beyond traditional formal government structures. In a prescriptive/normative understanding,

it refers to the capacity and strategy for steering and directing governance (in its descriptive meaning) structures (Marcou, 1996a, 1996b, 2006).

Government and governance – the constellation, juxtaposition and coexistence of these two worlds are marked by pronounced tension (see Wollmann, 2004; Wollmann and Bouckaert, 2006). Whereas traditional, elected local government is based on a multifunctional model and, ideally and normatively, is politically mandated and democratically legitimated to define, advocate, decide and, if necessary, enforce the common good and the best interest of the local community, the governance world is made up of actors disposed to pursue their own, single-purpose interests and profit from the externalization of costs in conflict with the interests of other actors.

How then can local government systems cope with the coordination problems endemic to single-purpose governance networks (in the descriptive sense)? To cope with such problems, caused by the multiplication and expansion of governance actors beyond the immediate influence of local government, recent reforms have introduced another, essentially political, strategy, namely to strengthen the institutions of traditional local government. Under differing historical circumstances, local political and administrative leadership has been strengthened since the 1990s in both Germany and Italy by introducing the direct election of mayors (*Bürgermeister*, *sindaco*) (see Wollmann, 2008b, pp. 288 ff.; 2009a, pp. 124 ff.; Bobbio, 2005, pp. 40 ff.). The aim has been to enhance the democratic legitimacy and accountability of the mayor and governability in local politics and the local arena. In France the mayor (*maire*), whose position in the *système local* has traditionally been very strong (see Mabileau, 1994), is still indirectly elected by the council, although, in the reality of French local politics, he is for all practical purposes elected directly (see Kerrouche, 2005; Thoenig, 2006, p. 55). Following the unexpected territorial reform in intermunicipal cooperation with the establishment of intermunicipal bodies (*intercommunalité*) empowered to levy taxes, the next step will be their institutional reform to give them democratic legitimation. Attention will have to be paid to the reform contemplated by the government in autumn 2009 to introduce such reforms and establish so-called *métropoles* with additional responsibilities withdrawn to the surrounding *département*.<sup>3</sup> The mayor (*Bürgermeister*, *sindaco*, *maire*) is plausibly in a position of local leadership that lends him significant influence, as a key player and ‘key networker’ (‘reticulist’, Friend, 1977), in the governance networks outside local government proper.

Returning to the distinction between descriptive/analytical governance and prescriptive/normative governance, it can be argued that, by reinforcing traditional political local leadership in local government, recent reforms have strengthened its (normative) governance capacity to coordinate

(descriptive) governance networks of single-purpose actors in the local arena beyond local government. It could be claimed that, in institutional fabric and operational logic, government and governance are functionally interrelated, interdependent and complementary – reminiscent of ‘old’ and ‘new’ economy (see Wollmann and Bouckaert, 2006, p. 33).

## NOTES

1. See *Süddeutsche Zeitung*, 13 August 2009: ‘Energy rebels on buying trip: Consortium of Stadtwerke acquires the E.on subsidiary Thüga for €3 billion and is braced to compete with the established energy companies in Germany’.
2. For the recent spectacular purchase of an E.on subsidiary by a consortium of *Stadtwerke* see note 1
3. See speech of the French Minister of the Interior in Senate, 30 June 2009.

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