Employment in privatised utilities

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On 15 June 2017, the Directorate General for Internal Policies published a report which maps the recent history of privatisation and examines the risk of precarious work in privatised utilities.

The main goal of this study is to highlight the relationship between privatisation and employment losses. However, the data provided contradict this idea. In fact, employment in the Eurostat categories of electricity, gas, steam, air conditioning and water supply increased by roughly 115,000 workers between 2008 and 2015 in the EU-28.

Moreover, the study avoids mentioning any of the factors behind the 1980s policy shift towards privatisation and fails to discuss the huge effect of the latter on the global economy.

Finally, the authors find little evidence to support the idea that the privatisation of public utilities leads to precarious work or lower pay for workers.

Introduction

On 15 June, the Directorate General for Internal Policies published a study at the request of the European Parliament's Employment and Social Affairs (EMPL) committee on the risk of precarious work in privatised utilities (European Parliament, 2017). The report charts the history of privatisation of public utilities in the EU since the early 1980s and its effects on employment. The paper also tries to examine the risk of part-time and temporary work in recently privatised utilities and advocates the introduction of new policies that could cushion the potential negative effects of the de-nationalisation of public sector organisations.

The paper falls short of its main aim: to highlight the relationship between the privatisation of public utilities and employment losses across the EU. Despite analysing the recent history of privatisation, the paper fails to acknowledge the importance of the latter in stimulating efficiency, investment and productivity growth. Moreover, the data examined disprove that the privatisation of public utilities has led to a large loss of employment and show that there is little evidence to support the argument that employees now live in serious conditions of precariousness.

The positive effects of privatisation

Since the early 1980s, privatisation has been a key part of economic policy all around the world. As Megginson (2017) highlights, over the last 35 years many different types of businesses – from energy companies to airlines; from water authorities to railways; from healthcare to telecommunication firms – valued at more than $3.3 trillion have been privatised. This revolution has had a huge effect on the global economy. According to the wide literature (OECD, 2003; Alesina et al., 2005; Boubakri et al., 2017), the privatisation of public companies has, in general, improved firms' growth, profitability, efficiency and risk-taking. At the same time, the de-nationalisation of public sector organisations has generated new tax revenue for governments (OECD, 2003), has led to higher investment (Chen et al., 2017) and has stimulated economic growth and improved living standards.

In the UK, as the workforce in the electricity and gas industries declined after privatisation, labour productivity doubled. British consumers benefited as privatisation and competition reduced prices and improved service quality. Real prices after a decade of privatisation had fallen by 50% for industrial gas, 25% for residential gas and 25% for electricity (Edwards, 2017)

Contrary to the authors' claims, whilst utility privatisation is not a perfect solution and, sometimes, it can lead to employment losses (primarily because of previously overstaffed public companies), it is still infinitely better than unproductive and inefficient state-owned enterprises (SOEs). The bulk of the UK privatisation revolution occurred between the mid-80s and the mid-90s. The decision to privatise many SOEs was a direct result of the economic crises that hit Britain in the 1970s. This period was characterised by high inflation, strikes, power cuts, the introduction of the so-called three-day week and bailouts for state-owned industries (Moore, 1992). Spurred by the success of Mrs Thatcher's reforms, privatisation swept through developed and developing nations in Europe. In particular, the relinquishment of government control from public companies was of fundamental importance for Central and Eastern European countries, which began opening up their closed economies in 1990, after the dissolution of the Soviet Union (IMF, 2014). Interestingly, the study forgets to discuss any of the reasons behind the move towards privatisation.

As Stagnaro (2015) writes, the privatisation and liberalisation of the UK energy industry was an enormous success. Electricity charges for domestic consumers fell by more than 25% in real terms during the 1990s, with a larger fall for industrial users; and energy-related greenhouse gas (GHG) emissions also fell by over 7% between 1990 and 2000. However, the retreat from this effective model, together with the ambiguous EU renewable directives and common environmental policy, has undermined all the important developments of the 1990s and early 2000s. Furthermore, despite the paper's claims, EU attempts to liberalise sectors such as electricity, gas and water have lagged behind over the last decade primarily because of strong opposition from vested interests at the national level and a lack of pressure towards privatisation. In fact, contrary to the British experience, the privatisation of state-owned utility companies has never really entered into European policy (EPICENTER, 2017).

No evidence of large employment losses due to privatisation

Between 2008 and 2015, employment in the electricity, gas, steam, air conditioning and water supply sector increased by around 115,000 across the EU. Whilst there is no common trend, several EU countries such as Austria, France, Germany, Italy, Luxembourg, Poland and the UK, experienced job creation in these industries. In the water supply sector alone, employment levels increased in 15 Member States.

Between 2008 and 2015, in the EU-28, employment in water supply increased by 102,700. At the same time, employment in electricity, gas, steam and air conditioning supply increased by 11,600 (European Parliament, 2017).

Most importantly, there is no evidence that privatisation has played a key role in the decline of employment levels in the so-called "programme countries" (Ireland, Greece, Portugal and Spain). In Spain, the employment level in the electricity, gas, steam, air conditioning and water supply sector increased by 26,100 between 2008 and 2015. Moreover, given the long-lasting double recession that hit the peripheral countries of the euro-zone, it is rather dubious to blame the privatisation of public utilities for these employment losses. In Greece, for example, the ambitious 2011 plan for privatisation, which aimed to raise around €50bn euro, faced a difficult economic, legal and administrative situation. From the very beginning, the respective Greek governments cancelled or postponed major projects. By the end of 2015, the total volume of privatisation receipts amounted to just €7.7bn (Deutsche Bank, 2015). On 27 September 2016, the Greek parliament finally approved a bill which included the privatisation of water and electricity facilities and the liberalisation of the country's electricity market (Euobserver, 2016).

In the EU-15, the number of people with a part-time or a fixed-term contract rose by over 14.5 million from 1997 to 2016, to reach a total of 37.7 million. In the EU-28, part-time employment and temporary contracts increased from 30.5 million to 40.4 million people (Eurostat, 2017).

No evidence of precarious work

According to the study, part-time and temporary work in the electricity, gas, steam, air conditioning and water supply increased as well between 2008 and 2015: from 471,400 to 507,300 (European Parliament, 2017). However, as the authors have to admit, there is little evidence that the privatisation of utilities leads to precarious work. Furthermore, the study also reaches the conclusion that there is little evidence that the privatisation of public utilities results in lower pay for workers.

Part-time employment and temporary contracts have been on the rise since the 1990s in every sector of the economy. As the OECD (2015) suggests, this rise is not directly related to the different waves of privatisation, but to the constantly changing face of work. According to Atzmüller and Hermann (2005) privatisation tends to promote less traditional types of contract simply to achieve higher productivity and competitiveness. By contrast, the emergence of the "gig economy", the increasing number of women at work and the relative strength of laws protecting temporary workers, especially in countries where employment protection of permanent staff remains very strict, are all factors that have contributed to the growth of non-traditional work.

The idea that part-time employment and temporary contracts are synonym of precariousness is incorrect. The rise in part-time and temporary positions primarily reflects a changing dynamic in people's lifestyles, not private employers' willingness to exploit workers by offering them a lower level of employment security. The increase in less traditional working positions allows people to fit their careers around their increasingly busy schedules and highlights the importance many of us place on maintaining a healthy work/life balance. For example, a recent study by the McKinsey Global Institute (2016) showed that in the EU-15 one out of six employees in traditional jobs would like to become primary independent workers. As the research explains, these people derive their primary income from independent work and actively prefer it to traditional full-time activities.

Conclusion

The study published at the request of the European Parliament's EMPL committee on the risk of precarious work in privatised utilities has several faults. First, the paper's history of privatisation is too ideological and avoids discussing the economic factors that led to the 1980s privatisation revolution. Second, it fails to mention the positive effects of privatisation on the wider economy. As a large body of economic literature underscores, privatisation improves firms' efficiency and productivity and tends to benefit governments, shareholders and consumers alike. Third, the study uses data which contradict its main thesis. In fact, employment in the categories of electricity, gas, steam, air conditioning and water supply increased between 2008 and 2015.

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