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1

Introduction: Privatisation and the Crisis of Social Europe

The editors

The central themes of this book are the processes of liberalisation and privatisation and their consequences for economic development, social cohesion and political democracy in the European Union. The worldwide financial meltdown following the sub-prime mortgage crisis in the United States has fundamentally called into question the established pattern of globalisation and the dominant neo-liberal framework of economic governance and policy which was gradually set up in more and more parts of the world since the late 1970s. During the last few years it has become increasingly clear that the policies of liberalisation and opening up more areas to the market, of deregulation and privatisation, and of establishing the rule of competition as the overarching point of reference for economic and social reproduction have not fulfilled the promises and expectations which accompanied their introduction. Instead, they have unleashed destructive dynamics in two directions. On the one hand, they have contributed to the enormous social polarisation and growing inequality throughout the world and in almost every single society. On the other hand, the liberalisation of capital movements and the creation of global capital markets have not reduced but exacerbated the inherent instability of the capitalist mode of production.

This has, of course, strong consequences for the content and development of the so-called European Social Model (ESM). 'So-called' because there is widespread consensus that there is no such thing as *the* European Social Model as a clearly defined entity, but that there is a range of social models in European countries, and that this diversity should not be regarded as a burden but as an asset to Europe and European history and culture. Nevertheless, there are certain political and social elements in each of these models which together form the normative cornerstones of a specific European framework of social and political cohesion. Such basic elements include a relatively strong sense of social solidarity instead of competitive individualism, and a positive role for the state, which should bear responsibility for the welfare of individuals. As a reflection of this role, most European societies were,

throughout most of the past century, characterised by the existence of a strong public sector, as part of a 'mixed economy', and of social cohesion as well as of a public cultural and political space. Whereas, in the private sector, the rules of competition and profit dominate, the public sector is meant to be shaped and structured through public discussion of, and decisions on, the provision of goods and services to all members of society regardless of their income and social status. This is, of course, a much more complex qualitative structure than the one imposed by the rule of competition and the quest for quantitative profits.

The neo-liberal counter-revolution, which has developed during the last 30 to 35 years, has severely attacked this co-existence of the private and the public sector. The Magna Carta of such attacks was the so-called 'Washington consensus and its main institutional spearheads – the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organisation (WTO), and, particularly with regard to public services, the 'General Agreement on Trade in Services (GATS). As a result of these attacks, the balance between the competition-oriented and the welfare-oriented pillars of societal development has been shaken and shifted in favour of the former. The number and weight of publicly owned corporations have shrunk considerably, and the remaining state-owned corporations – and growing parts of public services – are increasingly reshaped according to the logic and rules of markets and competition. In this context, it should be emphasised that the concept of privatisation covers a much broader scope than just the change of ownership from state or otherwise public to private ownership – although the latter plays a crucial role. This is particularly true with regard to services: the transformation from public to private services occurs in very different forms and degrees, which are not always tightly linked to specific ownership categories. Privatisation of public services in this sense means the transfer of a service from the framework of a politically determined public good to a framework of privately provided commodities. Whereas the criterion for the 'efficiency' of public services is the fulfilment of a politically and socially defined more or less complex task or mission, efficiency of private services is measured in the amount or rate of profits which they generate for their providers. Privatisation can already start in state-owned enterprises, through corporatisation of former departments of ministries, outsourcing and other forms of enhancing cost efficiency of a service provided by the state. Privatisation can relate to different aspects of a public service, for example in terms of who supplies the service (public or private), who pays for it (state or individual) and whether some forms of market mechanism are used in the provision of the service.

Because of these developments, the tendency has emerged to transform the variety of different European social models into one uniform neo-liberal pattern corresponding to the interests and benchmarks of international financial investors. The 'European model of society' often invoked by the

proponents of privatisation is that of superior competitiveness as a consequence of liberalisation. The social model is seen as universal commercialisation in which the whole world is seen as an accumulation of commodities and individual and social activities appear as transactions, concealing the underlying structures of inequality, power and ever enhanced exploitation of the majority of people through a small but powerful minority.

In the course of the work on these issues, it has become increasingly clear that the European Union (EU) has played and continues to play a special role in this process of neo-liberalisation of the world. While in the first decades after World War II the European Economic Community (EEC) and the European Communities (EC) did not play an active role in the formation of neo-liberalism, this has changed since the mid-1980s. The adoption of the Single Market project in 1985, the Treaty of Maastricht (1992), the Stability and Growth Pact (1997), the Financial Services Action Plan (FSAP, 1999) and the Lisbon Strategy of 2000 and 2005 are all decisive moves towards the reshaping of the European construction and the establishment of a neo-liberal zone of liberalisation and privatisation. This process has been partly modified and partly been accelerated by the accession of the new member countries from Central and Eastern Europe since 2004. For these new members, liberalisation and privatisation were cornerstones of a comprehensive economic and political transformation following within a very short timespan the collapse of the previous system of state socialism. Although the EU has no legislative competence in terms of public or private ownership, its policies of liberalisation and marketisation work as a powerful propulsion engine for privatisation in the comprehensive sense outlined above. Today the thesis appears not exaggerated that the EU has taken over from the WTO and particularly from the GATS the role of the *avant-garde* and driving force of further liberalisation and privatisation.

However, this process of commodification of the world unfolds neither in a straightforward way nor does it remain unchallenged. Two countervailing factors must be noted here. The first one is the increasing vulnerability and internal instability of a finance-driven development which includes strong tendencies for speculations and the build-up of ever larger bubbles. These destabilising forces have exploded in the recent world financial crisis and this has brought the question of alternatives to a world ruled by markets and competition back to the theoretical and political agenda. The second factor is the growing dissatisfaction, critique and resistance against the policies of liberalisation and privatisation, reflected in the struggle of many trade unions as well as in the rising number of social movements – mostly on the local, but also on the regional and occasionally on the national level – against the further privatisation of public goods like water or public services like health care. In some cases privatisation has been prevented through resistance by the population, in others privatised services have been renationalised. Even the recent partial nationalisations of the financial sector as a

rescue package against the financial crisis – although they certainly do not indicate the revitalisation or a new form of modern welfare state – clearly demonstrate that markets and competition cannot work as framework for economic and social development but need a framework of political rules and interventions within which they can generate positive dynamics and beneficial effects. In this sense, the official responses to the financial crisis confirm the theoretical critique and political resentment against a policy of unlimited liberalisation and privatisation of the world.

The present book is the result of the network ‘Liberalisation and Privatisation and the European Social Model’ (PRESOM). Sixteen members from 12 EU countries participated in this network, which was financed by the EU as a ‘Coordination-Action’ (CA) within the Sixth Framework Programme for Research and Development. During its lifetime (January 2006 – April 2009), the network organized approximately 50 workshops with numerous external experts from the scientific community, as well as policymakers and civil society groups. The main thrust of the CA was – in spite of differing scientific and political positions and assessments amongst the participants – a critical approach to the dominant discourse and policies of liberalisation, privatisation and the far-reaching destruction and/or deformation of the public sector in the EU. Although critiques of the structure, performance and behaviour of the traditional public sector in the post-war period are in many cases justified and there is no simple way back to past structures, it is one of the common beliefs of the authors – and one of the main results of PRESOM – that there is a need for a strong and democratic public sector in order to maintain, revitalise and strengthen the cornerstones of a European Social Model which improves the social welfare and political democracy for the people in Europe.

The book is structured in three parts:

The *first part* gives an *overview* of the issues at stake. It summarises the process and various aspects – motives, drivers, proceeds – of *privatisation in Western Europe* (Chapter 2) and in the *new member states* (Chapter 3). In this context, special attention is given to *finance* as an important driver of privatisation (Chapter 4). In Chapter 5, main *theoretical approaches* to the question of private and public ownership are addressed and critically examined. Chapter 6 presents the different streams and connotations in the past and current discussion about the content and function of the *concept of the European Social Model*.

The *second part* contains six *case studies* on privatisation in Europe. While privatisation in *manufacturing* (Chapter 7) has only affected small parts of the Western European economies, it was the main process of transformation in the CEECs, and therefore particular emphasis is put on the new members. *Network services* (telecommunication, energy, Chapter 8) were the main targets for liberalisation and privatisation in the EU15 during the 1990s, and a review of the results shows that the promises and expectations which accompanied this process remain far from justified. A particularly complex

structure can be observed in the *health care sector* (Chapter 9) where very different forms of liberalisation and privatisation coexist, and the development of diverse connections between the public and private sectors, together with an increasing role of the private sector, are the two main trends. The chapter on *pensions* (Chapter 10) contains more straightforward arguments and results: the increasing threat of old age poverty through the shift from public PAYG systems towards private capital funded systems. *Education* (Chapter 11) is again one of the areas where privatisation is a complex process which occurs to a considerable extent within state-provided systems. In the area of *finance* (Chapter 12), the privatisation has resulted (with very rare exceptions) in the virtual absence of any relevant state-owned bank in almost all EU members, and this has deprived the state of an important instrument to counter the financial crisis. Chapter 13 summarises this part and tries to draw a *differentiated and coherent picture* of the process of privatisation in Europe in the last three decades.

The *third part* deals with *perspectives and alternatives*. First, the mostly problematic *impact of liberalisation and privatisation* on the economy, social cohesion and political democracy, and thus upon the common cornerstones of the European Social Model in the traditional sense, are presented (Chapter 14). As an alternative profile, Chapter 15 establishes a number of *positive elements* which a progressive ESM would require, and Chapter 16 discusses the *role of a renewed and reshaped public sector* for economic development, social cohesion and political democracy in a progressive ESM. Finally, Chapter 17 deals with the *forces and actors* which are required and capable of achieving a turnaround from the still dominant neo-liberal pattern of development in the EU towards a progressive alternative.

The editors want to express their sincere thanks and appreciation to Dr. Jacqueline Runje who accompanied PRESOM as managerial assistant. Without her patient and persistent work it would have been much more difficult to keep the project together and to organise the work for PRESOM book.

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