

Osterberg, Richard

Conference Paper

Regional consequences of privatisation

39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe", August 23 - 27, 1999, Dublin, Ireland

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Osterberg, Richard (1999) : Regional consequences of privatisation, 39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe", August 23 - 27, 1999, Dublin, Ireland, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/114308>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



KUNGL
TEKNISKA
HÖGSKOLAN

REGIONAL PLANNING
RICHARD ÖSTERBERG
richard@infra.kth.se

REGIONAL CONSEQUENCES OF PRIVATISATION

CONTRACTING OUT PUBLIC PRODUCTION,
FOCUS ON ROAD MAINTENANCE IN
SWEDEN

Contains

1. THE ROLE FOR THE STATE AND THE TASKS FOR THE PUBLIC SECTOR	3
2. PRIVATISATION	4
<i>Principality and privatisation</i>	<i>5</i>
<i>Deproduction.....</i>	<i>5</i>
<i>Definancing</i>	<i>6</i>
<i>Disposal</i>	<i>6</i>
<i>Deregulation.....</i>	<i>6</i>
3. REGULATIONS	7
<i>The market.....</i>	<i>7</i>
<i>Governance</i>	<i>8</i>
4. FINANCING.....	9
<i>The organic view</i>	<i>9</i>
<i>The mechanic view.....</i>	<i>10</i>
5. PRODUCTION.....	12
<i>Efficiency</i>	<i>12</i>
<i>When public production is preferable</i>	<i>13</i>
6. GOVERNMENTAL ENGAGEMENT IN MARGINAL REGIONS.....	14
<i>Policy shift.....</i>	<i>14</i>
<i>State sector and marginal regions.....</i>	<i>15</i>
7. EXPERIENCES OF PRIVATISATION IN MARGINAL AREAS	15
<i>Swedish Mail</i>	<i>15</i>
<i>The Swedish telecommunications administration.....</i>	<i>16</i>
<i>The domestic aviation.....</i>	<i>17</i>
8. PRIVATISATION OF ROAD MAINTENANCE	18
<i>From in-house production to contracting out.....</i>	<i>18</i>
<i>Do the right thing</i>	<i>18</i>
<i>Reorganisation '92</i>	<i>19</i>
<i>The market.....</i>	<i>20</i>
9. CONCLUDING REMARKS.....	22
REFERENCES.....	24

REGIONAL CONSEQUENCES OF PRIVATIZATION

1. THE ROLE FOR THE STATE AND THE TASKS FOR THE PUBLIC SECTOR

Present ideas of the market are based on a general assumption that the market can be used as a tool to attain certain goals, as development and efficiency. Since decades several state regulated activities and business had been contracted out in Sweden.

The aim of this paper is to discuss privatisation and show the regional consequences in a specific case of privatisation: contracting out road maintenance in Sweden. This activity is very well spread geographically, as a matter of fact no other public commitment have a larger spatial extension. This imply that the consequences of privatisation in this line of business may show a range of variations for different types of regions. This may depend on unequal conditions to create a market or how hard the efficiency improvement needed to face fierce competition, strikes the regional market of labour.

In Sweden, there has been and is still a political consensus that the State should take responsibility for the regional balance, I e the equalisation of living conditions and the infrastructure for production. Since about 25 years this responsibility has largely been taken by means of decentralisation of power to the regional level. However, at the same time several deregulation reforms in Sweden have largely been introduced without previous assessment of the regional implications. Hence, deregulation has been seen as a means to increased efficiency and quality control at the national level.

In this paper the territorial aspect of deregulation of previously state production will be discussed. What regional consequences are to be expected due to forms of privatisation? If there are signs of irrational territorial consequences and dysfunctions, what kind of regional adjustment and "reregulations" are required to secure regional balance in certain terms? The analysis covers examples from deregulation in several sectors, but the main focus is on deregulation of highway maintenance. The paper refers to an ongoing case study on social consequences of contracting out road maintenance in Sweden.

The view upon governmental in-house production have changed dramatically during the last 50 years. During world war II and the years after, a lot of production and ownership were nationalised in a several countries in the western world. The reason were an ambition to manage to handle different kinds of market failures as monopoly, externalities and suspected cases of injustice. But time changes, new ideas and trends arises: governments in market economies have now since many years begun to reregulate and privatise previous state production and principality. Even activities that previous would been impossible to even think of in a market, are in some countries now in private production, such as education and prisons. In a lot of western countries it almost looks like a dialectic change as a swing of Hegel's pendulum, from governments with a minimal public production (without regard to the military), to a major state engagement in production, and back to a minor state.

Arguments for reducing the role of government as a producer are that the quality of contracting and regulation as well as the effectiveness of competition have improved, the risks of politicisation of production have become self-evident and the appreciation of the innovative potential of entrepreneurial firms is at a new high.¹

2. PRIVATISATION

The question about the shape for activities in the public administration are put to its point in the debate about privatisation. The discussion affects one of the most important disparities in modern democracies; the extent of public regulation of the economy - the discrepancy between planned vs. market economy. Privatisation is a word loaded with subjective judgements containing several dimensions. The widest definition of the word denotes a transference from the public to the private sector. This process is a definite movement and must be based upon active politics by democratic responsible actors and institutions within the public sector, in purpose to transfer something that have been in public liability or possession to the private sector.

The contracting out in road maintenance is a form of privatisation, in the sense of a transference of a service production from have been run by the State to be run by a private performer. As in Swedish conditions, this activity still may be run by the public actor Vägverket, but Vägverket is only one actor in the number of competitors. This is in line with the view upon privatisation as equivalent in meaning to a market solution, i.e. the market being invigorated on behalf of the public sector. But privatisation does not have to be confined just to imply a transference towards production in competition. Transference of responsibility or possessing to volunteer corps idealistic, non-profit-making associations, corporate bodies, professional organisations, actors on the market, klientes or users can also be described as cases of privatisation.²

¹ Shleifer A. s. 4 f.

² See Lundquist L.J., p 216.

Principality and privatisation

Privatisation is about that something that have been under public responsibility or possession is removed from the public sector to the private. Furthermore it is required that this process is a result of actions and decisions made and executed by political elected persons and legally responsible actors and institutions within the public sector. The implication by this is that the decision-making process about privatisation never can be privatised. The transference consists in principality and responsibility, but as in the matrix stated below, the distribution between public and private can show several patterns and alternatives. It affects principality in varying extent in different dimensions of activities as regulation, financing and production. *Regulation* refers to the control over factors as quantity, quality, prices and distribution in production of goods and services. *Financing* concerns whether the payment is made by private or public funds. *Production* refers to the leading of the performance of the activity.

	<u>Regulation</u>	<u>Financing</u>	<u>Production</u>
a.	Public	Public	Public
b.	"	"	Private
c.	"	Private	Public
d.	"	"	Private
e.	Private	Public	Public
f.	"	"	Private
g.	"	Private	Public
h.	"	"	Private

Figure 1. Principality in dimensions of Privatisation

In accordance to the dividing in the matrix there are eight alternative distribution of responsibility amongst the private and the public sector. They will be briefly presented in the following, starting with the case when the public sector got the principality in all three activities. In alternative *a.* in the figure above it's not a case of privatisation since the public sector got the right to decide in all three activities. But privatisation does not have to start from this alternative. In principle privatisation imply that the principality in any of the three activities regulation, financing or production transcends from public to private sector.

Deproduction

When public services production of goods are contracted out to private entrepreneurs, the principality of the financing and regulation still remains public, though the production are managed by private actors, as in alternative *b* in the matrix. This is the case when the national road administration purchases road maintenance. At least in Sweden the national authority Vägverket used to manage this service in house, even though they often engaged sub-contractors. Nowadays the production division in Swedish national road administration competes with private actors in the road construction and building trade, as Skanska, PEAB and NCC. This kind of privatisation can be defined as *deproduction*. The idea of deproduction is to let

competing companies send in rivalling quotations, aiming at lowering the price. A condition is that the public sector still retains requisite strength and competence to preserve the authority of regulations and financing.³

Definancing

By privatisation through public regulation but with private financing it's a question of removing general subsidises and replace it with private financing of the costs. This might be to a varied degree, i.e. reducing of subsidises to be compensated by a using charge for covering the costs. The implication of public regulation in this cases is that something are being required or commanded, or that there aren't any rival alternative to a governmental utility. Then the production may be in a public monopoly which gives the alternative c. in the matrix, or by a private company in a free competition market as in alternative d. These two alternatives can be described as *definancing*. Examples of definanced activities are Swedish Motor Vehicle Inspection Co, charges for school dinner or duty on roads where alternative roads is missing.

Disposal

The public sector may also keep the principality in financing and production, but with a private responsibility for the regulation, as in alternative e. in the matrix. This is the case when public production of services and goods are turned into companies because then the activity juridical are equal to private companies, and will get more freedom of action and possibility to suit to the market. The public sector though preserve the control over the company. An other variant with the same distribution of principality are when public property are sold out. A common solution in municipalities with a forced budget have been to sell out parts of the house properties to private companies and then rent the same houses. These variants of privatisation can be categorised as *disposal*.

Deregulation

Finally the category that perhaps are the most associated to privatisation and that is *deregulation*. From the word deregulation we conclude that it is about when the regulation are transmitted from public principality to private principality. By removing or reducing regulations the possibilities for the private sector or its individuals increases to regulate their production or consumption of goods and services themselves. If the financing remains public but the principality turns private, then its about transference of income with freedom of consumption choices, e.g. government child benefit, government study support or housing allowance. This matches with the alternative f. in the matrix. In equally conditions but with consumption choices only within the public sector, we have the alternative g. In alternative h. the transference implies an open right for establishment.

³ Ibid. p. 221

3. REGULATIONS

With the starting point that all resources in the society are limited, the fundamental question about choosing and principles for giving priority to use these scarce resources follows by automatism. It is a question about what ought to be financed by public means, a question that will be considered in the chapter *Financing*. It is also a question about management for activities financed by public means, whether it should be private or public, which will be discussed in the chapter *Production*. This chapter is about the fundamental question about how to exercise control of factors as quantity, quality, prices and distribution of production of goods and services, i.e. principles of regulations.

Every culture build its own institutional structures to create and distribute its assets. These institutions are influenced by the set of values, tradition, ideology and inertia within the culture. If we are confined to modern western cultures, we can discern three leading principles for production and exchange; voluntariness, market and governance. In the following account the two latter principles will be discussed, but first some words about voluntariness. Voluntariness are based upon humans by factors as idealism, tradition, duty, sympathy acts in other persons interests, without violence or claiming compensation. The motives may be religious, social or family matters, but also emotional motives are possible, as the joy of making a contribution or perform a charitable deed, or the thrill of power that occurs of magnanimity. Examples of voluntarism are the volunteer fire brigade, or the Swedish cabinet minister Mona Sahlin who held that "It's cool to pay taxes"⁴.

The market

According to the principle of the market, production and distribution are organised by a price system. The principle are built upon mutuality and exchange, where the own return is the motive power. In right circumstances the power of the market direct the social material interplay, by signals about shortage or demand, mediated through prices. But though the market might be described as a fundamental factor for social co-ordination, it is still not an institution, but more of an organising principle. Institutions are social constructions and is generally considered at the most slow parts in the society. This slow adaptability can be attributed to the political constitutions, laws and praxis of justices, which thereby compose the real institutions. But the market can be seen as an institution if this concept implies a set of ideas shared by a society and therefor creates conditions and restrictions in action and interaction. This ideas are created by complex social and historical processes and are not shaped by individuals. The ideas are learned by new generations e.g. the institutions democracy or rationality, which are fundamental in education and general socialisation.⁵

⁴ Own translation.

⁵ Brunsson Nils & Hägg Ingemund red., *Marknadens makt*, SNS Förlag, Stockholm 1992, kap 1.

When persons act on a market they are supposed to follow written and/or unwritten rules of behaviour, which not might be the same at all in other institutions. These understood prerequisites are not optional excluded and are meet as natural. The actors ar also supposed to show interests and behaviour separated from the norms in other social contexts. The actors at the market are supposed to independent, self-governed and striving for rationality and own utility. The behaviour at the market are consequently supposed not to be influenced by experiences from other institutions.⁶

From the institutional perspective the market consists in a set of principles and generally accepted rules and ideas about exchange of goods and services. Institutions, as the market in this case, are not fixed; they changes all the time, but in a very slow motion. That is the reason why the society can lean on them. By privatisation of the road maintenance this activity leaves the public performance to be transferred to embrace the ideas and rules at the market institution. This is in line with the so-called modern thinking, to comprehend the private and the public as totally separated phenomenas.⁷ According to this view markets are something separated, with just slightly connections to other social institutions. The whole idea that markets and economy could be analysed separately from other social circumstances is evident in mass media's dividing of the world up in economic matters and others. This might even strengthen the idea that the behavioural and norms at the market are separated from norms at other institutions.

Governance

The third principle of governing of production and exchange is governance, where political decisions determine what to be produced and how it shall be distributed. In a Democracy governance works as an action to assert certain wishes and to distribute resources. Just as in the case with the market, governance can be described as a mechanism for co-ordination. The legitimated goal for society might thereby be to do what the citizens needs but not can obtain as individual persons.⁸ Analogous to Adam Smith's cited characterisation of the maxim of the market, the Principe for the agreement of public expenditures might be expressed in the device: We promise to mutual pay for what we all wants.⁹ But public goods and services does not only have to be financed by public means, but may also, as shown above, completely or partly be covered by charges for use. Production does not also be in-house though the principality are public.

The governance does not very often reach the citizens directly, but instead through the executive intermediate link that is the public administration. In the ideal image the administrative organisation are ruled by the political management, even though there

⁶ Ibid

⁷ Berger P., Berger B. & Kellner H., kap. 3.

⁸ Lincoln A., 1974 (1859) s. 2:220 f.

⁹ Donahue J., 1989 s. 21.

are theories such as about the streetlevel-bureaucrats, i.e. civil servant in contact with the addressees, which really would control and give the final shape to public politics. By the use of authority is the power of the society expressed over the citizens and the individuals are dependent on the state. It appears from the Swedish constitution that the conception authority contains execution of powers to decide for individuals about social benefits, civil rights, obligations, disciplinary sanctions, dismissal or similar kinds of circumstances.¹⁰ There are also administrative tasks that not consists in performing of authority, e.g. investigations, advisory service, and other services. The public administration services and execution of authority does not have to be performed by a public institution. The constitution announces that public administration's tasks may be entrusted to municipalities or being left to companies, associations, foundation, institutions or to individuals. If the performance also contains expression of authority the entrust must be granted by the Swedish Parliament.¹¹ In other respects the formulation in the Swedish constitution about performance of public administrative commissions are very general, which makes most organs potential for running the activity.

There are a rich flora of organs fulfilling public tasks without being downright authorities, such as "quangos" which stands for *quasi non-governmental organisations*. Swedish examples of such "quangos" are the Swedish Motor Vehicle Inspection Co., the Author's association (Författarförbundet) deliverance of scholarships, watchmen and doorkeepers with right to interfere with the general public.

4. FINANCING

The question whether production of public goods should be provided by the public sector or private production depends on two underlying factors: financing and implementation.¹² *Financing* contain which sorts of activities the state should provide for, a subject related to the view upon the role of the state and its relation towards its individual citizens. In political theory two main directions has been crystallised: the organic vs. the mechanistic view upon the state.

The organic view

In the organic view the conception of the society is as it was like a natural organism, in which every individual constitutes a part and the role of the state is to be the heart. In this view the particular citizen is of importance only as a part of the society and individual utility must be seen in the light of the commonweal. This idea is met with in Plato's *Republic*, where he's arguing for that the citizens deeds only are desirable if it leads to a good society. An even more pronounced example of the organic view are given by Mao Zedong's teacher in ethics, Yang Chang-chi, who stated that:

¹⁰ RF 11kap. 6 §.

¹¹ Ibid. Vid myndighetsutövning krävs att överlämnandet stöds av lag.

¹² See Donahue J. 1989

A country is an organic whole, just as the human body is an organic whole. It is not like a machine which can be taken apart and put together again.¹³

Lenin thought that the mission of the proletarian state was to lead the people to socialism, by being its teacher, guide and leader.¹⁴ The organic view is also found in Nazism which appears from this statement of two colleagues in the ministry of the interior in Germany during the Nazi-regime:

”National Socialism does not recognize a separate individual sphere which, apart from the community, is to be painstakingly protected from any interference by the State ... Every activity of daily life has meaning and value only as a service to the whole.”¹⁵

Characteristic for the organic view are that the motive for acting are the state or national interest, without any relation to the benefit for the citizens. The goals for the society are stated by the state itself which leads to the critical question: how are these goals selected? The advocates of the organic view of the state holds that certain goals are natural matters of course for the public organism. But this is still not an answer of the principal point, because it doesn't state what these natural goals should concern.

The mechanic view

In the mechanic view upon the state the purpose for the existence of the state is devoted to the utility of the citizens as individuals. The state appears to be an arrangement created by a collective of individuals for a better attainability towards the individuals' personal utility goals. The problem in the mechanic view is to define an implication of the conception *utility* and by that indicate how the state should act to promote this utility. A lot of ideological directions share the mechanic view and one of the fundamental distinctions among them are the degree of extension of state intervention in the citizens' lives. The lowest common denominator of these ideologies is that it is always of use for citizens to be protected by the state from violence. This means that the state must have monopoly on the right to exercise coercion, to prevent development of anarchy. Adam Smith tried in "The Wealth of Nations" (1776) to describe how competition and expected profit would lead individuals to improve the public utility by endeavour to improve their personal utility. About the relation between the state and the individuals he argued that the state should protect:

”... the society from the violence and invasion of other independent societies, and protect as far as possible every member of the society from the injustice or oppression of every other member of it.”¹⁶

There is an inevitable tension between the society and the individual person, where the extent of society tends to encroach the individual freedom. The balance against state intervention and freedom for the citizens affects the individual conscience as well as the

¹³ Johnson, 1983, s. 197.

¹⁴ Lenin, N., 1968 (1917), s. 184-232.

¹⁵ Stuckart and Globke, 1968, s. 330.

¹⁶ Smith A., 1777 (1776), s. 182.

arena for solutions of social conflicts.¹⁷ In its most limited form the main function for the state is to prevent its citizens to become victims of physical coercion or violence. Pure liberals arguing for a minimized state holds that the state only shall provide functions of protection and maintain law and order, which is the very same as Robert Nozick's minimal state.¹⁸ Similar ideas are found at Smith, who held that:

” Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way”¹⁹

But Smith also argued that the state should exceed its liability and see to:

”... creating and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain”²⁰

What Smith is intending can be understood as collective utilities as roads, bridges, drain systems and a lot of other forms of infrastructure needed for a society to work. Other ideological directions sharing the mechanic view, as socialdemocrats and socialliberals, holds that obvious state intervention is a necessity for the wealth of the citizens. Beyond infrastructure the state intervention can be in form of administration as safety regulations in work areas, social assistance, laws against sexual discrimination or racism, etc. The crucial point in the mechanic view are to which extent the state may intervene or provide public goods. Apart from administrative matters and instead focusing on the material production of goods and services in the public sector the question about whether it should be something undertaken by the government, or not can be divide into four parts²¹:

1) *What to be produced?* The question about what the public sector shall produce is much about the degree of resources to be spent on different public utilities. As is well known these resources are in short supply and therefor making priorities are of necessity. But not all public production are financed in common by taxes. They who uses services or goods may pay dues which in various extent covers the costs, or as in Sweden where there exists directed taxes financing an activity as taxes on gasoline. The choice about what to produce and how it should be financed affects other activities in the public sector's budget but also the possibilities for private consumption.

2) *In which course of action?* The procedure is about how the good or service should be produced: trough public or private production.

3) *For whom?* The question of for whom the production are made is related to distribution and to the nature of the product. Some collective utilities are open for

¹⁷ Arrow K., 1974, s. 15.

¹⁸ Nozick R., *Anarki, stat och utopi*, 1974.

¹⁹ Smith A., s. 180.

²⁰ Ibid s. 210 f.

²¹ Stiglitz J., s. 10 ff.

everyone to benefit, such as the national defence and the judicial system. Other utilities provided by the public sector are directly for specific groups, such as handicapped persons.

4) *How is the decision made?* What are the decision-making processes alike where collective agreements are made about state production. By collective agreements is meant the decision the democratic society in common must make a decision about.

5. PRODUCTION

In previous sections we concluded that the question about the extension of the state and how much of resources that are to be spent on the public sector, is a question separated from how much of the activities that should be done in-house. It also became clear that the line between the public and the private sphere is diffuse and that there are an abundance of variation in principality of public production. Furthermore the public sector contains a great variety of activities with different prerequisites and purposes. But suppose there is a decision about the extent of the state and what should be provided for the citizens by public means. Then rises the question about how the work ought to be done.

Efficiency

A major difference between public vs. private production is about efficiency, which in general are higher in private production than in public, especially if the public production are in forms similar to monopoly when the private sector works in a free competition market. A several extensive international studies have resulted in that private production more often are proved to be efficient than public production, as shown in the table below. This simple quantifying rises of course a number of question about how the efficiency are measured out and if efficiency can be compared between different activities and so on. Disregarding that, it still implies a certain predominance in the connection between some kind of efficiency and private production.

Table 1. Empirical investigations of the relative efficiency by private or public production.

<i>Activity</i>	<i>Public production more efficient</i>	<i>No difference</i>	<i>Private production more efficient</i>
Water and sewer systems	2 investigations	2 investigations	4 investigations
Electricity supply	3 "	4 "	7 "
Street-cleaning	1 "	3 "	10 "
Day nursery	1 "	3 "	19 "
Railroads	0 "	3 "	1 "
Airlines	0 "	3 "	8 "
Financial business	0 "	1 "	1 "
Housing	0 "	0 "	4 "
Not trackbounded public transports	0 "	0 "	12 "
Other services	0 "	0 "	5 "
Sum total	7 "	19 "	71 "

Source: Andersson, Å.E., Hårsman, B., Quigley, J.M (1997) Government for the Future, North-Holland, Amsterdam.

But the fact that the public sector in most cases are shown to be less effective does not imply that it automatically should hand in its tasks to the private sector. Public authorities are built upon a structure with purpose to guarantee for administrative justice and fair processes. They shall see to that all considerations are valued correctly and that no citizen will be violated.

If the purpose with a state intervention or activity mean that qualities as legitimacy or continuity plays an important role, you might say that it's a task for the public sector, since the public sector possesses this qualities to a larger extent than the private sector. Still this activity can be contracted out, if the purchase is modified to promote this qualities, though this also might be a way that turn the edge of the competition. Because if the otherwise desirable effect by competition, effectiveness as a result of lower prices, looses it's value, it might be better with a public producer, since they get a higher legitimacy anyway.

When public production is preferable

The Harvard economist Andrei Schleifer have specified four criteria about when public production are supposed to be a better alternative than private production. His starting point is that private production always is a better alternative than public production because of its superior efficiency. But no rule without an exception and the four exceptions are: 1) when opportunities for costs reductions that lead to non-contractible deterioration of quality are significant, 2) innovation is relativley unimportant, 3) ex post competition is weak and consumer choice are ineffective, 4) reputational mechanisms are also weak.

6. GOVERNMENTAL ENGAGEMENT IN MARGINAL REGIONS

The conception '*regional balance*' has for a long time been and is still a widely accepted key word in Swedish regional policy. The definition and operating of the concept varies, but it is often interpreted in terms of "equal accessibility to employment and services in all localities". It is implicit in all national sector policy programmes. The shrinking but still impressive budget for social welfare is by far the policy branch which contributes most to regional balance, by means of levelling out disposable income between individuals.

Marginal regions have been among the regions which are most protected and compensated by means of transfers within the welfare system. This is valid whether the marginal region is defined as a vast sparsely populated part of the country, a remote county, a set of small peripheral municipalities, a poor housing district in a city or a village in the outback's of a rural region. It is the sum of a range of policy instruments directed to individuals, enterprises, local governments, county councils and county administrative boards which produces this general support. The short supply of local resources and concentration of low income households are the underlying rationale for this kind of transfers. In Sweden as in many other countries, marginality has also been strongly associated with poor accessibility, which means that most sparsely populated areas are likely to be considered marginal. It is probably true that - in the thirty years of continuous expansion of the public sector until the mid 80s - several marginal regions became overcompensated in terms of public resources within different sectors. This means, among other things, that the real face of marginality has not always been revealed.

The role of the state in a liberating economy is to facilitate competitiveness of production and services by adjusting the labour force, dealing with the fallout of restructuring, to provide basic services and infrastructure and to encourage sustainability. Stringent fiscal policy to reduce national debts in nations with a fiscal imbalance and the cutting of government programs are universal prerequisites for the restructuring process to have effects. This constrains the redistribute role of the state which can then be questioned and modified, such that social services, including education and health are reduced and privatisation of government services is encouraged. Modifying the regional redistribution mechanisms, diminishing programs and privatising others, have all implications for marginal areas.

Policy shift

It seems that there is a general shift from the traditional regional policy objective of equalising the living conditions between regions towards the goal to stimulate growth in as many regions as possible. In Swedish regional policy there is an increasing concern for stimulating growth in each region. This concern for growth is in principle valid both in rural and urban areas. The underlying model is that increased growth should be attained by resource mobilisation and creative co-operation or partnerships between actors - private and public at the central as well as at the local level. At the same time, however, the bulk of public resources especially to rural and marginal areas are still

tied to policy programs aiming at compensating for poor economic conditions - i.e. limited growth - by levelling out the socio-economic conditions at the individual level. It can be argued that this is a restriction for the new policy focusing on the dynamics of rural change. This shift could include a change in focus from subsidies to individuals towards a support to local processes and "innovative milieu". Altogether, we anticipate increasing differences between the municipalities due to local policies concerning service subsidies and accessibility. Still, however, the general principle is that there should be a public control of the quality of services and a regulation of fees.

State sector and marginal regions

In 1978 the Swedish municipal workers union *Kommunarbetareförbundet*, became larger than the metal industry workers union *Metallindustriarbetareförbundet*. This fact illustrates how the industrial revolution, in the later part of the 19th century in Sweden, had been caught up and passed by the expansion within the service sector, which started after World War II. In a few decades the service sector had absorbed a good fourth of the working part of the population, especially to the public sector. This owes to the construction of the welfare state which entailed an expansion in personnel intensive public service as medical care and education. Between 1965 and 1975 only the municipal occupation increased by about 40 000 persons a year.²²

Since 1980, however, employment in government sector has decreased gradually. During the period 1980-95 employment in government agencies decreased with 64 000 or 20 per cent. The dependence of public government workplaces varies between counties - from Uppsala county with 11 per cent to Älvsborgs County with less than 3 percent. A consequence of privatisation is that the number of employees in remaining State Commercial Boards has been reduced to 20 000 employees. This is a decrease about as much as 85 percent since 1980.

There was and still is a concentration of government agencies to regional centres. In marginal areas the state sector was represented directly by postal services, police and road maintenance. In coastal zones also by pilot stations and customs. The presence of state agencies in marginal areas has also a symbolic meaning. Restructuring, reorganisation and deregulation have, however, proved to decrease the number of state jobs in marginal areas much more than in urban centres.

7. EXPERIENCES OF PRIVATISATION IN MARGINAL AREAS

Swedish Mail

There are certain experiences of regional consequences of deregulation in other sectors during the recent years²³. Deregulation of communication services took place in the

²² Tarschys D., s. 7

²³ SOU 1997:13

early 1990s. Postverket (*Swedish Mail*) had the monopoly of delivery of labelled mail and parcels and certain payments services until 1993. These services were deregulated and competition is now free in all branches of postal services. The State-owned Posten AB was established in 1994. According to the present contract, Posten AB should provide a nation-wide payment service and daily mail service to everybody. Distribution of mail is however not regulated in detail. Posten AB is not permitted to use selective pricing policy, i.e. prices for payment services and letter stamps should be the same all over the country. Posten AB is compensated (200 million SEK per year) in order to maintain services in sparsely populated areas. Deregulation has meant that new actors have entered the market. The private company City Mail has started mail delivery services in a few metropolitan regions. Several competing firms are active in the field of direct commercial advertising.

However, the mail service sector has undergone dramatic changes during the recent years largely due to other factors than deregulation. New technology (fax, email etc) has become a substitute for traditional mail. Rationalisation programs has meant that numerous post offices both in small places and suburban areas have been closed down. Employment has been reduced by 20 percent during the period 1995-94, as much as 25 percent in Norrland's interior. Accessibility to post offices has decreased in most places. The speed of office services has decreased. The consequences of these latter changes have been recognised primarily in urban centre and metropolitan regions. In sparsely populated area services have largely been maintained through mobile post offices and combined post office/general store. As a consequence of hardening competition from private firms, the market for postal services has become more specialised and differentiated. New specialised services are designed primarily to be supplied to businesses.

To sum up, deregulation of mail services has not necessarily had very large impact on the service provision in marginal areas. However, it is important to notice that the system of compensating Posten AB for less profitable market in marginal areas is the key factor. It should also be noticed that this compensatory system is under debate, since private operators as City Mail claim that there is no reason for higher cost in mail delivery in rural areas.

The Swedish telecommunications administration

Telecommunications has never been a monopoly in Sweden. Anybody has always had the right to produce telecommunication service. However, Televerket (*Swedish Telecom*) has always had the monopoly of connections to the public network, meaning a *de facto* monopoly. In 1993, this monopoly was abandoned. Televerket became the state owned Telia AB. Other operators have access to Telias telecom net at a costbased pricing system. There is a upper price limit for telecom services which both Telia and other operators have to respect.

As in the case of postal services, the telecom market has undergone substantial technological changes in recent years. This means that the spatial consequences of deregulation are very difficult to specify. An increasing share of the telecom market is

now in mobile telecommunications, which eventually changes the dependence of the previous infrastructure. At the same time, full access to the optic cable network will soon be of major importance in all regions. In some peripheral regions in Sweden, local (municipalities) and regional actors co-operate in order to invest in a regional network with high capacity.

Looking at the consequences of deregulation on prices for telecommunication service, it is evident that prices have decreased for three types of phone calls: international, long distance and regional. Charges for local calls have increased. Price competition between operators is hard on all markets, except the local. Competition is primarily oriented toward the business sector.

It seems that these changes in the cost structure has been relatively favourable to remote areas, experiencing falling prices for the long distance calls which they depend on. To sum up, deregulation of telecommunication has probably had small consequences for marginal areas compared to contemporary technological changes in the sector.

The domestic aviation

In 1992, Swedish Government decided that *domestic air services* should be totally deregulated. Pricing should be completely free. SAS, which had the majority of slots at the major hub (Arlanda) had to refrain from a number of attractive start/landing slots to competing operators. The domestic air service market has been quite turbulent since 1992. A number of small airports in southern Sweden have lost their scheduled domestic flights. Several small airports have established direct commuting international flights (Copenhagen, London). Most flights within Norrland have been replaced by direct flights to Stockholm.

Prices of air tickets have changed quickly according to the current competition at respective connection. In the long run it has become obvious that prices have been reduced substantially on big lines with strong competition, and increased substantially on weak markets. Reliability of scheduled flights has decrease on airports serving the interior of Norrland. In this marginal area, several municipalities and regional policy measures are introduced in order to maintain flight control services and other airport facilities.

New competition from government's programme for improved rapid train services has introduced new competition to air services in certain links between larger urban centres. This has not had any important consequence for marginal areas.

In summary, deregulation of domestic air services has had important negative consequences especially for economic activity in marginal regions. The situation has called for intervention - i.e. subsidies of airports - both by national regional policy and local governments.

These three examples of regional consequences of deregulation have in common that the "withdrawal" of the State has have more or less discernible negative consequences especially for marginal areas. In several cases local governments (municipalities) have been reacting in order to maintain services at a reasonable level. In some cases central government react by providing compensatory resources to improve services in quality and frequency and indirectly reduce prices.. It is obvious that deregulation programmes in these sectors were launched without any ex ante evaluation of the potential regional consequences of the reform.

8. PRIVATISATION OF ROAD MAINTENANCE

Since 1944 the National Road Administration have been responsible for operating and maintaining the Swedish national roads. Before the establishment of this governmental authority and the nationalisation of the rural roads there were no general view over the roadsystem and as a consequence the quality on the roads differed a lot.

From in-house production to contracting out

The early organisation of road maintenance had a clear regional focus. Basis for the organisation of the National Road Administration and the dividing of the national roadnet into regional districts was the counties and in each county there was a road maintenance authority. This organisational form brought an immediate regional influence by the county administrative board. In each county there was a Road Director who conducted the matters of the national roads within the county. Beneath him there were four offices for planning, operation, building and administration. Subordinate to the chief of the operational office there were generally 10 roadmanagers, each responsible for a local road district covering about 300-500 kilometers of roads. The roadmanager attended on the routine maintenance, emergency works, and snow and ice clearing. To his disposal the roadmanager had an annual budget, which was fixed and adjusted according to amount and load of traffic. He also directed an own staff of roadworkers of about 15 persons. Beside the own staff he also required a number of external sources, about 10-15 persons, for the maintaining during the winter when the regular staff did not suffice.

Do the right thing

The roadmanager was a key person and filled a fundamental function in the system. All decisions about what works to be done, when and where, were, however decided upon the local roadmanager himself. As a way for organisation, this form had its good and bad sides. Among the good parts was the flexibility in the organisation. The system with a fixed budget allowed the roadmanager to allocate resources as he thought would serve his local road district best. For example, if the winter happened to be mild, resources that was saved in case of a cold winter instead could be used where else needed and by this way reach a potential benefit for both road users and the overall conditions of the roads.

This form of organisation also utilised as well as relied on the accumulated knowledge about circumstances and details of the roads, that arose from a long experience of working in the local district. This experience, in connection with flexibility, made it possible for the roadmanager to "do the right thing at the right time". So if the roadmanager knew that a specific road would not get through with traffic while the frozen soil was thawing, he knew in what time it was necessary to close the road to prevent it from getting damaged.

The bad parts of the system was that the origin problem with varying standard on the roads still remained because of different preferences among the roadmanagers in adjacent local road districts. Primary this was a problem for drivers passing several districts. Yet, there were rules set by the main office about standards on different categories of roads. Another bad part was the supposed inefficiency in the old organisation. The technique seemed to be insufficient since it demanded a large amount of labour and was connected with high fix costs. The problems was believed to be caused of the size of the local road districts, that they were too small for making use of scale economics due to fixed costs. The incentives for renewing was low as well. Several attempts were made to reduce this inefficiencies but they did not succeed. One reason for the failures were the strong positions of labour unions, which were reluctant to changes that might reduce personnel.

Reorganisation '92

In purpose to create a more efficient and well-functioning organisation the Swedish government in 1991 decided that the National Road Administration should be reorganised. In the new organisation the planning and administration should be separated from the production. The decision was implemented in 1992 by the creation of two new parts: Road and Traffic Division, responsible for planning, administration and procurement of road works, and the Production Division responsible for production of new roads and maintenance services.

In the 1992 reform there were also a new dividing into larger regions. In the previous organisation there were 24 regional road maintenance authorities which were reduced to 7 regional road districts. Within the regional districts there were totally 250 local road districts reduced to 125. The number of production districts were reduced from 7 to 5.

The most significant effects of the reform were that:

1. the regional focus was to become less important in favour of national long-range planning of the transport system.
2. the reorganisation into fewer and larger regions implied a substantial efficiency improvement.
3. the National Road Administration's production activity should be performed in an enterprising approach and in forms of competition with private entrepreneurs.

The latter point implied that all production activities associated with roads should be procurement in the market through a competitive bidding process. Thus, both construction of new roads and maintenance of existing roads should be contracted out.

The market

The actors in the market of road maintenance are primarily the governmental agency Vägverket Produktion and the private entrepreneurs Skanska, Peab and NCC. In some districts there are also some local firms or associations taking part in the bidding. But this far it's only Piteå truck association (Piteå LBC), PNB and Övertorneå entreprenad (near the border to Finland) that small firms have won contracts. Most of the medium-sized companies in this branch have been bought up during the last part of the eighties and the beginning of the nineties or have ran out of business. The remaining small firms acts to a large extent as subcontractors to the big companies.

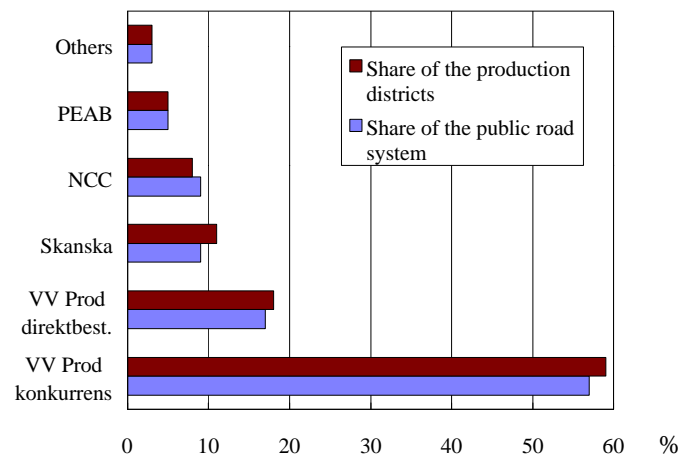


Figure 2. Distribution of entrepreneurs among the share of the production districts and the public road system in 1998.

Source: The Swedish national road administration

As the figure above shows, the governmental agency Vägverket Produktion, VV Prod., is the largest actor in the market. Of course they already had the organisation and resources for this activity, but in 1998 they also still had the advantage of getting orders direct from the national road administration for the districts that not yet had been contracted out. The extent of direct orders are shown in figure 2 in the bars named VV Prod. direktbest.

An apprehension of this privatisation have been that different characterise in the road district would have varying attraction for the entrepreneurs. But in figure 3 it is clear that the distribution among the entrepreneurs by the size of the road districts is rather uniform.

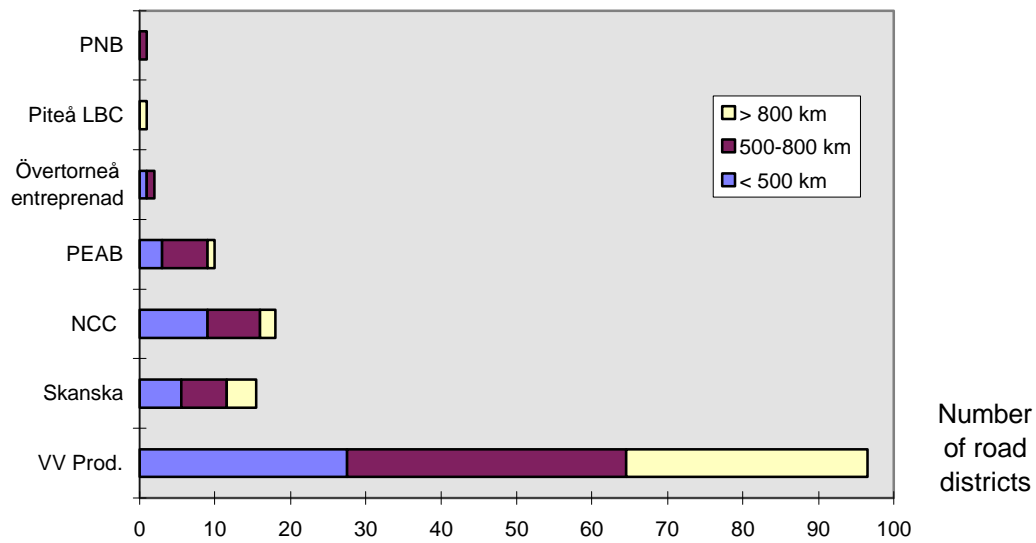


Figure 3. Distribution of road districts by size in kilometers, in 1998.

Source: The Swedish national road administration

The distribution by traffic load are shown in figure 4. Also here its no clear pattern indicating that private entrepreneurs would not show intrest in the road net with lower traffic load. On the contrary it is only VV Prod and PEAB who have road districts with high traffic load. But this figure does not tell us about how many bidders the separate purchasing had, which together with the prices indicates the level of interests.

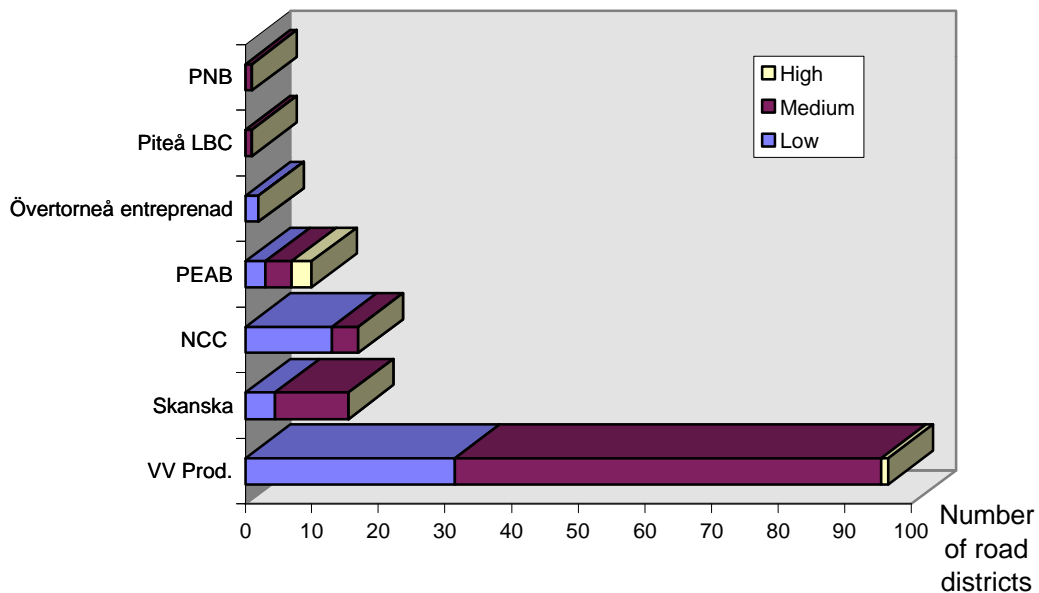


Figure 4. Distribution of road districts by traffic load in 1998.

Source: The Swedish national road administration

9. CONCLUDING REMARKS

The State sector in Sweden has undergone several changes during the last 15 years. Remarkable changes have occurred since the first years of the 1990s. State agencies and boards work much more efficient and most of them have decentralised their functions. Management by objectives has been introduced in most sectors. Previous state monopolies have been deregulated. Several authorities have been closed down and still more are reorganised. A number of Boards are privatised or converted to corporate firms wholly or partly owned by the state. Previously state agencies have been transferred to local governments (communes, county councils). Since the early 1990's, the State budget has been cut back substantially.

The explicit purpose of changes in policy regarding the State sector is almost always a national concern and motivated by sector rationality. However, almost all these changes have thorough regional consequences, some of them well known, some of the less obvious. Most of the current debate has circulated to the reduction of the number of jobs in certain localities. In vulnerable and marginal regions the role of the State in order to secure basic functions is often discussed. By that there is a need to analyse the many different kind of consequences, which take place in marginal regions due to changes in the State sector. There is also a need to analyse these consequences ex-ante, i e before changes are implemented. In this paper the case of deregulation of road maintenance was chosen for this discussion. The question that raises is which aspects should be considered in analysing the consequences of out-contracting of road maintenance in sparsely populated rural areas in Norrland, the northern periphery of Sweden. The paper serves as a pre-study for a fieldwork, which will be pursued in the autumn of 1999 and become part of a licentiate thesis in 2000.

The first conclusion so far is that - in principle - changes in the State sector have to be analysed in terms of a hierarchy of goals for regional development. This cover a range of goals from provision of basic services, local employment, "innovative milieu", infrastructure for a "learning economy", to mobilising of regional resources including human capital. Also, in principle, I argue that the State should declare more explicitly to which degree it will and can take responsibility for regional goals at each level. There is a need for clear definition of the roles and responsibilities of each actor, i e State agencies, the municipalities, the county councils, etc. Experiences from previous changes in the State sector, e g deregulation of communication services, reveal that local actors often have to react in order to correct for increasing prices of services or for deteriorating services. In most cases, municipalities are not compensated by the State for this intervention.

In a period of decreasing resources for State intervention and in the case marginal regions I discuss whether goals of "basic rank" should be emphasised at the expense of goals at higher rank. In reality, this is certainly the case. State intervention in marginal areas is fully dominated by subsidies to individuals in order to compensate for low income and to municipalities to secure basic services.

The role of road maintenance in reaching all these goals may seem obscure but not unimportant. Especially in marginal areas, an efficient and well kept road system is essential both for the development of old and new industries. E.g., in the case of Norrland's interior road maintenance is crucial for the development of the tourist trade at all seasons - hence it is part of the "innovative milieu" for these regions. Furthermore, the out-contracting of road maintenance can add to the dynamics of the business sector by introducing new entrepreneurs, new technology and hence contribute to the development of "the learning economy". Hence, I argue that the current debate on (supposed negative) effects of deregulation of road maintenance focusses too much on the employment side, i.e. the feared loss of local jobs. One of the important issues which we will deal with in the future research is to which extent the "national" system on contracting-out could be adapted or revised to local conditions and priorities in order to contribute to the whole range of goals for regional development.

REFERENCES

- Arrow Kenneth, *The Limits of Organisation*, New York: W W Norton, 1974.
- Donahue D. John, *Den svåra konsten att privatisera*, Stockholm: SNS, 1992.
- Friedman Milton, *Capitalism and freedom*, Chicago and London: The University of Chicago Press, 1962.
- Kingdon John W., *Agendas, alternatives and public policies*, 2nd ed., New York: Harper Collins College Publishers, 1995.
- Kommerskollegium 1996:1, Konkurrensverket 1996:5, NUTEK 365-96, *Byggsektorn - spelregler för ökad konkurrens*.
- Lenin Nikolai, *The Marxist Theory of the State and the Tasks of the Proletariat in the Revolution*, in *Lenin on Politics and Revolution*, ed James E Connor, Indianapolis: Bobbs-Merrill, 1968 (1917).
- Lundqvist Lennart J., *Privatisering - varför och varför inte?* in the edition *Politik som organisation* (Bo Rothstein red.), Stockholm: SNS Förlag, 1991.
- Nozick Robert, *Anarki, stat och utopi*, 1974.
- Rosen Harvey S., *Public Finance*, 4th ed., Chicago: Irwin, 1995.
- Shleifer Andrei, *State versus Private Ownership*, Harvard University, 1998.
- SOU 1997:13, Regionpolitik för hela Sverige.
- Stiglitz Joseph E., *Economics of the public sector*, 2nd ed. New York: W.W. Norton & Co, 1988.
- Stuckart Wilhelm, Globke Hans, *Civil Rights and the Natural Inequality of Man*, in the edition *Nazi Culture* (George L. Morse), New York: Universal Library, 1968.
- Wilson James Q., *Bureaucracy: What Government Agencies Do and Why They Do It?* New York: Basic Books, 1989.