

## Chapter 5

# Remunicipalisation in Germany and Austria: What does it mean for employees?

By Laurentius Terzic

In Germany, 347 (re)municipalisation cases have been identified over the last 16 years. The majority of cases concern the energy sector, but water supply, waste collection and some other sectors are affected. For its part Austria has a very long tradition of municipalities managing public services, which explains why more than half of the cases are municipalisations in response to citizens' growing services needs such as housing. What does this trend mean for the employees of the affected companies? What is it that changes for employees when there is a remunicipalisation of their activities? Most of the unions support the return to public management and hope for living wages and more public interest orientation. But there are also critics who warn against remunicipalisations given the current context. So how do workers' representatives position themselves?

### Privatisation for workers

In England, the motherland of the privatisation trend since the 1980s, it was the declared goal of Prime Minister Margaret Thatcher to break the power of trade unions and keep wages low. In Germany and Austria, discourse in favour of privatisations was less radical, focusing on promises around cost reduction and efficiency gains with private service provision. Nevertheless, privatisation in Germany and Austria also had serious consequences for the employees of former public companies.<sup>1</sup> According to calculations by the Hans Böckler Foundation, about 600,000 jobs were lost only in Germany between 1989 and 2007 due to privatisation of public services.<sup>2</sup> For those employees who could keep their jobs, privatisations were often accompanied with an intensification of

work with simultaneous income loss and worsening working conditions.<sup>3</sup> Contractual discrimination of newly hired employees putting them at a disadvantage compared to the old staff was common after privatisation. Precarious employment and temporary work increased. In some service sectors, such as waste disposal or building cleaning, the situation is particularly worrying. Many employees cannot make ends meet with their income, and additional government transfers are necessary to maintain their livelihoods.<sup>4</sup>

## The role of the workers' representatives in the remunicipalisation debate

In the past decades, German and Austrian workers' representatives have played a key role in the defence of the public sector. They were very active in the European Citizens Initiative "Right2Water" that sought to guarantee water and sanitation for all citizens within the EU, to stop the privatisation of water services and to achieve universal access to water and sanitation. Europe-wide more than 1.9 million people signed this initiative in 2014. Also important to mention is the initiative "Public is essential," which fought for publicly owned services. Founded by the German trade union ver.di, this initiative calls for an active social state, a social society and good work.

The credo "more private, less state" was denounced by the unions even before the economic crisis, when privatisations were still on everyone's lips. Since then, this scepticism has only intensified. In Germany, the trade unions' umbrella organisation (DGB) and the united services union (ver.di) demand "no privatisation against the citizens' will."<sup>5</sup> In Austria, the Trade Union Federation (ÖGB) and the Chamber of Labour (AK) regularly argue against privatisation and for safeguarding a wide range of public services. This attitude has recently been reaffirmed in the CETA debate.<sup>6</sup> In Austria, the trade unions were among the initiators for the petition for a referendum on CETA, TTIP and TiSA, which was signed by about 563,000 Austrians in January 2017.

The hopes of workers' representatives for improvements through remunicipalisation are largely based on the negative experiences with the privatisations of public companies. The public sector still has a functioning system with comparatively good working conditions and secure employment. As soon as the public authorities regain political control, they can put a stop to precarious employment and create permanent jobs subject to mandatory social insurance contributions. Also, collective bargaining is often higher with a public employer than with a private company, as exemplified by the waste management sector.<sup>7</sup> Remunicipalisation can also benefit the broader labour market in the cities and regions where it takes place. Employment can be created on-site and local purchasing power can be strengthened.<sup>8</sup>

Better conditions for the workers are not the only reason why the employees' representatives advocate for a strong role of the public sector. Ver.di highlights the "generation of revenues" for the public sector as well as the recovery of the "political flexibility" as advantages of remunicipalisation. Moreover, the "conflict between private profit maximisation and the orientation towards the common good" could be solved in favour of the public.<sup>9</sup>

## Effects of remunicipalisations on the employees: Case studies

There are no empirical data on the impacts of remunicipalisation on the employees, but case studies show which types of changes can be brought about by remunicipalisations. Within the scope of this research project, information about some 20 cases in Germany and Austria was collected to document effects on the employees, via literature and media research, mail requests and semi-structured interviews.

Some spectacular international remunicipalisation cases were caused by a rapid deterioration of the infrastructure after privatisation. An example for this is the buy-back of the British railway networks. The private

owners scooped handsome profits for several years, but the condition of the railways worsened. After a few serious accidents, the state had no choice but to rescue it for a large sum of money. In Germany and Austria there are no such spectacular cases of operational failure, but nevertheless some interesting smaller cases, for example from the cleaning sector. With the remunicipalisations, at the same time, the performance and the conditions for the employees could be improved.

*Box I*

### **Cleaning services in Wilhelmshaven, Freiburg and Dortmund**

In **Wilhelmshaven**, urban cleaning was remunicipalised because the performance of the private company was unsatisfactory. The employment contracts have since then become permanent and the employees are paid according to the collective agreement of the public service. The satisfaction with the performance of the cleaners has also increased.<sup>10</sup> There were similar positive changes in the remunicipalisation cases of the building cleaning facilities in **Freiburg** and **Dortmund**. In both cases, the cleaning teams were also given responsibility for maintenance (e.g. floors, furniture) after the remunicipalisation. This way, costs can be reduced in the long term.<sup>11</sup>

Motives for remunicipalisations can also be linked to strategic, economic and political reasons. These are usually cases in which the public authorities, usually municipalities, try to regain political control lost through privatisation. Municipal enterprises can expand the capacity to take an active role in employment policy, but also in urban planning or in decisions related to making an energy transition. Citizens' initiatives can also be the driving force. Their motives are usually the repatriation of

public services in the citizens' hands and the stoppage of the outflow of profits to large corporations. An additional motive in the energy sector is often the demand for the rapid implementation of an energy transition. Improvements for workers on wages and working conditions are rarely explicitly formulated as a goal, although employment targets in general are named more frequently.

In **Heinsberg** the ambulance service was remunicipalised in 2012. The decision was supported by the social democrats, the conservatives, the greens and the liberals. Improvements for the employees were a declared goal: They now get offered "a long-term security of the workplace as well as a uniform and adequate remuneration."<sup>12</sup>

The building cleaning facility in **Bochum** was remunicipalised in the 1990s, which was followed by the second phase in 2013. Since then, 660 jobs subject to social insurance have been created – for people who would not have had it easy on the labour market otherwise. This was accompanied not only by payment by collective agreement, but also by improvements in the working conditions. Prescribed working hours and safety standards are now followed, which often had not been the case under the previous private employers.<sup>13</sup>

There are also many cases where no changes were recorded for the employees, for example in the municipalisation of several theatres in **Vien-na**. The houses had previously been directed by the same directors; they were no longer creating new types of exciting productions; and visitor interest was declining. The goal of the municipalisation was an artistic transformation to give young directors the chance to reform the theatres. The municipalisation was carried out by an association established by the city. Apart from the management level, there were no changes for the permanent staff which is employed on the same conditions as before.<sup>14</sup>

In Germany and Austria, financial reasons are the most frequent motives for remunicipalisations. The specific backgrounds are different. In the

waste disposal sector, for example, sometimes only a few private tenders were being submitted. It happened that their offers were so expensive that tackling the task in-house was more favourable. In addition, remunicipalisations in the waste disposal sector in Germany are attractive because local municipal companies enjoy tax advantages. In other cases, electricity and gas suppliers promise to generate profits that the municipalities themselves want to absorb, rather than leave them to private shareholders.

In the 21,000-inhabitants municipality of **Elbtalaue**, the electricity grids were remunicipalised in 2013. The motive was primarily the strengthening of municipal finances through cross-subsidy. The profit-making electricity grids can now contribute to the preservation of the deficit-making swimming pools. But the remunicipalisation was also seen as a tool to create jobs in the region and to increase the regional value creation by awarding contracts to regional companies.<sup>15</sup>

In the **Rhine-Hunsrück district**, the waste disposal system was primarily remunicipalised to achieve savings for the municipality and to make a reduction of the waste fees possible. However, improvements for the employees were also made. They are now paid according to the collective agreement. By eliminating the existing overtime practice, five new jobs were created.<sup>16</sup>

Apart from positive examples, as mentioned above, there are also cases where the low wages have not been adapted to the level of the public service after remunicipalisation. In **Lüneburg**, purely economic considerations were at the heart of the remunicipalisation of the waste disposal. In order to avoid raising the wages of the employees to the level of the public salary scale, the city founded a subsidiary company. There a collective agreement “according to the regulations of the private waste disposal industry” was applicable. From then, new employees were only employed in this subsidiary company. The decision was explained by “maintaining and improving competitiveness against private companies, in particular in the case of a Europe-wide tender.”<sup>17</sup>

## Scepticism of workers' representatives in the energy sector

Despite all these arguments for remunicipalisation, there were cases in Germany where workers' representatives strongly opposed the reversal of privatisations. Particularly in the energy sector, controversial clashes took place between the employee representatives in the companies and the trade unions of the public sector.<sup>18</sup>

The reasons for the rejection are primarily found in energy and employment policy.<sup>19</sup> Thies Hansen and Peter Grau, employee representatives of E.ON, criticise the fact that proponents of remunicipalisation often lose sight of the framework conditions and constraints of the regulation of the energy market as well as the economic risks of grid operation. In these areas, remunicipalisation could be counterproductive and not in the interests of the workers.<sup>20</sup>

Many cities would take the energy grids for “a chicken laying golden eggs.” Particularly in connection with the energy transition, there is a high need for investments in the modernisation of electricity grids. This challenge would become even more expensive if the number of network operators grew and the networks became increasingly fragmented. Many cash-strapped municipalities would not be able to make necessary capital injections for grid operation.<sup>21</sup> It is feared that the municipalities, as new network owners, would pass on the financial pressure to the employees, who would ultimately be the victims.

According to Hansen and Grau, another problem in the energy sector is the so-called “incentive regulation.” Since 2009, network operators have been given upper limits for their revenues, which are determined based on a nationwide efficiency comparison. As part of the incentive regulation, network operators have to make further efficiency improvements every year. This means that “a system-incentive cost pressure is imposed on network operators, which usually has a negative effect on the em-

employees.” The problematic effects of the incentive regulation would still be intensified when the network is transferred to a new operator – for example, in the case of a remunicipalisation. “The purchase price of a network must not be included in the calculations of the revenue ceiling; which means that any interest payments and repayments for the network acquisition must be generated in addition to the requirements of the incentive regulation by the new buyer.”<sup>22</sup>

The worrying financial situation of several local authorities on the one hand and the energy policy framework on the other hand result in the following concerns: loss of jobs, pension schemes, site safety and loss of income as well as the wages in the energy sector are partly higher than in the public sector.<sup>23</sup>

*Box II*

### **Energy in Hamburg**

One of the most strongly criticised remunicipalisations by the unions was the repurchase of the **Hamburg** energy grids, which were at that time 74.9 per cent owned by the energy groups Vattenfall and E.ON., two of the biggest energy players within Europe. The remunicipalisation was initiated by more than 50 Hamburg civil society organisations. The civil society initiative achieved a referendum on the remunicipalisation of the energy networks in Hamburg which was held in 2013. The workers’ council feared a drop in income, a reduction in social standards and a threat to jobs. Employee satisfaction with the private employer was high and workers wanted the existing jobs, working conditions and wages to be maintained. Additionally, there was fear of a counter-financing of the public expenditure on the grid transfer at the expense of the employees.<sup>24</sup>



Despite the resistance of segments of the trade unions, of the majority of the political parties (SPD, CDU and FDP) and of employers' associations, the inhabitants of Hamburg voted for the remunicipalisation of the networks. In 2015, the electricity network was repurchased. The gas network remunicipalisation is to be implemented in 2018–19.<sup>25</sup>

Have the fears of the workers' council been confirmed after the remunicipalisation? It does not seem so: working conditions and salary have not deteriorated. The political commitment to maintain the collective agreement is limited in time, however. In terms of jobs, a positive conclusion can be drawn: There are now more jobs than before, since services are now purchased from (municipal) company subsidiaries.<sup>26</sup>

## Conclusion

In most of the investigated cases, improvements have occurred, while fears of worsening conditions did not materialise. Improvements are particularly common in those sectors where workers are struggling with low wages, poor working conditions and temporary contracts. Nevertheless, no generalising statement can be made as to whether remunicipalisation has a positive or negative impact for employees.

When remunicipalisations are linked to a return to the public service work regimes, they lead to noticeably better working conditions in most sectors. The energy sector is a specific case because it is “dominated by a few large corporations that have high profit margins and offer their employees comparatively good working conditions.”<sup>27</sup> However, even in the energy sector, workers' representatives expressed concern, but no real worsening has yet been documented. Rather, the salary scale and working conditions were taken over from the private owners unchanged.

The motive for remunicipalisation also plays an important role. If it is not a question of greater orientation toward the common good, but rather of cost savings and higher efficiency, then caution is required. These objectives must not be realised at the expense of the employees.

Despite all the enthusiasm about the return to public accountability for public services, it is important not to lose sight of the socio-political goals associated with it. The urban sociologist Andrej Holm warns: “If one concentrates *purely* on economic indicators in the assessment of public institutions, we already follow the neoliberal logic of action. Remunicipalisation alone does not solve any problem, since it does not necessarily lead to an end of narrow business management logic.”<sup>28</sup> The controversy about remunicipalisation should therefore not stop at the question of the legal form and the ownership structures, but focus on the effective social impacts of this process.



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## Endnotes

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