

UNU-CRIS e-Working Papers

W-2004/8

**Reconceptualising Public Services after Integration:
States, Markets and Entitlements in the European Union.**

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Abstract

Public services are a key facet of everyday life for all citizens and societies, so it is surprising that only scant attention has been paid to the emergence of the new approaches to them in an increasingly integrated EU. We critically examine these new approaches in this article. We show how the twentieth century justifications for public services premised on assumptions about national or local provision underpinned by economic theories are being supplemented at the supranational level by a normative, bottom-up, citizen-centred approach influenced by entitlements theory. We ask whether the EU experience is relevant for other integrated zones and, in the spirit of recent work on global public goods provision, we explore to what extent this entitlements approach to public services may be replicated elsewhere. We then question whether the new approach articulated through the project of a charter or framework directive is sufficiently robust to properly protect public services from the onslaught of competition and market forces and suggest ways of improving the approach prior to any adoption in a new European Constitution.

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The tradition of State intervention has roots that can be traced back to ancient civilisations, and was crucial to the process of nation-building during the C19th, but its ‘golden age’ in Europe is usually associated with the post-war period when vigorous involvement with a host of activities led to the ‘European model of society’ associated with strong Welfare States and significant public enterprise sectors.¹ This European model is usually held up as a contrast to the US model of private ownership and government intervention.² Throughout most of the C20th, State intervention constituted part of a broad consensus about managing the economy, and only the most extreme positions argued that State intervention had no role whatsoever in the economy. Many countries in Western Europe sought to create a ‘social contract’ whereby wages were moderated in return for high investment, and in which the expansion of Welfare State provision was central. Post-war State intervention was also inspired by Keynesian ambitions of promoting full employment, economic growth and the desire to avoid another great depression or war. The post-war discourse, prevalent in United Nations system, multilateral and bilateral aid agencies, underpinned by Keynesian economics and international relations as it was expressed at Bretton Woods, has been referred to as a ‘State-engendered order’ and the State has been described as ‘elaborated, authoritative and interventionist’.³ In this post-war era, global public goods would be promoted by United Nations Agencies (such as the IBRD, GATT, IMF or UNCTAD). Concerns about corporate industrial relations that

¹ The ideas in this article have been presented in a number of international conferences, the most important perhaps being the conference Regional Integration and Public Goods organised by the United Nations University’s Centre for Regional Integration, Brugge, Belgium, in November 2003. Authors are grateful to Mary Farell, Philip G. Cerny, Inge Kaul, Brigitte Young and all other participants for ideas and encouragement.

². See Pier Angelo Toninelli (ed) 2000, AUTHOR 2003, and Bruno Palier (ed) 2001.

³ Grillo 1997.

might create rent seeking and agency problems were understood, but they did not emerge as important issues until the financial crisis in the 1970s. Instead, public intervention was justified principally by the problems of market failures, the existence of public goods and/or positive externalities.

Criticism of State intervention, however, became sustained from the 1970s. The economic crises of the 1970s, the perception that the mixed economies in the west were not performing well, and dramatic technological change fused to fuel an ideological shift within international institutions and government elites which revealed a preference for the market over the State in business, resulting in the replacement of the 'State-engendered order' by the 'market-engendered order'.⁴ This preference was diffused globally through Ivy League universities, foundations and think tanks.⁵ The consolidation of the 'market-engendered, spontaneous order', located in the World Bank and the IMF, has been labelled the 'Washington Consensus'.⁶ In parallel with this, policy discourse was increasingly depoliticised, so

⁴ Rebecca Sutton 1999.

⁵ Joseph Stiglitz 2002, James Arnt Aune 2001.

⁶ The so-called Washington Consensus was a consequence of the Latin American debt crisis in the 1980. It assumed that sound economic performance required economic stability, trade liberalization, deregulation, privatisation and getting prices right. Once the State was scaled back, the market would produce efficient allocations and growth. However, the Washington Consensus ignored or under-emphasized competition policy, transparency, financial regulation, policies for technological transfer, democratic and sustainable development and possibilities for corruption. The emphasis on privatisation was to reduce fiscal deficits and macroeconomics stabilization. The assumption was that if one could create property rights then the profit maximizing behaviour of the owners would increase economic

that policy was explained in objective and value-free terms, with the rationality of decision-making fore-grounded.⁷ This helped to widen the gap between citizens and politicians, since policy makers were released from accountability to citizens because the decisions they made were ostensibly logical, rational and, thus, inevitable.⁸ Even areas of national and regional policy such as public broadcasting, which were previously discussed largely in terms of values, morals, language, identity, culture, citizenship and democracy, and which had largely escaped economic rationality, became framed in this new economic, neutral language.⁹ In line with these changes, policy preferences also shifted towards privatisation, deregulation and liberalisation.

The European Union (EU), in addition to being influenced by all these changes, experienced a process of integration, which also posed challenges to post-war traditions of State intervention. The EU constitutes the most advanced integration experience of the second half of the 20th. Economic integration was implemented first: since the Treaty of Rome in 1957, competition law and a single market have gradually been introduced at the supranational level. From the 1980s, attempts increased to broaden and deepen the integration effort to the social arena.¹⁰ Privatisation, liberalisation and deregulation policies have been apparent in the region from the beginning of the 1980s, though the most visible results could be seen during the 1990s. These policies have had a considerable, though irregular, impact upon

efficiency. Thus, privatising quickly and fixing the problems afterwards seemed a reasonable gamble. For a critical view see Joseph Stiglitz 2002.

⁷ This de-politicisation can be understood in terms of Foucault's use of the term 'political technology' whereby an essentially political dilemma is removed from the realm of politics and reconstituted in more neutral, 'scientific' and economic language.

⁸ Rebecca Sutton 1999. In the UK, Prime Minister Thatcher famously stated in defence of her politics, 'there is no alternative'.

⁹ Michael Tracey 2000.

¹⁰ Catriona Carter 1996.

countries in the EU as well as the rest of the world.¹¹ While there is some overlap between privatisation, liberalisation, deregulation and integration, these policies also have their own internal logics and dynamics. However, it is the combined logics of economic integration, privatisation, liberalisation and deregulation policies which have fused to form a critical juncture whereby the traditional justifications underlying State intervention have been fundamentally questioned.

The consequences of these policy changes are reflected in State withdrawal from a broad range of activities, from its role in public enterprises, to its provision of welfare. What concerns us in this article is the changing relationship between the State and public enterprises and, in particular, public services. By public enterprises, we mean the gamut of enterprises in which the State has participated historically, including the financial and banking, manufacturing and network industry sectors. The State participated in these sectors for a variety of reasons, including the failure of private initiative to intervene, on the basis of economic theories such as public goods, as well as a host of complex political and social motivations. By public services, we are referring to those activities that, independent of whether or not they have been or are government-owned or managed, have been regulated based on the belief that they are deemed to provide essential goods or services to the public (public transport, public service broadcasting, telecommunications, gas, electricity, water, network industries and so on). While State withdrawal from certain public enterprise sectors in the EU has been quite profound as we have shown elsewhere, (such as in the manufacturing, financial and banking sectors) this has been much more uneven, complicated and controversial in public services like telecommunications, broadcasting, transport and energy infrastructure.¹² The EU has introduced new terms, services of general interest and services of general economic interest, to replace the traditional term public services. This signifies much more than a change of name, since this change is accompanied by a new set of policies towards public services. We will go into detail into some of the conceptual problems with these new terms later in the article.

¹¹AUTHORS 2003, Pier Angelo Toninelli 2000 and Jospeh Stiglitz 2003.

¹² AUTHORS 2003.

State withdrawal from public services has caused controversy and met some resistance within the EU at the local, national and regional levels.¹³ Amongst the concerns are that a change in ownership (from public to private) may be accompanied with a fall in quality of provision, so the concern is that consumers', indeed, citizens', rights to these services must be respected and protected. Thus, any transformation of public services (via privatisation, liberalisation and integration) should be monitored by independent bodies in order to check that these services are being properly provided. The social partners CEEP (European Centre for Enterprises with Public Participation and of Enterprises of General Economic Interest) and ETUC (European Trade Union Confederation) articulated the dilemma in this way:

*'Citizens cannot understand why European construction results in the replacement of services of general interest which function satisfactorily by services of general interest which may or may not function as successfully and where responsibilities are less clearly defined. Privatisation can make it impossible for political control to be exercised, and it is not acceptable to reduce the political responsibilities of the public authorities in respect of services of general interests which were created for citizens. The political responsibility for services of general interest must continue to be clear, irrespective of the status of the service provider – private company, public sector company, inter-municipal body, public-private partnership – chosen by the public authorities to provide services of general interest.'*¹⁴

Calls have mounted for public services to be protected at the regional or supranational level, through the implementation of a framework directive and/or a charter, in order to guarantee a more 'positive' integration process characterised by social inclusion (as opposed to 'negative' integration associated with the removal of trade barriers and so on). The EU has responded to these demands by publishing a series of documents moving towards this goal. The Amsterdam Treaty (1997) was a

¹³ For evidence of how conflict at the local and national level in France became incorporated to a conflict at the EU level, see Bauby, Heritier (2001 and 2002).

¹⁴ CEEP and ETUC 2000.

watershed in this regard, with the inclusion of services of general interest, while the most recent and mature document is the Green Paper on Services of General Interest published in May 2003 for discussion and possible inclusion in the new Constitution.

While the historical evolution of public enterprises and public services in Europe has been well documented both at the national and European level, relatively little attention has been paid to contemporary developments in the light of integration – which, since this involves significant political, social and economic changes, are critical to their future. In particular, work on services of general interest, the new conceptual framework chosen by the EU to replace Public Services, is still relatively scant. Analysis to date has been mostly authored by a circle of Community legal scholars or by the social partners themselves.¹⁵ Thus, these developments remain relatively unknown to non-EU integration scholars. Moreover, judging by the discussions by governments, institutions, academics and interest groups, there are many obscure and undecided elements surrounding the new policies towards services of general and general economic interest.¹⁶ Given the centrality of public services to European societies, it is key to examine these developments for pragmatic as well as theoretical reasons. We argue, moreover, that the European experience may offer important lessons for other integration processes.¹⁷

In a post-Cold War world characterised by complex globalisation, the continued provision of public goods is theorised as increasingly problematic.¹⁸ The transformation of the State and the transnationalisation of business organisations open

¹⁵ Such as Peter Behrens for the first, and CEEP and ETUC for the second.

¹⁶ See the varied comments in response to the EC's publication of its Green Paper on Services of General Interest at http://europa.eu.int/comm/secretariat_general/services_general_interest/comments/authority_en.htm accessed last on 10 January 2004.

¹⁷ William Sutherland 2003 has pointed out the multiple difficulties facing integration processes and public goods provision in the islands of the pacific.

¹⁸ As defined by authors such as Philip Cerny.

up a governance gap whereby the whole question of how and where public goods can, should and will be provided is raised.¹⁹ In recent years, suggestions have been put forward as to policy solutions. Global public goods provision needs to be rethought, so that appropriate policy responses to the changing environment can be fostered.²⁰ In other words, we need to renew our justifications for public goods in the age of globalisation.

Kaul has pointed out that globalization is often (mistakenly) associated largely with privateness and economic liberalization at the expense of publicness. Among the consequences of globalization, however, is an unleashing of the potential for many more things to be out in the open, for public use and consumption.²¹ The reason that we need to rethink the justification for public goods is straightforward. At the heart of the traditional justifications for public goods is that they have two key properties: they are non-rivalrous and non-excludable. The problem, however, is that the innate properties of public goods are being questioned: we have seen that many goods can be shifted from the private to the public sphere and back again by the changing environment driven principally by policy change. For instance, when broadcasting was provided by analogue signals it was difficult if not impossible to exclude non-paying viewers. New digital communications technology allows us to exclude non-subscribers. But does public broadcasting content have any less a public mission? Perhaps broadcasting has a public mission even if the non-rivalrous and non-excludable characteristics are not unchanging innate properties of that good. Kaul boldly claims that the traditional definition of public goods is outmoded and lags behind world developments. Alone, it is inadequate and needs to be supplemented with other justifications. Moreover, even the terms public and private are social constructs and, in the end, variable and malleable norms. Furthermore, public good theory inspired by Samuelson has been largely grounded in national or local provision

¹⁹ Philip Cerny 1999.

²⁰ An international task force on Global Public Goods has been launched in 2002 on the initiative of the French and Swedish governments and the UNDP.

²¹ Inge Kaul et al (eds) 2003.

(a good case being national defence), whereas, increasingly, public goods have a regional or global reach thus need provision at the supranational level.²² Knowledge is an excellent case, as defended by Stiglitz.²³ Collective action, thus, is needed at the regional or global level.²⁴ An additional, supplementary justification based on normative associations is therefore being re-introduced. This is what Kaul calls 'public *de facto*' - simply, that is, what is in the public domain is public by definition. Whether this is shifted to become an excludable commodity due a technological development designed specifically for this purpose does not necessarily render that good any less public.

To an extent, our work can be located here, that is, the redefinition of public services in an integrated EU can be understood within the broader project at the international level to theorise and support public policy that seeks to guarantee global public goods provision. However, the extent to which the process of EU integration is a microcosm of globalisation or, in fact, a protectionist Fortress, the very opposite of global markets, is a critical question which is beyond the aims of this article. In the EU, the role and place of public services are being altered as integration deepens. The way in which public services are being justified is also shifting: if, traditionally, justifications were largely premised on sets of economic theories and were perceived of as being mainly relevant in the national or local sphere, recently, new theoretical justifications have been introduced in order to provide justifications at the supranational level of governance. How satisfactory are these new sets of conceptual frameworks and resulting regulatory practices in regard to the provision of public services? Are there lessons from the EU integration experience to be learnt at the global level, and vice versa? These seem, to us, vital questions, firstly, since public service provision is under pressure both globally and regionally and secondly, because the provision of public services is something that affects every woman, man and child around the planet on a daily basis.

Our aim is to examine the evolution of public enterprises in an increasingly integrated Europe with a focus on contemporary developments, particularly the

²² Paul A. Samuelson (1954).

²³ <http://www.worldbank.org/knowledge/chiefecon/articles/undpk2/index.htm>

²⁴ Philip Cerny 1995.

consequences of the reconceptualisation of public services as Services of General Interest and the inter-related concept Services of General Economic Interest. We argue that, in the face of integration and a new level of governance, the traditional theoretical justifications for owning and running public services which tended to be associated with an understanding of the nature of the market or good involved is being supplemented by a new normative approach that puts the citizen or consumer at the centre. While we are not saying therefore, that economic theory has become obsolete or irrelevant, it is argued that *a 'bottom-up', normative and citizen-centred theory of entitlements is necessary in conjunction with a goods-centred top-down theory in order to redefine the role of public services at the supranational level.* In order to redefine public services at the supranational level, to establish the foundations of EU policy outcome, the traditional economic justifications are inadequate; an approach which places consumers and citizens at the centre to ensure entitlements is also required. This, perhaps, is not wholly new, since economic theory not been enough alone to justify the creation of public enterprises: economic reasons have to be supplemented with political, social and pragmatic explanations too. What is new is this fusion of traditional economic theory (public goods, market failures) with a normative citizen-centred approach based on entitlements in order to justify and protect public intervention. This new approach, we conclude, though refreshing and welcome, particularly in its attention to the citizen, is not wholly satisfactory, since there are embedded contradictions which, while unresolved, spoil the alloy of ideas, aims and approaches. Another question we ask is to what extent could the entitlement approach be a useful way of considering protection of public services in other areas of regional integration.

Economic Theory and Public Services.

The existence of market failures, externalities and public goods are coherent justifications for State intervention. According to Stiglitz, public goods have two critical properties. First, they are non-rivalrous, in that their consumption by one individual does not detract from their consumption by another. Second, they are non-excludable, so that it is difficult, if not impossible, to exclude another person from enjoying the good. Public goods theory has been used during the twentieth century by

an array of governments to justify instances of public intervention. This is a supply-side approach based on an understanding of the characteristic of the good or services in question, or, put another way, a goods-centred approach. The notion of public goods and public intervention have largely been understood as processes that occur at the local, regional and national levels such as justice or defence.²⁵ 'Pure' public goods (such as defence or justice) as well as 'merit goods' (such as health or education) are sound justifications for State intervention in order to ensure that the consumption of a good is maximised since it is deemed to be desirable (where the social benefit exceeds the private profits, such as in the cases of education and healthcare) because of the generation of positive externalities. The notion of public goods also has an intergenerational dimension since future generations are not represented in economic decisions concerning the provision of global public goods such as environment protection or nuclear waste disposal.

Public services generally refer to the activities performed by the public sector. These include those carried out by the central, regional and local governments, as well as by public corporations. The aim of the public sector has been to provide goods and services where public intervention was thought to be necessary due to economic or social concerns. Some of the activities were considered to be public and merit goods, while others were private goods, and this suggests that State intervention was motivated by a mix of pragmatic and practical factors. So, the public sector was comprised of the public administration and social security which provided mainly public and merit goods, and public corporations, which provided public and merit goods as well as private goods in monopolistic and competitive markets. Public intervention into enterprises (electricity, gas, water, transports, communications and so on) has been premised on various grounds connected to these economic theories. For example, if an activity is said to be a natural monopoly, such as broadcasting or telecommunications, public intervention has been justified. In addition, if there are externalities (whether negative or positive) produced during an activity, State intervention has also been justified.

There is, however, no automatic relationship between public goods theory and public intervention. Not all public goods are provided by the State: knowledge, for instance, tends to be provided by numerous private institutions. Non-governmental

²⁵ Paul A. Samuelson 1954.

organisations such as the Red Cross, Amnesty International and Greenpeace protect or promote global public goods. Moreover, not all State intervention serves to protect a public good. On occasions, public goods theory has been used as an excuse for intervention when other reasons were more important. Furthermore, not all State intervention has been justified using the public goods theory. Far from it. Public goods theory is vital, but just one of a whole host of reasons given to justify public intervention. Public goods theory provided a solid justification for State intervention, but not all the goods provided by the public sector can be qualified as public or merit goods, they could simply be called State-provided or State-owned enterprises. Public intervention is not always a response to economic theory; it can be explained by political, social or other reasons.

Now, the existence of public goods, market failures and externalities have been a critical justification for State intervention during the 20th. This notwithstanding, these theories have usually been supplemented with many other reasons to justify State intervention. For instance, in the case of State intervention in the public enterprise sector, economic theories alone cannot explain the baffling diversity of activities.²⁶ In Yair Aharoni's seminal work on the origins of public enterprises, he highlights the complexity and, at times, the baffling examples of public ownership. He points out that, in some countries, enterprises in the railway and electricity sector were privately owned while, in other countries, enterprises in identical sectors were in the public domain. Within countries, there were differences of ownership in the same sector, for instance, within the automobile sector in France and Italy, companies such as Renault or Alfa Romeo were public, whilst Peugeot, Citroën and Fiat were private. By the mid-1980s, before the onset of massive privatisation programmes in Europe, there was a huge diversity in the size and sectoral distribution of public enterprises. Though economic theories constitute important and coherent justifications for State intervention into this sector, no one economic theory can fully explain why there was public involvement in funeral parlours in Austria, travel agents in France and Spain, and in bookshops in Sweden. Explanations of the *raison d'être* of public enterprises are much more complex, and economic theory must be supplemented with political, ideological, social, administrative, strategic and defence factors. The different historical trajectory of a country can be explained by various arguments including the

²⁶ Yair Aharoni 1986 p.72.

role of the State in society, the economic structure and level of economic development, the nature of the political regime, social capital and the business community, as well as the history of the country in question. On analysing the historical reasons for the creation of the public sector and public enterprises or the nationalisation of private activity, therefore, it is clear that there are a number of justifications including economic theories, political motivations, pragmatic responses to crisis, lack of private initiative and so on.²⁷

Despite the complexity of the justifications for State intervention, one of the tactics of those promoting privatisation and liberalisation policies is to be reductionist. For instance, it has been claimed that, due to technological change, the monopolistic nature of certain activities is vastly diminished or no longer exists, thus, State intervention can no longer be justified. Even in the broadcasting sector, which has not been affected substantially by policies such as privatisation and liberalisation in the EU with the important exception of France, it has been claimed that new communications technology such as cable and satellite render the ‘spectrum scarcity’ argument, which partly underlined the creation of state broadcasting monopolies in the first half of the twentieth century, obsolete. The conclusion is that public service broadcasters should be dismantled or face competition with private broadcasters.²⁸ State intervention is also being re-examined in the light of integration requirements and the introduction of competition policy to create a level-playing field. Though a blind eye was turned to the anomaly of public enterprises until the 1990s, they can no longer enjoy immunity from the application of competition rules.

Competition Policy and Public Services.

At the centre of the EEC/EU project as this developed institutionally in the post-war period was the creation of a single common market characterised by regional competition policy. This started with the establishment of the European Coal and Steel Community in 1951, and progressed with the European Atomic Energy

²⁷ AUTHORS 2003.

²⁸ Andrew Graham and Gavyn Davies 2000, Joseph Stiglitz 2002.

Community in 1957, while the aim of the EEC (1957) was broader still, to establish the free movement of goods, services, capital and persons. Far-reaching economic policies were developed by the supranational institution in order to overcome differences in national legislation and economic development that might act as barriers to trade thereby create a level-playing field. Meanwhile, it was left to Nation States to gradually phase out regulation and interventionist policies and, in the quest for competitive markets at a supranational level, a blind eye was turned to national government subsidisation or preferential treatment of public enterprises, because interference by European institutions could have been perceived as highly conflictive with Member States. The Treaty of Rome made reference to services of general interest in Article 90, but the policy was not put into practice sufficiently.²⁹

Until the 1970s, with economic crises and the onset of a shift in discourse and policy preferences in the direction of 'neoliberalism', the unresolved contradictions at the heart of EEC policy were overlooked. The changed context from the 1970s, in particular with technological change and the advance of liberalization policies, gave rise to a growing concern from some quarters about the possible damaging effects upon services of general interest. Historically, public intervention in different forms was commonplace in all economies and, until the 1970s, only the most extreme of debates would have argued that public intervention was incompatible with the functioning of the market.³⁰ Moreover, most prominent economists analysed and dealt

²⁹ Undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly shall be subject to the rules contained in this Treaty, in particular to the rules on competition, insofar as the application of such rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them. Article 90, Treaty of Rome.

³⁰ Even in the United States, where public intervention was relatively unimportant, it was commonly accepted that regulation was needed. For example, the Interstate Commerce Commission was created in 1887 to regulate

with the problems of competition in markets operating in networks in terms of the public interest. The control of natural monopolies had constituted, within the analysis of general equilibrium, the exception to the rule about perfect competition and the traditional justification for public intervention.³¹

At the same time, public services played an important role in the historical evolution of Member States, and there were many common features in terms of organisation, ownership, regulation and timing, as well as some differences. In terms of differences, public services were defined differently and occupied different places in the legal system. On the one hand, there were countries, such as in France, Italy, and Spain, where public services constituted a legal right from the nineteenth century. In other countries, such as the UK, Germany and the Low Countries, public services occupied a less marked place in the legal system, but were associated with specific obligations connected to the provision of public services (for instance, accessibility, quality, continuity and so on). There were also many similarities in public services across Europe, including the kinds of activities that have been managed by public enterprises, a resistance to allowing market forces to govern these activities, the introduction of similar laws on how services of public utility or of general economic interest should be run (such as monopolies, exclusive or special laws), and obligations on the operator. Justifications for public enterprises were also often common across Europe, such as the existence of natural monopolies, the lack of private initiative, the perception that a good or service was of strategic interest to the State, the provision of social justice and so on.

The traditional European model in which national or local public services are responsible for the production or provision of a range of public goods and services has been subject to much criticism since the 1970s, and the model's legitimacy has thus been undermined. Attack has come from at least four directions. Firstly, this has been directed by those who oppose public intervention of any type in the economy, whether this comes in the form of public ownership, management, regulation, or the supply of

railway tariffs, the Postal Savings Bank was inaugurated in 1910 and the Radio Act of 1927 was introduced for the licensing of stations.

³¹ Allais 1993, Marshall 1920, Pigou 1920 and Walras.

goods and services of general interest. Public intervention is inefficient, the claim goes, while the existence of natural monopolies and the supposed public or general economic interest is denied or ignored.³² Secondly, criticism is made by those who claim technological innovation has reduced, from the supply side, the barrier to entry and massive investment requirement of most service operating in networks. According to this perspective, the market power of so called 'natural' monopolies is more an institutional than a natural state of affairs. In addition, it is claimed that, on the demand side, technological innovation has required greater diversification and higher quality of services of general interest. Technological change, then, has overcome the entry barriers of some activities over which certain enterprises had previously exclusive or special rights. Thirdly, it has been argued that new industrial organization models offer innovations in processes that permit more flexibility and decentralization intra and inter firms, in order to respond to the growing and diversified demand for quality products and services, and increasing technological intensity. Fourthly, global, international or inter-regional agreements and internal reforms adopted by different national governments have created the need to redefine and put into place new institutional agreements and supranational regulatory reforms. These could be described as a spiral of liberalization and market competition requirements.

Despite all these criticisms, most European authorities responsible for policies of market liberalization and competition of services of general interest did not necessarily consider that these policies should be connected to the issue of the public ownership of these enterprises. However, it has been admitted that liberalization might result, in particular for the smaller economies, in a process of mergers, takeovers or acquisitions by larger foreign corporations, which could weaken the competitiveness of European enterprises at the international level. Not only is the sustainability of the public corporation at risk, however, so is the provision of services of general interest that are so crucial for everyday life.³³ In the face of the challenges of competition and the threat of takeovers, European governments have transformed

³² See, for example, the debate about the future of the BBC by Gavyn Davies and Tim Congdon (2000).

³³ EU 2001.

strategically their public enterprises through different means of corporate reform. However, these reforms have not meant the end of regulation nor of public intervention, rather, the redefinition of a regulatory framework which takes into account a range of competitive, distributive, geographical and environmental factors at the supranational level.

Given the characteristics of certain public services, reforms have been oriented towards ‘potential competition’ rather than ‘perfect competition’. Regulation demands intervention in favour of ‘potential competition’ in the face of trends towards explicit concentration (via mergers, acquisitions and takeovers), and virtual collusion agreements that result in the abuse of dominant position. One of the most controversial consequences of corporate reform is in relation to dividend distribution. Most of the privatised enterprises that provide services of general interest have introduced management and employee incentive schemes together with labour reductions. In addition to the distributive consequences, these schemes tend to favour profit-making in the short term, rather than sustainable growth in terms of the quality and quantity of critical services. Since the 1990s, corporate governance has lacked sufficient long term external control, because control by the representatives of local or State authorities has been replaced by shareholders with an exclusively financial interest being shown by a minority of institutional shareholders, and with a limited power over management, whose decisions may threaten the continuity and quality of provision of fundamental services.

Another problem is connected to the territorial dimension. On the one hand, regulations pursue the sustainability of the universal character of public services to all individuals and regions, yet the aim of private enterprise is to improve the financial performance by charging prices above the marginal cost in each case and by under-investing in peripheral and non-profitable areas. Finally, environment regulation requires intertemporal evaluation of the different options and enterprise strategies, because financial and economic criteria fail to take into account most negative externalities for future generations. Thus, it would be convenient to establish a regulatory framework based on international agreements, so that competition does not cause productive activities to have the worst externalities in the lesser-developed regions, since this would be a ‘global public bad’.

It became increasingly difficult to neglect formalising the role of public enterprises in the face of privatisation and more integrated markets within the region. A landmark

in the EEC's position towards public enterprises came in 1992 with the Maastricht Treaty, as well as the completion of the Single Market. Significantly, this change was paralleled by a shift in the way that the EEC sought to deepen integration by broadening its scope from mainly economic issues to embrace political and social concerns. In addition, decisions taken by the European Courts of Justice (such as *Corbeau* in 1993 and *Almelo* in 1994) were interpreted as turning points in the recognition of the need to limit competition and place more weight on the side of public services.³⁴

The change in the treatment of public services reflects broader shifts and is reflected in changes towards other areas of policy, such as social policy. From its emergence in the 1950s, social policy was acknowledged as important, but it was narrowly interpreted, being applied to working conditions rather than larger welfare ambitions and, in general, was left for Nation States to implement. Progress was stalled during the crises of the 1970s, so it was not until the 1980s that it started to enter the foreground of debate. From the 1950s onwards, the debate on social policy had focused on whether it damaged or improved economic growth but, regardless, it was believed economic growth had a knock-on effect of improving social conditions in a unidirectional way. The understanding of the relationship between economic and social policy changed in the 1980s; Carter argues that the traditional ideological debates between 'social welfarism' and 'liberal capitalism' collapsed, and social policy began to be seen as a *necessary prerequisite* for economic growth.³⁵ Economic and social policies were mutually dependent, indeed, not only was social policy not

³⁴ Peter Behrens 2001.

³⁵ Catriona Carter 1996.

perceived as being a burden on the economy, it was a 'productive factor'.³⁶ These changing attitudes manifested themselves in the adoption by the European Council in 1991 of the Social Charter in the form of a declaration, by all Member States except the UK. Due to the UK's resistance, a protocol was annexed to the EC Treaty and signed by eleven Member States. Subsequently, Austria, Finland and Sweden became signatories, as did the UK after the election of a new Labour government in May 1997. The Social Policy Protocol has now been abrogated by the Treaty of Amsterdam. Social policy was extended from focusing on the 'worker' to the 'citizen' in green and white Papers published on Social Policy in 1993 and 1994. So, it was just at the moment when privatisation programmes started to really take off in Europe in the early 1990s that social aspects were being formally recognised in the EEC/EU. This may at first appear contradictory, but it is logical in the sense that there was a growing recognition that, in the quest for financial and trade liberalisation, competition and privatisation, public services could be damaged, thus citizens' rights to public services needed to be defended. Heritier has identified how domestic political conflicts about the perceived threat of competition policy for public services in France became incorporated into the core EU agenda.³⁷ Bauby has noted the impacts of protests in the mid-1990s in France, Spain, Belgium, Luxembourg and Germany which questioned what was perceived as a whole-scale liberalisation rather than a more balanced approach to public service provision and competition.³⁸

During the trajectory of the EEC's life, there was a self-acknowledged tension between the defence of competition and public enterprises, but this tension became

³⁶ Catriona Carter 1996 argues the trigger for the change was not connected to debates about society but technological change, the prospect of long-term unemployment and growing labour flexibilisation. One of the important ways of justifying this change in thinking was the social dumping argument. This, it was argued, could lead to trade wars and preferential zones for firm location thus enhancing regional inequalities.

³⁷ See Heritier 2001.

³⁸ Pierre Bauby 2002

increasingly apparent after the 1990s. Competition rules were put in place to ensure that a European economic area based on market forces could function effectively. The European Community's competition policy is based on five main principles:³⁹

'1. The prohibition of concerted practices, agreements and associations between undertakings which may affect trade between Member States and prevent, restrict or distort competition within the common market; 2. Prohibition of abuse of a dominant position within the common market, in so far as it may affect trade between Member States; 3. Supervision of aid granted by the Member States, or through State resources in whatever form whatsoever, which threatens to distort competition by favouring certain undertakings or the production of certain goods; 4. Preventive supervision of mergers which have a European dimension, by approving or prohibiting the envisaged alliances; and 5. The liberalisation of certain sectors in which public or private enterprises have hitherto evolved monopolistically, such as telecommunications, transport or energy'.

However, the Community has to continually juggle contradictory aims, ensuring that internal competition does not render European business less competitive internationally. For instance, the first two principles may be subject to derogations:

'particularly when an agreement between undertakings improves the production or distribution of products or promotes technical progress. In the case of state aid schemes, social subsidies or subsidies aimed at promoting culture and conservation of heritage, are also examples of possible exceptions to the strict application of competition rules. The difficulty of pursuing an effective competition policy lies in the fact that the Community must continually juggle aims that are sometimes contradictory, since it has to ensure that: the quest for perfect competition on the internal market does not make European businesses

³⁹ Articles 81 to 89 of the EC Treaty, formerly 85 to 94

less competitive on the world market; efforts to liberalise do not threaten the maintenance of public services meeting basic needs.'

Services of General Interest and Regional Public Goods

Gradually, the concept of public services deployed by the EEC/EU shifted, not only nominally, but also in the way in which they were treated. Originally, the term public services was used in a dual way.⁴⁰ On the one hand, it referred to the actual (usually publicly owned) enterprises which supplied the public services, which were managed by individual Member States and, on the other hand, it was interpreted as services to which all citizens had equal rights to access and enjoy. It is this *latter* definition that the EU now wishes to stress. A decision was taken to eliminate the term 'public' in public services since, it was claimed, the term was ambiguous and confusing, particularly because the public sector and public services were often confused.⁴¹ In addition, the eradication of the term 'public' would send a signal that EU policy was about the provision of the general interest, rather than whether the provider organisation was privately or publicly owned. At the same time, this was also related to the view that public services must no longer be deemed an exception to competition rules, but seen as an integral part of a sustainable policy of growth. Thus, an effort to start 're-balancing' the competition/public services equation at the forefront of

⁴⁰ The concept of public service is a twofold one: it embraces both bodies providing services and the general-interest services they provide. Public-service obligations may be imposed by the public authorities on the body providing a service (airlines, road or rail carriers, energy producers and so on), either nationally or regionally. Incidentally, the concept of the public service and the concept of the public sector (including the civil service) are often, wrongly, confused; they differ in terms of function, status, ownership and 'clientele'.

⁴¹ EC 1996 p. 1

developments was begun, in order to strive towards the so-called 'European model of society'.⁴²

Once the word 'public' had been removed, the concept of public services was divided into two new terms: services of general interest and services of general economic interest.⁴³ These definitions purposefully detract attention from the issue of ownership and focus on the actual goods or services. According to the EU, this mirrored the reality of its policies, which were neutral, for instance, about whether a train service was provided by a privately or publicly owned firm. What mattered was that the citizens and travellers had a reliable, efficient and accessible train service. Providers of the service became known as 'service managers'. Though the EU claimed it was motivated by neutrality, critics interpret these changes as a means of clearing the way for the privatization of public enterprises, rather than attempts to clarify confusing terms.

At the same time as the EU took the word 'public' out of the term 'public service', it introduced a new way of framing the terms of reference and, in so doing, re-inserted the 'public' in a novel, bottom-up way. As we have said in the first section, analysts have argued that the decade of the 1970s marked a shift from a post-war 'State-engendered' order to a 'market-engendered' order. Around the turn of the century and millennium, there has been another shift, it has been argued, this time towards a 'citizen-centred' order. Now, we are not arguing here that the twentieth century can be reduced to a linear process whereby one set of world orders simply replaced the other. In fact, all of these discourses and frames co-exist through time: but, at different moments in time, one of the discourses tends to prevail (see Figure 1).

⁴² EC 1996.

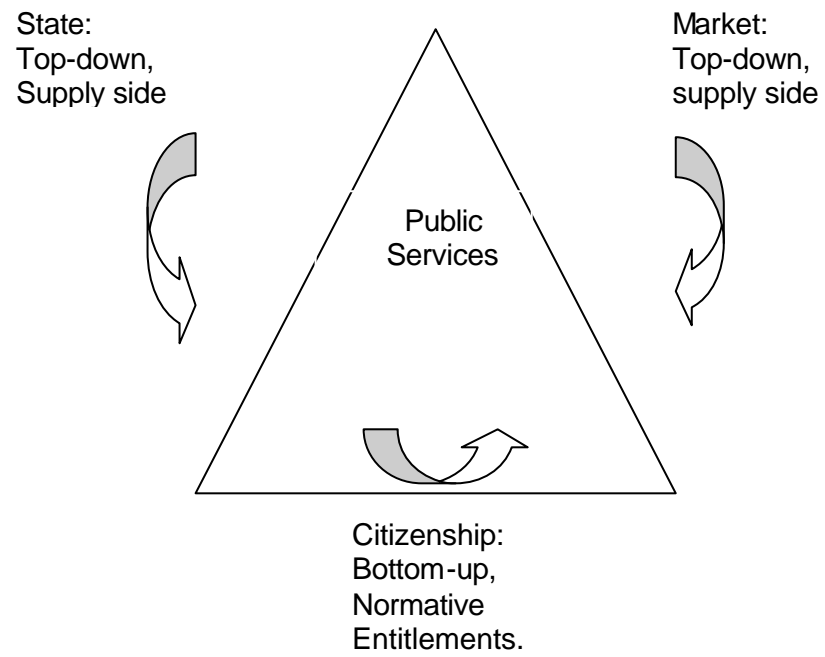


Figure 1: Competing and co-existing discourses in the twentieth century.

If the 'State-centred' and 'market-centred' discourses represented 'top-down' approaches (in the sense that it was either the State or the Market that would be expected to provide the goods to the citizens and society), the 'citizen-centred' approach is 'bottom-up' in the sense that its starting point is that citizens have a right to the supply of certain goods and services, regardless of whether the suppliers are private or public. Many EC policy documents reveal the concurrent usage of all these frames, mostly in a contradictory and unresolved way. The usual tendency is that, while there are great efforts to incorporate a citizen-centred approach into EU rhetoric, much of the policy recommendations allow the market-centred approach to prevail.

We see the new terms services of general interest and services of general economic interest as equally, if not, more, problematic than the old term public services. What do these terms actually mean?⁴⁴ 'Service of general interest' does not actually figure in the Treaty itself but was derived in Community practice from 'services of general economic interest' which does appear in the Treaty. The term services of general interest is used to refer to all services that are considered to be in the general interest and therefore subject to specific public-service obligations. These include non-market services such as education, social protection, security and justice, as well as market services such as telecommunications and gas. Within this concept is a sub-concept, 'services of general economic interest', which refers to commercial services on which specific public obligations are placed, including transport, energy and communications including telecommunications and broadcasting. One of the problems, therefore, is that the single term 'service of general interest' refers to two overlapping, but different, sets of activities. On the one hand, it refers to non-economic services, on the other hand, it can be used to refer to the basket of *all* services that affect the general interest, including services of general economic

⁴⁴ Due to the rather awkward terminology, and in order to clarify meanings, the EC has attempted to set out clearly what is meant by these two terms. The Green Paper (2003) foregrounds the definitions of SGI and SGEI.

interest. Ostensibly the two new terms were introduced in order to present EU policies more clearly. Confusion is caused, however, partly by the fact that two terms are used to refer to three, partially overlapping, sets of activities.

The promotion of ‘services of general economic interest’ was not formally considered as an EU objective until they were included in Article 16 of the Treaty of Amsterdam in 1997.⁴⁵ They are understood not only to be fully compatible with economic performance and competitiveness, but as a driving force of the same. They are also important in terms of social and territorial cohesion. Since then, the EC, along with its social partners, has been engaged in developing an appropriate policy for services of general interest. Despite some improvements in the light of the Amsterdam Treaty, the Community continued to be criticised for creating too much uncertainty in the provision of public services. For instance, the Court of Justice was left to decide, on a case-by-case basis, the proper balance between general interest tasks and competition rules. In addition, after the 1997 Treaty was approved, liberalisation policies spread to new areas of public services such as telecommunications and air transportation, however, the consequences of liberalisation policies were not always being observed on a systematic basis.

In 2000, the EC updated its 1996 Communication on services of general interest and, in the same year at Nice, they were accepted as an essential component of EU integration. Article 36 of the Charter of Fundamental Rights emphasised their importance in the construction of Europe though it did not go as far as to give citizens rights to these services. At the same time, the CEEP presented its Charter for Services of General Interest, and called for a framework directive to be agreed upon in order to consolidate the recognition of public services. The draft Charter contained guidelines

⁴⁵ The Amsterdam Treaty 1997 Article 16. ‘Without prejudice to Article 73, 86 and 87, and given the place occupied by services of general economic interest in the shared values of the Union as well as their role in promoting social and territorial cohesion, the Community and Member States, each within their respective powers and within the scope of application of this Treaty, shall take care that such services operate on the basis of principles and conditions, which enable them to fulfil their missions’.

about public service guarantees, and set out the basic principles it sought to be included: continuity of service, quality, accessibility, security of supply, affordability, and social, cultural and environmental acceptability. These would be required, the CEEP argued, to maintain social cohesion, reduce regional inequalities, and guarantee participation in social life, sustainable development and protection of common resources. The hope was that the legal basis of services of general interest would be asserted more fully in the revision of the Union Treaty. Concurrently, the organisation proposed the establishment of a European Monitoring Centre to undertake continuous evaluation.⁴⁶ This would consist of an independent body comprised of representatives from Member States, including public authorities, consumers, regulators, operators and trade union organisations, who would be charged with monitoring a specific sector.

Behind these proposals was the perception that the project of an integrated EU had still not established an integrated way of managing public services. Their policies were heterogeneous, depending on the sector in question, and biased by certain sectors. The result was a contradictory and muddled set of policies. Transport policies were the most established within EU legislation; transport had been mentioned in the Treaty of Rome whereby certain inherent public service obligations were recognised. Within the transport sector, however, a set of different obligations was laid out. For transportation by land, there were social, environmental and territorial objectives which had to be met, including special tariffs for certain categories of passengers, because it was assumed no commercial operator would do this by choice. With regard to air transportation, the authorities were responsible for imposing public service obligations in terms of serving peripheral or low-demand destinations, to ensure adequate services were provided in terms of continuity, capacity and price. More important still, air transportation operators had to guarantee a public service in the security of the network, which the market would not guarantee. For maritime transportation, obligations had to be met about which ports must be serviced, as well as the tariffs which were to be applied, the establishment of the crew and so forth.⁴⁷ The concept of public service was the most advanced for postal services. A universal

⁴⁶ CEEP 2002.

⁴⁷ CEEP 1995:29.

service, accessible to everyone, at a reasonable price and of good quality must be provided. In the field of telecommunications, voice telephony was not explicitly recognized as a universal service. However, the Green Book on Telecommunications recognized telecommunications as being in the public interest, and it was stated that this must be accessible to all users on demand. In the energy sector, electricity and gas were considered to be network services, and public intervention was recognized as legitimate in order to guarantee public service with regard to security, capacity, regularity, quality of supply, equal treatment among users, prices, operational transparency and the independent evaluation of the service. The audiovisual sector was not mentioned expressly as a public service, though it was admitted that it was important for the promotion of diversity of opinion, pluralism and general education.

There was, thus, a lack of a communitarian position or policy approach to the gamut of public services. Though there were some common basic aims for each sector, such as continuity, quality, efficiency, transparency, adaptability and so on, in each case, these terms were interpreted differently depending on the sector in question. Given the heterogeneous treatment in terms of the objectives for each public service sector, there was little overall consistency in the aims for security and social cohesion. These diverse approaches cannot be explained alone by the differences in each sector *per se*, rather, by the way in which policy has grown organically, sporadically and inconsistently. The heterogeneity of treatment is also apparent in terms of the finance of activities of general economic interest. In principle, cross subsidies were prohibited and the activities of general interest had to receive explicit subsidies. In certain services, such as postal services and telecommunications, the service contracts demanded compensation between activities to guarantee their universal character.

Public services had been treated as an exception to – or even incompatible with – the principles of competition, rather than as a complementary activity which legitimated public intervention, whether at the national or supranational level. This was largely because too little attention had been placed on socio-economic objectives such as social cohesion. What was needed was a more balanced approach in terms of competition and social objectives through public services, to the extent that the provision of high quality services of general interest were fully integrated in the definition of the objectives and activities of the EU on a par with the creation of the internal market. This rebalancing should be done with the public in mind, that is, from

the perspectives of attaining greater social cohesion, the extension of democracy, consumer protection and a more clearly articulated European citizenship.

The Green Paper on Services of General Interest represents the most recent attempt to address all of these concerns. There are various key issues which need to be highlighted. First, until now, EU policy towards services of general interest has been grounded in a sector-specific approach. In general, this is because it has more competence in certain fields, particularly the network industries (telecommunications, energy, postal services and transport) while, in contrast, it has relatively little or no competence in other public services such as broadcasting or social services. In the light of criticism about an *ad-hoc* and un-homogenous policy approach to these services, the EC has put forward two alternative solutions. Firstly, services of general interest could be treated as a homogenous whole by seeking to advance the core characteristics of all of these services such as universal service, continuity, quality of service, affordability and user and consumer protection. The advantage of this proposition is that this should increase the consistency of approach. The problem, however, with a catch-all approach, is that the basic features common to all services of general interest may be so vague as to require detailed add-ons, thus defeating the principle of a single rule. The second option is that EU policy could continue to treat the services according to sector.

Now, if the first option were chosen, the definition of services of general interest would need quite drastic adjustment since the existing definition is heavily biased towards the network industries. To the extent that the EC recognises the need to adapt and amplify the characteristics of services of general interest, it has suggested the addition of three main considerations: security (of supply), network access and media pluralism. Responses from public service actors (from the consumer and business perspectives) show concern about this inherent bias in terms of the weight of the network services in constructing the overall regulatory framework for services of general interest. Water, for instance, does not attract much attention in the paper, and there is a debate amongst the sector about whether water should be included as a service of general interest.⁴⁸ Public broadcasting interests claim their sector is too

⁴⁸ Contrast, for instance, the arguments by Watervoice the consumers group, and OFWAT, the UK Water Regulator.

‘different’ to be properly considered.⁴⁹ Many in the social services sector voice their concerns that the positioning of social services is ambiguous in this debate, and indeed they prefer it this way, since the services of general interest framework, they claim, it inappropriate for this field.⁵⁰ Among the greatest fear is the perception that there is a slippery slope between a service of general interest and a service of general economic interest, and that to enter the framework is a one-way path to commercialisation.⁵¹ The CEEP has demanded further considerations for inclusion, related to accessibility for the under-privileged, concerns about social and territorial cohesion, sustainable development, environmental protection and so on.⁵²

The Green Paper acknowledges the need for the evaluation of service performance across the EU and puts forward different methodological options such as sectoral evaluation, horizontal evaluation and consumer satisfaction surveys such as Eurobarometer opinion polls. Again, discussions about monitoring in the Green Paper

http://europa.eu.int/comm/secretariat_general/services_general_interest/comments/public_en.htm

⁴⁹ European Broadcasting Union’s comments are available at http://europa.eu.int/comm/secretariat_general/services_general_interest/comments/public_en.htm

⁵⁰ FAFCE, ISUPE, Red Cross, Caritas Vlaanderen do not find the framework suitable for social services, while the European Round Table of Charitable Social Welfare Associations welcome it.

http://europa.eu.int/comm/secretariat_general/services_general_interest/comments/public_en.htm

⁵¹ This is perhaps best articulated by the Convention of Scottish Local Authorities (COSLA).

http://europa.eu.int/comm/secretariat_general/services_general_interest/comments/public_en.htm

⁵² CEEP 2003.

are again much clearer for the sectors in which the EU already has competence, that is, for the network industries. It is, however, silent on the issue of evaluating other activities, such as broadcasting to say nothing of social services.

Representatives of public service provision have different responses ranging from wholesale rejection of the need for more legislation (the paper represents a 'regulatory arsenal' for some) to being warmly welcomed. At the heart of responses, however, is a fundamental disagreement about the consequences of liberalisation. The Green Paper attempts to gloss over acknowledging there have been negative consequences of liberalisation in its opening paragraphs, yet the *raison d'être* of the paper is to protect public services from negative consequences of liberalisation: the contradictions embedded in the paper are rooted in this fudging of the issues. The overall response of social partners is that progress is being made towards a redefinition of services of general interest from a citizen perspective which is to be welcomed. Uncertainty in the provision of services of general interest is thus being reduced. However, the bias is still in favour of competition at the expense of public service provision, and network industries at the expense of social services, broadcasting, water and other public services.

Conclusions: redefining public services in an integrated Europe.

One of our interests was to enquire to what extent the development of an approach to public service provision in an integrated EU could be applied to other zones of integration, including efforts to promote global public goods provision. On balance, we find positive and negative elements to the EU approach. International competition and European integration mean that traditional national regulation has to be redrawn at the supranational level, and it is the challenge of the EU to find the correct balance between the demands of the Single Market and the guaranteeing of a set of public services that are so vital to the quality of life. In the post-war period, the main European market economies extended the activities of enterprises through public ownership as a way of legitimising a national, federal or local process which fused the objectives of these enterprises with that of social welfare. In the current context of globalisation – or more specifically, the dominant discourse enveloping many 'neoliberal' policies – there is a tendency to de-legitimise the functions of the State and, at the same time, this accompanying reference to national cohesion. In this way,

privatisation is equivalent to denationalisation, to the extent it has caused a decoupling of public enterprises from social interests at the altar of internationalisation.

The challenges faced by public enterprises in the form of competition policy and neoliberal reforms are being resisted or controlled partially, and this can be witnessed in the renewed efforts to redefine public enterprises in an integrated EU. Though the historical experience of each region and the existence of market failures and public goods continue to be relevant, there is another perspective whose starting point is the needs and aspirations of consumers and citizens in the EU. Thus, public services (or services of general interest) are being redefined at the supranational level via the prism of entitlements theory as well as by economic theory. The deployment of entitlement theory helps get around various conceptual and pragmatic difficulties when dealing with public services. As mentioned, there are many similarities in terms of the historical development of public services across the EU (such as common organisational patterns: monopolies and exclusive rights to provide services). However, there are also important differences. Public services occupy different places in the legal systems of each country for instance. In addition, public services do not have equal importance in the current member states. In addition, as the EU expands over the coming period, it will inherit an even more diverse collection of historical experiences related to public services. Thus, the bottom-up, citizen-centred approach is an attractive one, which draws attention to the common rights of citizens as members of the EU rather than to the diversity of experiences. Entitlement theory is an imaginative way of counterbalancing the logic of competition policy.

There are, however, too many unresolved conceptual issues in the EU approach. Bias towards the network industries makes the service of general interest regulatory framework inappropriate for other services. This bias leaves services such as water, public broadcasting and social services unsure as to where the sector figures in policy developments. The perception of a slippery slope between a service of general economic interest and a service of general interest must be addressed. To the cynics, once a sector is drawn into being considered a service of general interest, it might be easy to argue that, due to technological change, it is becoming a service of general economic interest subject to competition law. Unresolved contradictions reflected in an unbridged gap between rhetoric and reality need attention before the EU approach becomes solid enough to be relevant for other zones of integration. Discourse aside,

EU policy towards public service continues to be very much biased towards the implementation of competition policy. Wherever State intervention exists, it is on trial, and the onus is still on the provider to prove that market forces are not being distorted rather than whether citizens are getting satisfactory public services.

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