

Remunicipalization in Germany - Trends and Interpretations

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Prof. em. Dr. Christoph Reichard*

Prof. Dr. Manfred Röber**

* University of Potsdam
Faculty of Economics and Social Sciences
Chair of Public and Nonprofit Management
August-Bebel-Straße 89, D- 14482 Potsdam
Phone: ++49 331 977-3807
Email: reichard@t-online.de

** University of Leipzig
Faculty of Economics and Management
Chair of Public Management
Grimmaische Str. 12, D-04109 Leipzig
Phone: ++49 341 97 33574
Email: roeber@wifa.uni-leipzig.de

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1. Introduction

Are we expecting a renaissance of the public interest? Is the pendulum swinging back (Wollmann/Marcou 2010: 256, Röber 2009: 227)? At least at the local level we are currently observing in Germany an increasing debate about the advantages of publicly provided services compared with privatized ones. Several municipalities are either buying back previously privatized utilities or are terminating concession contracts made with private suppliers many years ago. “Remunicipalization” is nowadays on the agenda of local politicians and increasingly also of the consultancy industry. However, there is so far not much evidence about the momentum of this new development. Is it primarily “talk” or is it to some extent also action? And what do we know about results in the second case?

The aim of this paper is to identify and to describe the current trends of remunicipalization in Germany and to analyse the underlying causes and arguments. Furthermore, we intend to discuss the consequences of such a remunicipalization process, particularly for the management of municipalities (e.g. the corporate governance of municipal groups). Finally, we would like to formulate some cautious recommendations how to deal with the issue of remunicipalization in future. The paper is based on an analysis of the current discourses on privatization and remunicipalization in Germany and some other countries and on recent secondary data from various German municipalities. Furthermore, we have recently drawn a survey among German municipalities about their experiences with remunicipalization.

Remunicipalization is about reversing a formerly privatized public service to local government. Consequently, it is an issue which is narrowly related to privatization, i.e. the transfer of a public task to a private corporation and the sale of the respective assets. Such privatization can occur in two variants: At first as contracting-out of public services to private providers over a given period (e.g. via concession contracts); this is also called *functional privatization*. Secondly as the ultimate transfer of a task with all ensuring responsibilities to the private sector (= *material privatization*). Remunicipalization is referring to both variants of privatization. Privatization is just one option of *institutional choice* which a municipality can refer to when deciding about the organization of public service provision. Usually, a municipality can choose among the following institutional variants of service provision (Grossi/Marcou/Reichard 2010):

- provision by the core administration of a municipality
- provision by a semi-autonomous agency or corporation owned by the municipality
- provision by a hybrid institution, e.g. a corporation jointly owned by public and private shareholders (also called institutional PPP)
- provision by a private corporation to which the service has been contracted-out (=functional privatization; in some cases this can also be a non-profit-organization)

- provision by a private corporation in case of material privatization (full retreat of the state).

Remunicipalization is a possible result of the revaluation of choice options in the light of former experiences with privatization programs. Apart from other reasons (mentioned and explained below) the recent global financial crisis was without doubt a strong driver for such a reappraisal, as the neoliberal dogma of private sector supremacy has been severely damaged.

2. International trends of reversing privatization

If we look back to the development of political and ideological discourses in most of Western societies, we realize a dominance of *welfare state beliefs* from the 1960s until the late 1980s. Services to the general public should be produced and delivered by public sector organizations, i.e. in an in-house mode. The main advantages of such a mode were regarded in the high professionalism (e.g. in health care or education) and in the strong legality, particularly with regard to equality, to universal availability of services and to political accountability. However, during the 1980s the welfare state came to its limits, fiscal stress and bureaucratic inefficiencies gained importance (Wollmann 2011: 5). From the view of the emerging neo-liberal market-oriented beliefs (very strongly fostered by EU-regulations; see for example CCRE/CEMRE 2008, Citroni 2010) the diagnosis of *state failure* became a striking argument to change the system towards marketization of the public sector and the implementation of market-type mechanisms. This was the time of *New Public Management* (NPM) with its preference for private sector based management concepts and for outsourcing and privatization. Thus, privatization was a hot issue during the 1990s and also the early 2000s; it was backed by the appropriate ideology and belief system. Since a couple of years, the belief in the supremacy of markets and economic solutions has decreased because of some disillusion and of critical experiences with the effects of privatization. The current move towards remunicipalization can be seen in the light of such a reversal from NPM-type market beliefs.

Service delivery by private entities is a well-known arrangement in the public sector. Especially in Germany social services and educational tasks have been outsourced to charity organizations (like Caritas or Red Cross) for a fairly long time period. The tendency for those arrangements has been increasing for the last two decades as a consequence of NPM (see for an international overview OECD 2005: 134 pp.), and the relations between local authorities and welfare organizations have been changed with the emergence of NPM-reforms. Strong ties of corporatism have become looser due to greater importance of performance elements in contracts with nonprofit-organizations and due to introducing competitive structures involving private, profit-oriented companies as providers of social services (especially in the field of elderly care). In general, outsourcing of public services to private companies is widely used in local authorities. According to a survey conducted by the Kommunale Gemein-

schaftsstelle für Verwaltungsmanagement (KGSt) – an independent consultancy agency organized by voluntary membership of municipalities, counties, and local authorities with more than 10.000 inhabitants – nearly 90% of all German local authorities have their own experiences with the outsourcing of public services (especially in industrial cleaning, waste management, and supporting tourism) (<http://www.kommunaler-wettbewerb.de/pbo/200.html>).

After several years of intensified outsourcing of public services the simple message that private enterprises provide those services cheaper and better than public entities has turned out to be more or less incorrect. Based on internationally oriented comparative studies on privatization projects we can instead observe the following critical effects (see Weizsäcker et al. 2006, PIQUE 2009, Gerstlberger/Siegl 2009):

- risk of rising prices for customers
- exclusion of low-income population groups from public services
- deterioration of quality (e.g. water supply, public transport)
- risk of private monopolies and inadequate competitive market structures
- problem of service break-downs in case of drop-out of private service providers
- unbalance between economic, social, and ecologic aspects (e.g. problem of externalizing ecological risks to the general public)
- loss of democratic control.

Apart from the mentioned critical arguments the debate on remunicipalization has been fuelled by increasing doubts about the controllability of service delivery in case of outsourcing. Compared to using the “make-option”, the „buy-option” weakens the controllability exercised by politicians and bureaucrats – even though it depends on the precision of stipulations. In practice available controlling options are often not used. Evaluations show that many city governments in their role as principal do not work with performance indicators and don’t monitor intensively and regularly the contractor in his role as agent delivering contracted services. Another challenge is the stepping-in of the public principal in case of insolvency or business failure of the contractor without having any capacity to fill the gap – or in the worst case without sufficient production know-how.

Against this background it is not really surprising that local authorities have been disenchanted with their experiences in privatizing public services. Hence reversing privatization, e.g. by re-nationalizing industries with a public interest-focus, is a process which has taken place in various countries. At the national level, the case of Railtrack in the UK is probably one of the most prominent: British government transferred the infrastructure assets of British Rail from the privatized Railtrack to Network Rail, a non-for-profit corporation controlled by government. At the British local level 80% of the outsourced services have been reversed to local authorities after termination of the compulsory competitive tendering (CCT) during the Thatcher days. In France there are various cases of remunicipalization: Paris has terminated its concession with private water corporations and has established a semi-public corporation for

public water provision in 2008. Similarly, the city of Grenoble rolled back its water services to the public after the former privatization has failed (Hall/Lobina 2001, Hachfeld 2008). In Italy the municipal energy corporations were quite active to defend their position in the energy market and to extending it by, for example, buying into ENEL and expanding production and transmission resources (Wollmann 2011: 9). And in the USA the trend of contracting-out local services to private providers has changed to the opposite direction within the last 20 years (Hefetz/Warner 2007: 557): “reverse contracting” (i.e. remunicipalization) has almost doubled in that time period.

But so far the described evidence is more episodic; there is no clearly visible international trend of remunicipalization around the world. In France for instance, the *grands groupes* in water provision are still dominant and the cases of remunicipalization are rather an exception. In Austria and Switzerland, there are almost no signals of such a trend. From an international comparative view we can summarize that a reversal from private to public service provision is to be more intensively expected in countries where privatization happened in a more radical form and where consequently more problems, failures and overestimations related to privatization occurred. The Napoleonic states as well as the Germanic states were no radical privatizers – consequently it can be assumed that the swing-back of the pendulum will most probably be fairly modest.

3. Privatization and Remunicipalization at Germany’s local level: some evidence

If we interpret the current tendency in Germany as a mild “pendulum swing” we have to realize that this is not the first one: Since the establishment of a “modern” municipal administration in the larger cities of Germany in the early 19th century we could observe at least three such pendulum swings (Röber 2009):

- At the beginning of modern municipal services in the middle of the 19th century various local services (water and energy supply, sewage collection and disposal, transport) were provided by private corporations. Nevertheless, even at that time a variety of providers (not only private and public, but also cooperative) delivered their services (especially in water supply) – sometimes already in institutional arrangements that could be classified as Public-Private-Partnerships (PPP) (Wessel 1995: 54). When faced with deficiencies in the quantitative and qualitative supply of water by private providers, municipal or public utilities gained a dominant position in these markets. Similar developments could be observed in gas supply – the share of public utilities increased rapidly and accounted for about two third of all gasworks at the beginning of the 20th century (Wessel 1995: 65). The development in the electricity industry has been a little bit different because production and distribution of electricity is only efficient when minimum size standards are met. Consequently, in 1914 45% of all German power utilities were in private ownership; 35% belonged to cities or rural communities, 15% to mixed-economy entities, and 5% to state-owned enterprises (Wessel 1995: 88). The increasing

importance of local and state-owned enterprises at the end of the 19th century resulted from management deficits of private companies to provide public goods or services¹ in the frame of a market economy (“market failure”). One of the effects was the already mentioned quantitative and qualitative shortfall in service delivery. Essential reasons for market failure are the neglect of external effects, limits of decentralized allocation of public goods, discrimination of weak market actors based on information asymmetry and inappropriateness of market reactions resulting in oligopolies or monopolies (Haug 2008: 166 p.). Particularly endangerments that were connected with the emergence of monopolies had a considerable influence on municipalization of service provision in the field of “Daseinsvorsorge”. This was the *first pendulum swing*.

- Local utilities have been steadily expanding in the 20th century. Based on the model of the “caring welfare state“ (see Vogel 2007: 40 pp.), publicly-owned corporations played a significant role in Germany – in response to negative consequences of market failures. Additionally, union-owned not-for-profit corporations as well as the variety of nonprofit-organizations also contributed to a strong welfare state. Public and nonprofit-organisations were an important element of a “Third-Way-Policy” between capitalism and state socialism – referring to a comprehensive steering philosophy based on Keynes’ economic and social policy. From the 1970s the whole idea of the welfare state and its institutions came under pressure because of obvious and sometimes only supposed inefficiencies (“state failure”). This happened not only in Germany, but in the entire OECD-space. Essential arguments to explain state failure are selfish behavior of politicians, budget-maximizing behavior of bureaucrats, lobbying of powerful interest groups, and inappropriate pricing for public services (Haug 2008: 167). As a consequence of the assumed *state failure* – and in line with changing ideologies towards the lean or minimal state – a second swing of the pendulum occurred: this time from public to private provision (=privatization).
- The (partly) privatized provision of local services has been in place for a couple of years. More recently there are growing complaints about privatization – mainly based on already mentioned elements of market failure. Potential causes of the “municipalization-renaissance” are obvious failures of privatization, anxieties of citizens, stronger self-confidence of local authorities in running their services efficiently and effectively, and increasing fears that the idea of local self-government could be hollowed out if more and more services were transferred to private entities that cannot be controlled politically (Röber 2009: 230 pp.) Thus there seems to be a third swing of the pendulum: from private back to public provision (=remunicipalization) – although information and data about remunicipalization are still of limited reliability. If the diagnosis of a new pendulum swing is correct,

¹ The German term for those services is „Daseinsvorsorge“ and covers in a narrow sense public infrastructural facilities (traffic and transport facilities, gas, water and electricity supply, refuse collection, sewage disposal,) and in a broader, more modern sense also educational and cultural institutions and hospitals.

then we may expect the renaissance of public utilities (as assumed in the title of a recent German book of Schaefer/Theuvsen 2012).

As far as privatization is concerned Germany belongs to the group of moderate states². Privatization was relatively strong in the energy and waste sector, it had a medium level in transport and health (hospitals) and it was and is rather low for instance in water and sewage management. In average, about 15% of all local utilities have been fully privatized and another 40% of them are partially privatized, i.e. they have apart from their municipality one or more private co-owners (Edeling et al. 2004). Consequently, a substantial scope for remunicipalization can mainly be identified in the energy sector. This is due to two driving forces: the first is the development of energy from renewable resources and the second is the date of expiry of existing electricity and gas concessions (cf. Libbe et al. 2010 and 2011). The share of renewable energy of Germany's total heat and electricity consumption shall be increased from 20% in 2020 to 60% in 2050 – accompanied by a 50% improvement in energy efficiency. This implies a tendency towards more decentralisation (Libbe 2012) with better chances for municipal public utilities to (re-)enter the energy market. According to VKU (2012)³ more than 60 new municipal energy utilities have been founded since 2007 – some of them as joint ventures with public and/or private partners. As far as concessions are concerned it is currently estimated that there are at least 20.000 electricity and gas concession contracts and that the majority of them will expire till 2016 – about 2000 contracts in 2011-2012 (Bolay 2011). During the last five years 170 concessions have already been taken over by municipal enterprises (VKU 2012).

Against this background a lot of options and institutional arrangements are available to discuss opportunities for local authorities to pursue and achieve their own infrastructural objectives (cf. Libbe et al. 2011, Lenk et al. 2011; HypoVereinsbank und Kompetenzzentrum für öffentliche Wirtschaft und Daseinsvorsorge der Universität Leipzig 2011, Röber 2009). The discussed issues include influencing the structure of supply, safeguarding employment, benefiting from company profits, business taxes, concession fees, and promoting the regional economy (more details in next section).

The trust of citizens into public utilities and the reservations of them against private business firms are most probably another important driver for remunicipalization. According to a poll of 2008 (conducted by dimap on behalf of VKU), the majority of citizens is trusting public enterprises much more than private ones. In the last years there were a number of referenda in large cities (e.g. in Hamburg, Münster, Leipzig, Düsseldorf, Freiburg) where citizens voted against the intended privatization of local

² Sales revenues in the overall budget (federation, states, and communes) were at about 1,9 billion DM in 1970, at about 4,4 billion DM in 1980, increased to 31 billion DM and reached their peak in 1998 with 53 billion DM (based on own calculations).

³ "The VKU is the association of municipally determined infrastructure undertakings and economic enterprises. These are companies that provide services of general interest in Germany within the framework of local self-government (VKU-Homepage).

utilities (Röber 2009: 231). Thus, politicians have to be cautious in privatization cases because this might damage their reelection opportunities.

A recent survey of the University of Leipzig provides some evidence about remunicipalization tendencies in the *local energy sector* (Lenk et al. 2011; HypoVereinsbank und Kompetenzzentrum für öffentliche Wirtschaft und Daseinsvorsorge der Universität Leipzig 2011). According to all responding German municipalities (>20.000 inhabitants) about one third of them are currently planning remunicipalization projects. But most of them are still in the discussion phase (75%), only a minority (20%) did already decide upon remunicipalization. The most relevant reason for municipalities dealing with remunicipalization is to ensure sufficient influence on the service provision (94%). Other arguments are goal conflicts with private providers (44%), poor controlling opportunities (21%) and socio-political reasons (21%). From remunicipalization they expect better steering and control opportunities (78,5%), generation of additional revenues (74%), positive effects on efficiency and synergy (49%) and lower tariffs for citizens. The majority of municipalities intends to establish new local corporations (71%), 69% are planning to terminate existing concession contracts and 45% of them will buy back privatized utilities.

The picture in *waste management* is quite similar although the ratio of municipalities opting for remunicipalization is with about 10% lower (Ernst&Young 2007: 16, Dreyfus et al. 2010: 156, Gruner et al. 2009, Verbücheln 2009). The main argument of municipalities is cost reduction. They expect to collect and to treat waste more efficiently compared with private providers. Furthermore they intend to fight against wage-dumping in the waste management services and to improve ecological standards.

In other municipal service areas, the emphasis for remunicipalization is rather low (Libbe 2012, Bauer/Büchner 2012). This is for instance the case in the water and sewage and in the public transport sector. Most service providers are still public, the ratio of privatized corporations was and is very low. In the local hospital sector, there is in contrary a slow process of privatization: more and more municipal hospitals are transferred to private owners.

In the water sector, the case of remunicipalization of the *Potsdam water utility* is particularly interesting: The city of Potsdam partly privatized its water corporation in 1997 by selling it to *Eurawasser*, a joint venture of the French *Suez* and the German *Thyssen* corporations (Hachfeld 2008). Shortly after the privatization the struggles between the city and the new owners increased (procurement contracts, manipulations of financial recording, tariff increases). The city as co-owner decided to buy back the sold shares in a quite adventurous and conspirative action of a hostile takeover (see details in Hachfeld 2008: 3). As a result, the water tariffs increased less intensively as scheduled by the private owners. In the German capital *Berlin* there are currently political activities to undertake a similar buyback of the partly privatized water utility as citizens are dissatisfied with the rise of water tariffs over time. A re-

cently conducted referendum encouraged the government to go forward in such a direction.

As a result of remunicipalization activities, we observe the (re)establishment of municipal multi-utilities (*Stadtwerke*). In the last four years, almost 50 new multi-utilities, owned by the respective cities, have been founded in Germany, providing several public services like water, energy, transport, waste under the same roof.

Although there are some cases of realized remunicipalizations and a lot of intentions of municipalities to go in such a direction, the empirical evidence of a “real” trend of remunicipalization is still weak. For sure there is a tendency at the rhetoric level (talk), but it is an open question to which extent such a discourse is followed by real action on a broad basis.

4. Analysis of the Motives of the Actual Remunicipalization Trend

In the current discourse on remunicipalization the actors have mentioned a series of reasons and motives why they are opting for re-internalization of certain utilities or services. The following arguments for remunicipalization have been frequently noted (Engartner 2009, Röber 2009, Verbücheln 2009, Wollmann/Marcou 2010; see also the empirical results of Lenk et al 2011):

1. Reaction on the critical perception of privatization effects (e.g. mounting tariffs, quality problems, poor competition)
2. Ensuring sufficient control and oversight on public service provision (avoiding hollowing-out of local self-government)
3. Financial reasons, e.g. to gain additional revenues (important for municipalities in fiscal stress) or to allow cross-subsidization of loss-making services (e.g. public transport)
4. Achieving synergies (for instance in multi-utilities) and better capacity utilization
5. Circumventing EU-regulations, e.g. complicated tendering rules (in-house provision is perceived as easier compared to difficult EU-wide tendering procedures)
6. Socio-economic reasons, e.g. to avoid wage dumping or to contribute to the regional employment policies
7. Political reasons: councilors and mayors are interested to be re-elected or to gain votes and as citizens are in favor of public utilities (see some facts above) the politicians try to serve their interests.
8. Last but not least there is a window of opportunity at the moment because numerous concession contracts are phasing-out in the next few years and municipal actors discuss whether to renew or to terminate them. Furthermore, the actual relaxation of EU-regulations following the Lisbon treaty 2009 allows for more flexibility of national and subnational governments to organize their institutions of service provision according to own preferences.

This list shows a broad spectrum of motives of municipal actors. Some of them derive from the perspective of the common interest (e.g. to provide better services to the

citizens), others are driven by the omnipresent financial crisis, by organizational factors (e.g. synergy) or by political and bureaucratic self-interests (e.g. ensuring control and power or re-election).

If we follow the above mentioned motives of the actors, we can assume that the underlying causes of the debate on remunicipalization are quite diverse (Kuhlmann/Wollmann 2010: 174pp.): At first, remunicipalization in fact is a response to former privatization activities and to its consequences. Citizen became dissatisfied with privatized services and reacted by protesting against additional privatization plans. At the discourse level, the previously dominant neo-liberal set of beliefs declined and more state-led principles and beliefs (again) gained momentum. A second reason is the long lasting financial crisis which is particularly heavy at local level and forces municipalities to search for new forms of raising revenues or to reduce their costs. Consequently, local politicians discovered the buy-back of privatized utilities and the in-house provision of local services as a promising means of revenue creation. Close to this argument is the observation that public utility managers have become more self-confident over the last years. They adjusted their attitudes to the commercial standards of the private business sector and they are more and more motivated to make “profitable business” (Edeling 2002). This was also supported by the coercive pressure coming from deregulated markets because of EU-liberalization policies. Finally, we can expect some isomorphic forms of behavior: After the first and early movers in Germany presented their plans for remunicipalization in public, a lot of followers appeared on the scene. In fact, remunicipalization has become a fashionable issue, at least at the rhetorical level. The consultancy industry (in this case including also the large law firms, as remunicipalization is a quite complicated legal issue) and to some extent the public sector unions (hoping to increase the number of public sector workplaces) contributed to the fashion wave.

5. Consequences of Remunicipalization for Public Sector Management and Governance

As far as we can see there is a broad consensus in Germany that remunicipalization cannot mean to turn back the clock and to re-establish the old structures in public service provision. Disregarding shortcomings and grievances before the privatization policy started would be rather short-sighted – even if we take into account that many privatization projects (especially in the UK and in the USA) were obviously driven by ideological reasons. Moreover, one would disable oneself from using any scope of design that can be provided by institutional arrangements based on public management ideas.

Assuming that the *raison d'être* of state-owned or municipal companies lies in their contributions and added value to society, cities must have the opportunity to perform public tasks and duties by means of their own enterprises in order to provide services and service security to affordable costs and prices. In contrast to private companies

with their focus on shareholder value – for state-owned or municipal companies it's a question of achieving an additional benefit for citizens ("citizen value") and of contributing to the common welfare of society.

If the opening-up and deregulation of the European market for public services lead to reduced public monopolies and more market pressure, municipal utility companies will have to put more emphasis in their decisions on economic criteria. This could weaken their role as provider of added value for society and could undermine their legitimacy (Edeling 2002: 160 and Röber 2008: 66). This does not mean to dismiss the special idea of public service provision completely because the public purpose and intended impacts can be reached not only with state-owned or municipal enterprises. Instead of that the question of alternative arrangements ("functional equivalents") must be raised in order to secure public service standards under the circumstances of open markets and competition.

Helpful suggestions from public management for service delivery and steering mechanisms correspond to consequences that can be drawn from the process of institutional differentiation in the public sector and from the blurred boundaries between public and private. An important starting point is to refrain from the traditional institutional and ownership-based perspective ("state-owned versus private companies") and to approach a functional perspective. The functional perspective refers to public duties and services and asks which institutional arrangements and organizational structures are most suitable to fulfill these duties and to perform these services.

Other suggestions from public management correspond to judgements that remunicipalization will only be successful if management structures are implemented in municipal companies that refer not only to public purposes but also to efficiency and effectiveness of these entities. New management structures must lay the foundations to use resources efficiently. This debate has a fairly long tradition in Germany starting already in the 1980ies resulting in the concept of the New Steering Model and will have to be carried forward with reference to the model of the enabling and ensuring state in connection with new concepts of public corporate governance (see for details Röber 2008 and Grossi/Reichard 2008).

And finally, remunicipalization has considerable effects on management requirements and management skills in local government. Better management in municipal companies without corresponding managerial capabilities in local government will most probably widen the competence gap between municipal core government and municipal companies. This is especially true if administrative bodies have not only to monitor and steer municipal companies, but also private companies and nonprofit-organizations that are involved in fulfilling public duties and in delivering public services (see figure 1 below).

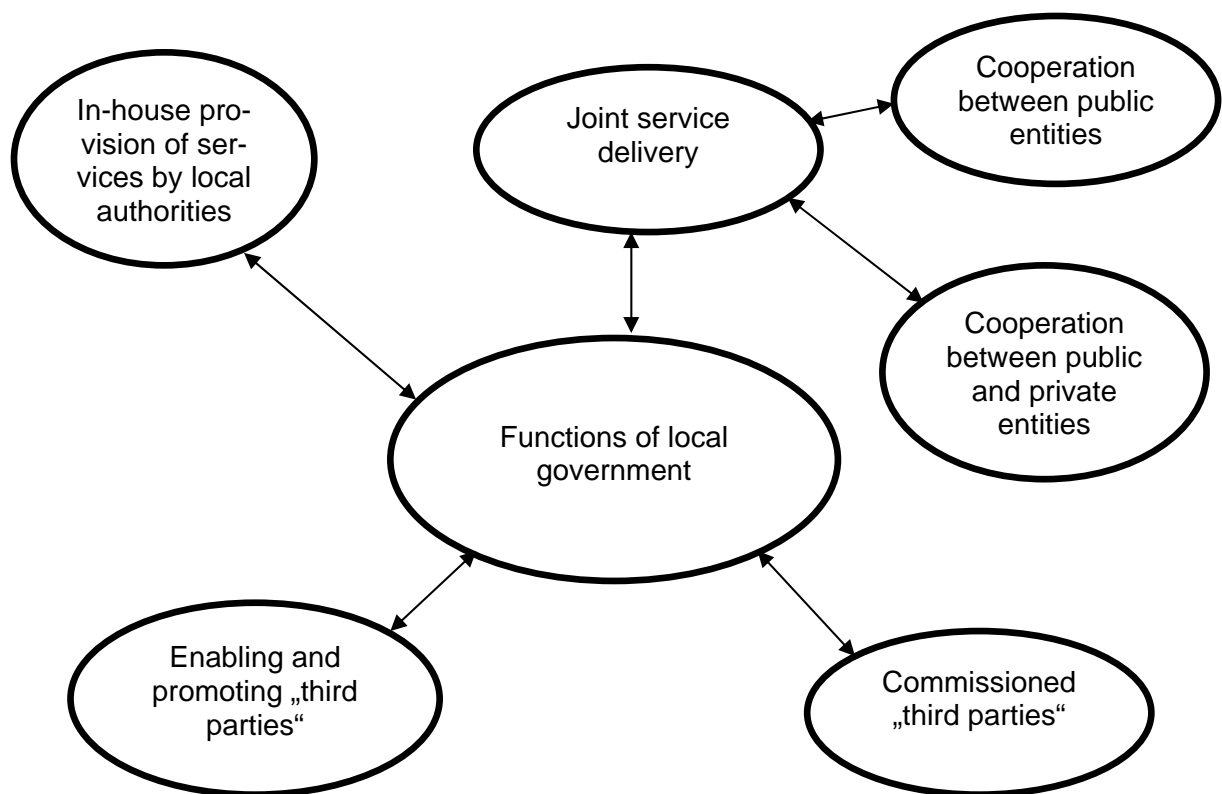


Figure 1: Options of municipal service delivery (Source: based on KGSt, 2010: 9)

A similar view – as far as the management requirements in (local) government is concerned – has been taken by the OECD in its guidelines on the corporate governance of state-owned enterprises (2005). These guidelines are directed amongst others towards the problem that the state has to “act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of state-owned enterprises is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness” (OECD 2005: 5).

6. Discussion and Conclusions

The re-integration of formerly privatized public services into the municipal service portfolio may have some *advantages* from the perspective of local government and of local citizens:

1. Citizens may benefit from such a change by paying lower fees and prices, but only if the municipality is able to produce more efficiently as the previous private provider. An advantage may be that a municipality does not have to pay VAT for various local services which reduces the price level to some extent. Furthermore, the quality of the respective service may improve in case of in-house provision.

2. The municipality may financially benefit from remunicipalization if the re-internalized service allows a surplus which then can be redistributed to loss-making services (cross-subsidization). It also may benefit because of synergetic effects.
3. The municipality and particularly the local politicians may benefit from the improved steering and controlling opportunities, but only if the municipality has an appropriate governance concept (see below).

On the other side, remunicipalization is not a guarantee for universal service improvement. As we know from various critical debates about the pros and cons of service provision by public authorities, there are a number of risks and of potential *disadvantages*:

1. There is no consensus among experts that public provision has a general efficiency advantage compared to private provision. Rather it is the opposite, particularly if we follow for instance the arguments of new institutional economics: Public organizations have dispersed property rights and show lower risk aversion because they don't face insolvency risks. Also the incentive structures are weaker (profit motive etc). An additional question is about the economies of scale: Does a municipality have sufficient capacities to produce a service in a cost-efficient way or would a large private provider be more efficient?
2. If critics of privatization point to cases of private mismanagement (e.g. of private monopolies) we have to accept that mismanagement is also not uncommon in the public sector. From history we know quite a large number of notoriously mismanaged public utilities. We also have to be aware of the problems deriving from red tape, clientelism, and spoils system which are quite frequent in public sector organizations.
3. There are various financial issues related to remunicipalization: In the case of buy-back the origin of the necessary financial resources has to be clarified. If a municipality is already in a critical fiscal situation with high debt burdens then there is probably not much room to finance such a buy-back. Furthermore, if the municipality adds another corporation to its holding portfolio, the debt burden will increase. As we know from the German local level, the municipal corporations carry about 50% of the total indebtedness and each additional corporation makes the debt situation more critical and also less transparent (Junkernheirich/Micosatt 2007).
4. There is a lot of evidence that the current corporate governance concept of German municipalities is inappropriate (Grossi/Reichard 2008, Papenfuss 2010). Neither the supervisory boards of the corporations nor the municipal holding administrations ("*Beteiligungsverwaltungen*") are able to steer and to control complex

municipal groups in an effective manner. Thus, it would not be wise to increase the complexity of such municipal groups by adding some more corporations. If politicians complain about steering and controlling deficits of their privatized services, it is unlikely to expect that such deficits would be reduced if the respective utility is integrated in the municipal group.

With regard to the current “fashion” of remunicipalization we identify a danger of romantic transfiguration of the merits of public economy. Although there are certainly several potential advantages of such rolling-back of privatized utilities, there is a need of neutral and serious assessment of the pros and cons. And this can only be done in a single case decision.

Finally, from a more fundamental position and very briefly, we want to express our impression that the debate about “privatization versus remunicipalization” might be a fairly outdated discussion (Röber 2009: 230 pp.) because both variants of service provision are distinct from each other only in terms of property. Hence the debate is primarily focused on ownership issues – neglecting questions of appropriate market structures und market regulations and resulting in an exchange of more or less ideological beliefs in basic regulatory measures (private versus public property). Most probably, ownership issues are much overestimated and less important for the efficiency and effectiveness of service provision.

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