

MARKETIZATION OF PUBLIC SERVICES IN GERMANY

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ABSTRACT

This article explores the very limited introduction of competitive mechanisms and of market or quasi-market instruments in the German public sector. Furthermore, it analyzes the role, trends and effects of introducing market-oriented incentives into the discourse on reforming state and administration in Germany. The article describes the general function of marketization and the different variants of competition in actual reform programs in several policy sectors. Two case studies that demonstrate "good practice" are assessed. Finally, the article analyzes some possible effects of increasing marketization in Germany.

THE Role of Markets and Competition in the Modernization Discourse in Germany

Although Germany has a strong state supply tradition, markets have for a long time played a significant role in delivering services of public benefit to citizens. Two aspects of this government and market tradition are of particular relevance for this article:

a) Public administration in Germany has a well-established public procurement system. Demand of numerous goods and services is announced by public tender and the goods are purchased through specific purchasing agencies. In a number of sectors, the state is an important demander of goods and services on the markets of the economy. However, procurement is restricted to such goods and services that are viewed as "marketable", e.g., road maintenance, construction services, supply of office materials.

b) A large number of public services have been devolved from state or local government level to the third or non-for-profit sector in Germany. Services in the field of child and elderly care, health care, personal social services and more are traditionally provided either by local authorities or by voluntary and welfare associations. Thus, there is no state monopoly in the social services sector, but a specific kind of relationship between the state or local government as the contractor of certain services, with a broad scope of non-profit-organizations as service providers.

From an historical perspective, public administration in Germany to some extent has always been based on elements of markets. The may be characterized as a mixed economy, combining public, private-for-profit and private-not-for-profit providers of public services (see Banker and Wollmann, 2000). However, competition among these actors has not been strong in the past. Shares of the market have been distributed in a fixed mode, based on corporatist negotiations.

Competitive powers have increased in the public sector during the last decade. This has been caused by the worldwide mainstream of neoliberal thinking and new public management (NPM). However, the influence of market-oriented concepts and NPM has not been strong in Germany during this time. NPM-related reforms in Germany were

quite narrow, concentrating on modernizing the internal management structures and systems of public sector organizations, but neglecting to a large extent the marketization issue (see Reichard, 1997 and 2001b). Compared with countries such as Australia or the UK, the aspect of strengthening competition and market-mechanisms has never played a major role in the German reform discourse. All actors - politicians, bureaucrats, unionists and others - have been and are reluctant to introduce competitive and market elements into reform concepts, and to allow experiments with such elements. Only the privatization issue has been of some relevance, particularly for the more conservative or liberal part of the political scene. Still, in Germany this has meant only to transfer public tasks or assets into private property and responsibility; it has not necessarily increased competition.

In analysis of marketization in the German context, we may identify two different broad types of competition in the public sector (Wolf, 1997):

- non-market competition, including benchmarking activities, performance comparisons, and internal administrative "quasi-markets,"
- market competition, consisting of public/public, public/private or private/private competitors, including also cross-border-competition of different public providers.

The following forms of marketization may be distinguished with regard to these two categories: benchmarking/performance comparisons, internal markets for administrative services, market testing (as a variant of public/private competition), contracting-out of services for a limited period of time, privatization (as a permanent transfer of a service to a private-commercial provider), and devolution to non-profit-organizations. Table 1 shows the distribution of the different forms of marketization in several sectors of public services.

Table 1: Distribution of Marketization Forms in Different Service Sectors

sector	benchmarking/performance comparisons	internal markets	Market testing	contracting-out	privatization	devolution to non-profit-organizations
internal services	x	x	X	x	x	
public security	x					
physical infrastructure				x	x	
Water, energy etc.			x	x	x	
health	x		x	x		x
social services	x				(x)	x
education	x					x

(x = some experiences in Germany available)

(Source: Reichard, 2002)

In contrary to the UK where the Blair Labor government has moved to some extent from competition to collaboration (Kirkpatrick, 1999: 9, referring to "best value" and to actual NHS reforms), the actual development in Germany may be described as the opposite trend: from collaboration to competition. The traditionally strong collaborative, network-type relations between local government and welfare associations have been replaced by a much stronger competitive relationship between public and private providers including local authorities. This is particularly the case in the social services sector. In the public utilities sector (energy, water, transport etc.) competitive structures have been strengthened in a similar way.

Actual Trends of Marketization in Germany

A first trend is the ongoing autonomization and corporatization of public entities, particularly at local level. Over the past 20 years, more governmental units - kindergartens, schools, hospitals, cultural organizations, infrastructure, water or energy providers, maintenance or cleaning facilities – have moved from being an integral part of the administration towards a more autonomous, self-governed status. In many cases this shift is connected with changing the legal status, usually from public law to private law. The aim is to gain a separate legal status and to be able to enter financial markets. This trend is to some extent comparable with the process of corporatization or agentification in the Anglo-Saxon world, e.g., with changing governmental entities into autonomous government corporations in New Zealand or with introducing next steps or executive agencies in the UK. Corporatization can contribute to competition; it may be seen as a first step towards opening-up markets. There are many cases where some time after corporatization government has made a second step, i.e., introducing "real" competition, for instance in the form of market testing or of inviting private capital or know-how for a public-private-partnership. However, corporatization appears to cause difficulties of political guidance and control. Politicians complain that they have reduced means and opportunities to steer the separated corporations toward their political goals.

A second trend is the benchmarking or performance measurement activity taking place for the past few years in the German public sector, again predominantly at local level (Reichard, 1998a). The use of performance indicators is connected with introducing the "new steering model" in numerous municipalities (Reichard 1997). These municipalities have been busy to describe all their services in the form of "products", according to a master plan, developed by the KGST, an association of German municipalities for improving public management. The performance indicators that are related to the different products of the local authorities are subject of voluntarily undertaken performance comparisons (see also Hill and Klages, 1996). There are two well-known examples of non-market competition in the form of regular performance comparisons: the Bertelsmann Performance Comparison and the "inter-communal indicator network" (IKO-Netz), operated by KGST. Numerous municipalities (or units of them) are collaborating with each other in a number of indicator networks. Each network concentrates on a certain policy field (e.g., childcare, museums, and street cleaning). They frequently exchange performance data, compare their figures and try to learn from good practice experience of other municipalities. It is primarily this kind of "competition by benchmarking" when public sector reformers in Germany speak about competition. However, the competitive force of performance measurement activities in

German local authorities seems to be rather limited. Effects depend on the readiness of bureaucrats to draw learning conclusions from the results. The whole process is completely voluntary. League tables as in the UK do not exist. Neither politicians nor the general public seem to be interested in results.

A third trend to be mentioned is the introduction of internal markets into public sector organizations. Internal markets are an important element of the “new steering model”. The model proposes the introduction of a contractor/provider-split and of service-level agreements between internal service units (e.g., building cleaning or maintenance, IT-services, legal advises, personnel administration etc.) and sector departments. Both sides are expected to negotiate about providing and purchasing internal services and about the prices to be paid for this. In the last years, internal markets have been implemented particularly in local authorities, along with the introduction of cost accounting systems - allowing internal transfer pricing - into the traditional German cameralist bookkeeping system. But, sector departments usually are not allowed to choose between different (internal or external) providers. The decoupling of the internal purchase commitment in most cases is still an unsolved problem. Thus, the next step of “market testing” of internal service providers is still at the beginning.

Having discussed different forms of non-market or quasi-market competition it may be interesting to take a view in the field of “real” markets dealing with public services. To what extent public sector organizations in Germany are exposed to market competition? Not surprisingly, market-competition is stronger in sectors with “marketable” goods/services, compared with “typical public”, non-marketable services (see also Table 1).

Due to an increasing competition from private sector and due to the ongoing deregulation activities of the EU commission, numerous services of public enterprises and utilities are under heavy competitive pressure. This is particularly the fact in electricity supply and in telecommunication. The last one is an example where most Germans currently experience quite positive effects of marketization. Since the telecommunication sector has been deregulated and the government-owned Deutsche Telekom AG has been partly privatized, phone call prices have been remarkably decreasing from month to month. Nearly everybody is spending less money since the telecommunication market has been opened-up to competition. A similar trend is just now visible in the electricity sector. Private electricity providers in Germany which three years ago only had a market share of about 10% are now doubling their stake.

For the near future similar developments are expected in the field of water supply and sewage disposal (now: 90% public and only 10% private providers), of gas supply and of public transport (particularly municipal bus or tram transport). The previous public quasi-monopolies are breaking down, private competitors are pushing. Local governments in Germany are seriously concerned about loosing considerable shares of their traditional income sources when competition in those sectors will increase in the next years. They undertake different efforts to meet future requirements (corporatization, PPP, internal restructuring, expanding in new market sectors, etc.). However, they suffer from different limitations, particularly from legal restrictions (civil service law, budget and procurement regulations) and wage differences. Public employees - especially at blue-collar level - earn higher wages (with a margin of up to 20%) than their counterparts in private companies. Thus, local authorities try to escape

from public sector labor market by establishing new, private law-based companies where they can use the same wage classification as their private competitors.

In the field of social or educational services the situation is also changing, but the market structures are different. Generally, we observe a trend to a more pluralistic setting of actors and to more choice options for clients or consumers. The traditional quasi-monopolistic position of local governments and of welfare associations - each having a clearly defined, stable region of action - has been cut down (see Bönker and Wollmann, 2000, pp. 340). Commercial providers as well as new small self-help groups are competing together with the established large welfare associations and with local authorities to provide certain services on the basis of performance contracts. In the field of health care, competitive elements have also been introduced from government by implementing the care insurance law which reduced the market entry barriers of small private commercial providers and opened-up the market to all suppliers of services, depending only on given quality standards. Additionally, consumer choice has been strengthened by giving the consumers free choice of (public and private) health insurance funds.

The following figures indicate some trends:

Table 2: Trends of Service Provision in Different Care Sectors

	public sector	third sector (NPO)	private commercial providers
hospitals (% of beds)	55 %	38 %	7 %
elderly care (% of places)	18 %	62 %	20 %
child care (% of places)	59 %	41 %	-

(Source: Statistical yearbooks, 1997 and 1998)

The data shows that non-profit-organizations still have a high influence in delivering social services in Germany. But the market regime has changed. The NPOs have to be more competitive in their prices and in their performance to survive. Furthermore, private providers are becoming more and more influential. It is expected that they will double their market shares within the next decade, particularly in health and elderly care.

A highly controversial topic in Germany nowadays is whether public sector organizations - especially local authorities or public utilities/enterprises - should be allowed to participate in “non-public” market activities, i.e., to produce and to deliver services without a clear-cut public interest. In a more general notion, it is the question of entrepreneurial appearance of public organizations, of not only “contracting-out” services to private providers but also of “contracting-in” services to the public sector which are to be delivered to customers. Local governments are eager to get access to new markets because they loose market shares in their traditional markets that come under increasing private competition in the light of EU-deregulation.

Examples for such “new” marketing activities of local authorities are:

- Waste and recycling business
- Maintenance and general services

- Custodial services
- Vehicle maintenance
- Parks and garden maintenance
- Geodetic surveying
- Facility management, cleaning of private office buildings
- Engineering services (particularly in fields like energy, water supply)
- Emergency services
- Local telecommunication networks (using existing technical networks)

Up to the present most of the non-public market activities concentrate on services that are narrowly connected with already existing public services. Some of the new products are the result of diversification. Others belong to the gray zone between "public" and "private" goods, if this differentiation is longer suitable at all. Several services are being offered to utilize existing and partly vacant capacities.

The legal framework regulating contracting-in activities is rather restrictive in Germany at the local level. The local government acts regulate that the production of services is only allowed in the case of a clear public interest, if private business cannot offer the service at a cheaper price and if the activities are restricted to the local area (i.e., no cross-border activities). One can imagine that differentiating between "public interest" and "non-public interest" is not at all an easy task and that numerous courts in Germany are therefore involved in decision-making.

What are arguments in favor of and against contracting-in activities? The following Table 3 summarizes the current debate in Germany. The arguments mentioned are frequently used by promoters and offenders of a relaxation of the legal boundaries of contracting-in for public bodies (Reichard, 2001a, 76ff.)

Table 3: Arguments For and Against Contracting-In

arguments in favor of contracting-in	arguments against contracting-in
insourcing = logical analogy to outsourcing	danger to local economy
necessary for survival (reduction of state subsidies)	public competitors fight with unequal weapons (no insolvency risk, etc.)
utilizing existing capacities	local authorities enjoy information advantages (e. g. building permits)
necessary for competitiveness	blockade of market entry for private companies
equivalent to the duty of covering a whole service spectrum (contrary to „raisin picking“ of private competitors)	dangerous financial adventures at expense of taxpayer
equivalent to offer services to the public which are connected with losses	diversion from fulfilling public core tasks

The answer to the controversial question whether public sector organizations should have the right to undertake non-public market activities or whether this must be prohibited is depending on the underlying political values. According to the liberal concept of the minimal state the answer can only be "no". From a liberal point of view

there should be a clear distinction between state and market and a restriction of state activities exclusively to public core tasks. However, the answer may be "it depends" in the light of the idea of the "Enabling and Guarantor State" (for details of this idea - in German "Gewährleistungsstaat" - see Mastronardi and Schedler, 1998). Under certain prerequisites and conditions it could be recommendable for public sector organizations to undertake insuring activities, but of course not at every circumstance. In general, public sector organizations that want to "go for market" should have as much as possible the same status and the same rights and duties as their private competitors. Factors among others are:

- entrepreneurial risk (insolvency must be possible)
- equal treatment with taxes and other duties
- same legal status of the personnel as employees in the private sector, no privileges
- no financial privileges (e.g., better credit conditions)
- no subsidies from other public authorities
- clear and effective set of sanctions against misconducting organizations
- concordance with the rules and regulations to be approved by auditor

Legislation and jurisdiction in Germany at present are mostly against contracting-in activities of public sector organizations. This is in concordance with the mainstream in the EU. However, if competition from national - and in the near future also from international - private companies will increase and will endanger work places in the public sector, the political perception of this question may change to some extent.

Practical Examples

The following describes two different cases of practical approaches to marketization. The first case deals with a well-known benchmarking program, i.e., an example of non-market competition. The second case informs about some first experiences with “market testing” in several local authorities in Germany.

The Bertelsmann Comparative Performance Measurement Program

Starting in 1990 the Bertelsmann Foundation has promoted performance comparisons among local authorities in Germany (see Adamaschek and Banner, 1997 and Adamaschek, 1998, for more details). The foundation supported the development of a specific benchmarking methodology; collaborated with numerous municipalities in collecting and comparing performance data and assisted the participating communes to draw the necessary conclusions from the comparisons. The whole program started with seven medium-sized cities, concentrating on tasks like residents’ registration, immigration, public order, social welfare, parks and recreation, local culture, adult education, local taxes and charges. At present there are more than 150 municipalities cooperating in a number of benchmarking networks. Up to now the foundation financed all expenditures for infrastructure, training and constancy of the program.

All municipalities that want to apply the Bertelsmann approach have to structure their actual goals along the following four general criteria of well-managed local government:

- Service mission (task fulfillment)
- Efficiency
- Client satisfaction
- Employee satisfaction

The majority of performance indicators are being used in the program concentrate on efficiency and on employee relations. Indicators related to task fulfillment and to client satisfaction are underrepresented. Policy impacts do not play a role within the program.

According to reports of the foundation a number of positive changes could be observed during the program. Among others it is reported that municipalities improved their customer orientation (opening hours, waiting time etc.), that they cut down their expenditures and they were able to increase their revenues because of interorganisational learning. There is some evidence, however, that the effects of the program have been limited. Some observed problems (Schuster, 2002):

- Doubtful value for money relation (costly procedures of data collection)
- Municipalities misunderstood the purpose of comparisons (they expected a non-realistic "100%-comparability")
- Too much concentration on data collection and only few opportunities used to learn from "the best of class"
- Limited orientation on quality and outcome
- Poor involvement of the customers (no feedback of data to customers, no establishment of user groups, etc.)

There is evidence from first empirical findings that the Bertelsmann program had only limited impact on the four declared targets. It was primarily an inneradministrative program, which did not integrate either politicians or citizens. Although the German benchmarking case is based on voluntary participation of municipalities - which was not the fact with the compulsory indicator comparisons the UK Audit Commission undertook during the Conservative's regime - some results of the performance measurement exercises are quite similar in both countries. It is among others the trend to concentrate on quantifiable indicators, to neglect impact criteria and the rather limited interest of politicians or the public in the data (Bowerman, 1995). From the marketization point-of-view it can be said that the non-market variant of competition proved to have only limited competitive energy to mobilize public sector organizations.

Market Testing of Services in Local Authorities

Beginning in 1998, about 100 German municipalities began collaborating voluntarily together within a "Municipal Network of the Future".¹ About 10 of them established a thematic subgroup called "Market Testing". Each of the participating municipalities selected certain services to be exposed to competition with private competitors. The subgroup met from time to time and exchanged their experiences, and they elaborated suitable criteria and regulations how to manage such market testing processes in the future. Selected services were among others:

- Internal copying services
- Cleaning of public buildings
- Building maintenance
- Construction services (planning, project management, maintenance)
- Road maintenance
- Street cleaning
- Waste collection and disposal

All the services have been produced and delivered by local authorities or utilities. Aim of the market testing exercise was to find out whether the costs of these services were adequate or whether private competitors would offer more reasonable prices. The participating municipalities followed some typical steps for testing the market: In some cases the respective units got more autonomy and freedom to manage. A clear

contractor/provider-split has been introduced. Several units undertook a comprehensive restructuring of internal processes; most of them set clear performance standards. The next step was to tender the respective services and to analyze the incoming commercial offers. All municipalities decided to allow their internal service units to adapt to the new competitive situation for some time (e.g., 3-5 years), before they would be treated in the same manner as private bidders. During the first years their costs were expected to be not higher as the price-average of all external offers. After this time their costs should be competitive with the price of the most competitive offer.

First experiences show that at least in some municipalities the tested units were able to compete successfully with private companies. Their costs were comparable with low bids. Referring to internal services, it was important to abolish the previously existing obligation of purchasing services from internal service providers. If sector units had a free make-or-buy-decision option to purchase a service either from an internal or an external provider, this was a strong incentive to internal service providers for good performance. However, the size and impact of this market testing exercise is rather limited. Putting public services under market pressure is still not at all widely used practice in Germany.

If we compare this small German market testing exercise with the experiences local authorities have gained in the last decade with compulsory-competitive-tendering (CCT) in the UK, we will find significant differences (Wegener, 2002). The German experiment is entirely voluntary, whereas CCT - at least during the Conservative's regime - was obligatory. In Germany, units of local authorities have been to some extent autonomies, but there was no introduction of direct labor organizations as it was the case in Britain. Furthermore, labor conditions of private and of public sector (especially wages) differ remarkably in Germany, whereas in the UK the differences are rather limited. The example shows that testing the competitiveness of public providers are not a big issue in Germany, but it was - and is to some extent - a highly relevant and controversial topic in Britain.

FIRST EXPERIENCES WITH MARKETIZATION IN GERMANY

In nearly every country where NPM reforms have taken place the issue of marketization is primarily a topic of what may be termed "market rhetoric". The term "market" is a merely a metaphor signaling that some kind of competition or of economic incentive is desirable for improving efficiency and effectiveness of public service delivery. In contrast to the developments in the UK where market rhetoric played a significant role during the last two decades of public sector reforms, the market metaphor up to present was not highly influential in the modernization discourse in Germany. As reforms in Germany concentrated on internal administrative restructuring in the last decade, neither administrators nor politicians used a clearly economics-based vocabulary of market terms.

The only variant of marketization that politicians - particularly from the Christian-Democrats or the Liberals - use is "privatization." The conservative federal government undertook big privatization programs during the last two decades, particularly in the field of public enterprises and public assets. Furthermore, it is a strong conviction of these politicians that privatization of public services will contribute to efficiency and

performance. Social Democrats and Greens still show more commitment to the classical welfare state. However, the “red-green” federal government from 1998 set new priorities in formulating the vision of the “Activating State” - to some extent inspired by the “third way” concept of New Labor in the UK - emphasizing a clear purchaser/provider split, exposure of public sector to competition, strengthening of the enabling role of the state, promotion of citizen empowerment and participation (see BMI, 2002). Thus, the marketization issue seems to be more attractive - at least as rhetoric - to the actual German government compared with the previous government. Even the public sector unions declare some commitment to marketization. They argue that public/private competition may be more attractive to public employees than privatization. They hope that if public sector organizations take part in market competition this may allow the survival of workplaces. However, they claim that public and private competitors must compete with “equal weapons” -- and they demand for fair rules and regulations of the competition.

Although systematic evaluation of the effects of marketization in Germany is missing, there are some observations, which coincide with general trends in other countries (Wegener, 1997, 1998 and 2002). Public/private competition has been initiated primarily in sectors with marketable services, where processes, costs, outputs and qualities can easily be specified and where at least some competitors already exist. Furthermore, public/private competition can be observed in sectors where the transaction costs of the public purchaser are limited. This again means clearly measurable results, repetitive tasks, and low level of uncertainty. Thus, it may not be surprising that sectors with a relatively high level of marketization in Germany (but at the general low implementation level mentioned before) are sectors concentrating on routine tasks and on blue-collar-jobs with relatively low qualification standards. Examples are waste collection and disposal, street cleaning, office cleaning, building maintenance, water, energy or telecommunication services.

Public service markets are usually not regular markets according to the rules of economic theory. Normally, we do not find market prices but regulated or politically determined charges or fees, if services are not delivered “free” to the customers. Furthermore, sometimes it is not the real customer who is demanding a certain service but a “proxy customer” like parents for their children or physicians for their patients. Additionally, we often find (quasi-) monopolistic situations on both the demand and the supply side.

There is some evidence that market forms can have some influence on the decision which form of “managed competition” may be most appropriate (Wegener, 1997: 103): public/private competition seems to be adequate in oligopolistic market structures. Public purchasers in such a situation have the means to strengthen competition if necessary, to increase the number of competitors and to reduce dangers of market failure. In polypolistic markets there are already sufficient (private) competitors. In this case the variant of contracting-out or of privatization may be an appropriate solution. In monopolistic situations it may sometimes be better to continue a public monopoly instead of transforming it into a private one. In such cases, variants of non-market competition like benchmarking may be a useful tool to increase efficiency and performance within the public monopoly.

According to the general debate about competition and to first experiences of marketing public services, we have to observe several preconditions of marketization (Reichard, 1998b):

The respective service must be “marketable”, i.e., it must principally be possible that private suppliers produce and deliver the service. Whether public core tasks like tax, police or prison services are marketable, is a highly controversial debate in Germany.

There must be some kind of a competitive arrangement - a “market” - where different actors meet with their offers and expectations and where the transfer of goods and resources is possible. Although such an arrangement is not necessary from the beginning, there should be positive chances to develop such structures. Sometimes it will be a task for public tendering agencies to initiate markets and to motivate private companies to take part in it.

The barriers to enter or to exit a market should be relatively low to be attractive for possible competitors. Market barriers depend on the specificity of necessary resources and of administrative procedures. "De-specification" - by deregulation or other instruments - may be an adequate strategic approach to lowering the entry barriers to many markets.

However, with the establishment of more markets in the public sector we also need adequate regulation: If different private and public providers compete with each other, clear and fair rules and regulations of the market procedures are needed. Aspects of regulation should be among others: legal, social or ecological standards of service provision (e.g., minimal wages or social insurance), fair pricing (problem of dumping prices), avoidance of "raisin picking."

Referring to findings of a comparative study of competitive elements in modernizing local governments in different countries, the following effects of public/private competition seem to be plausible also for the situation in Germany.

Efficiency and Productivity

Most cases show that the introduction of market competition had positive impact on efficiency (see Wegener, 1997 and 2002 for details on the following findings). In a number of sectors - particularly in the “blue-collar-field” - increasing competition resulted in cost reductions (although the validity of several efficiency studies seems to be rather limited; see also the critical comments of Pollitt and Bouckaert, 2000: 97). In the German case of transferring social, educational or health care services to welfare associations it is the general impression that the transfer did not have an impact on the reduction of expenditures. However, funding agencies expect better opportunities to cut future budgets because NPOs are expected to be less influential to policymakers than public employees and their unions.

An aspect that needs careful assessment is the transaction costs of contracting-out of public services. Decision makers often underestimate the costs of negotiating, fixing and monitoring/controlling contracts and the related services. There is evidence that transaction costs are higher in the case of contracting-out than in the case of internal production. According to some studies in Germany, transaction costs can be substantially high in some sectors, depending on the specificity of used resources and the

degree of uncertainty of future developments: the estimate ranges from about 6% of total costs in the case of sewage disposal up to 20% in the case of road winter services (Scholl and Thöne, 1998). One argument for higher transaction costs among others may be that public sector organizations tend to a higher degree of formalization of all processes related with contracting, tendering, delivering and monitoring services if they are produced by external providers. This is due to existing tendering rules and because of strong procedural controls by law courts. Such trends can be observed in German local government after the introduction of public/private competition (on similar trends in Australia, see Aulich, 1999). Thus, transaction costs should be subject of economic reflection. It may easily happen that these costs compensate a large part of the productivity gains if services are contracted-out.

Quality of Service

In contrast to many critical expectations of politicians and bureaucrats most empirical studies show that the introduction of market-competition did not have negative impact on the quality of services. This seems to be also the case in Germany. The reason for this is not primarily that competitions force the providers to produce higher quality. It is a more indirect effect: Quality improvements result from clear definition and measurement of quality standards in the context of contracting. Market competition causes more reflection about quality and it leads in many cases to the formulation of quality indicators and to the measurement and controlling of them. However, this does not necessarily mean that there are no cases of quality reduction after private providers got involved into service delivery.

Salaries and Labor Conditions

The reported efficiency gains of market-competition are to a great extent caused by a considerable reduction of the public workforce. The early results of introducing CCT in the UK are a clear example of this (Chaundy and Uttley, 1993, report of about 20% reduction between 1988 and 1991). Only a limited part of workplaces has been transferred to private companies. Intensity of labor has been increased since markets have been established. Developments in Germany point in a similar direction. Public authorities being exposed to competition experienced a severe reduction of workforce. Unions complain about intensification of workload. Wage levels of public employees - which have been higher compared with the private sector at least at blue-collar level - tend to converge with the lower private sector level. This is particularly because public utilities are establishing private-commercial-law-based corporations in which employees receive only the salaries of the private sector. At present, numerous public transport or waste disposal corporations in Germany are on the way to restructure them by transferring their personnel to the newly established companies.

Indirect effects of market competition

Additionally, the introduction of market competition in general has some other more indirect effects. Although there is not much empirical data available, some of the following tendencies are visible also in Germany.

Marketization often leads to a shift of financing forms: instead of taxation it becomes more popular to finance services with direct charges. This may have negative distribution effects. Low-income groups can be excluded from these services.

Marketization can also cause a tendency of externalizing costs to the society. In Germany, there are several cases where private competitors only employ staff with limited working hours that is not subject of social insurance; they externalize costs of social security because they don't contribute to the insurance funds.

Marketization may have impact on democratic decisionmaking and steering in local government. Competitive structures cause more autonomous units and consequently a higher degree of fragmentation within a local authority. Furthermore, opportunities of the council to guide and control these semi-autonomous units are decreasing. These effects are clearly visible in several local governments in Germany.

Marketization in line with other elements of the NPM-reforms may change the traditional administrative culture. Traditional bureaucratic values and attitudes may change towards a more entrepreneurial, customer-oriented culture. In consequence, this may lead to a convergence of educational requirements, labor regimes and conditions of the civil service and the private-sector personnel system (Farnham et al, 1996). In Germany, there is some evidence particularly with regard to the profession of public enterprise managers that are heavily changing their values and attitudes from bureaucratic state-orientation towards the self-perception of being "just a normal business-like manager."

Marketization may have an impact on the expectations of citizens against state and administration. It may be argued that marketization can stimulate more consumerist expectations of the citizens. They may not any longer be able to distinguish between government and business; both are perceived as service providers acting and behaving in a similar way. Passive consumerism may not be what reformers expect in contrast to expectations of an active, enabled and self-conscious citizen.

CONCLUSIONS

Compared with the United Kingdom and other Anglo-Saxon countries, Germany has had quite different experiences with marketization. The whole NPM reform movement started more than 10 years later than in Britain and it was not at all of such a dogmatic and obligatory caliber. Competition did not belong to the creed of the leading politicians. German reformers did concentrate on the internal reforms of the bureaucratic apparatus. The market and its competitive incentives have been "discovered" only in the past few years ago, and the issue and practice still do not play an influential role in the modernization discourse. If at all, non-market forms of competition such as benchmarking and performance indicator comparisons have been of some significance in the reform agenda.

However, market pressure is arriving in the public sector of Germany. It is primarily the result of the ongoing deregulation processes in the EU, and it exposes public utilities and enterprises to the risk of losing traditional quasi-monopolistic status. Local governments expect severe threats to their income situation in the near future. In consequence they increasingly experiment with new business fields, with variants of

contracting-in to open-up new income-generating market activities. Although law and jurisdiction at present are strictly against such an extension of market activities in public sector organizations, the future will show how policy makers and legislation may adapt to the challenges of a converging Europe and of the shrinking of the public sector.

The highly limited experience with marketization of public services in Germany allows some provisional conclusions to be drawn. The findings with regard to efficiency, quality and labor conditions are more or less in line with similar research results in other countries. Introduction of market competition usually had positive effects on efficiency and quality, and it has reduced the public workforce. Several other more indirect effects are subjects to further research because marketization trends are relatively new in Germany.

If we compare future prospects of marketization in Germany with the UK, it can be assumed that this issue will become more important and influential in Germany, whereas it may be of decreasing importance in the UK because of negative consequences of implementation strategies over the last two decades. However, both countries will be exposed to similar challenges as a result of EU liberalization policies.

What are the prospects of application of the marketization principle in the public sector in the long-run? Is the market really as powerful a tool as it has been proclaimed to be from the neoliberalist position? What solutions can we expect from marketization in the public sector where - not long ago - we observed rather severe problems of market failure? Is it a bit naive to believe in the curative power of market mechanisms in sectors where we have to deal with highly imperfect markets (Self, 2000)? If we accept that reforms take place in cycles, it seems possible that the current enthusiasm with market dynamics will be reduced sometime soon and that we may experience a revival of the (post?) bureaucratic state.

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NOTE

ⁱ This paper was originally presented at the 1998 British-German Workshop, "Public Sector Modernisation in the UK and Germany: Towards Mutual Learning from Experience?" in Berlin, 10-12 December 1998. It has been revised and updated. The author wishes to thank the anonymous reviewers for their advice. The cases explored herein briefly are based on an unpublished evaluation report that the author conducted on behalf of the sponsors of the KGST network; the evidence is drawn from interviews and analysis of various documents of networking municipalities.

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