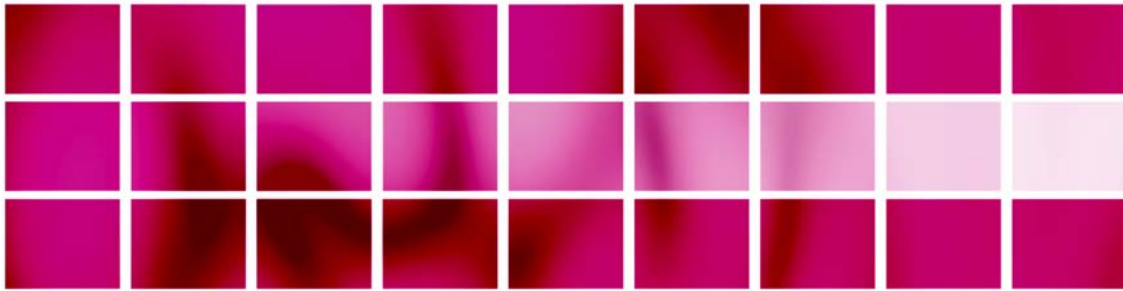


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**PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON  
QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)**

## ***Liberalisation, privatisation and regulation in the Swedish local public transport sector***

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Country report on liberalisation and privatisation processes and forms of  
regulation

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## INTRODUCTION

‘Local transports’ are not at all as ‘local’ in Sweden as in most other PIQUE-related countries. A most telling example is how the British report starts with an overview of local transports in London, a city with 7.4 million inhabitants within a rather limited area. Sweden, on the other hand, has slightly more than 9 million inhabitants in total, spread over an area that is the third largest for a country within the EU. Ergo, what is considered as local public transports in Sweden is often what other countries should consider as long distance traffic. Keeping this in mind, we shall here try and outline the most important features of this complex industry in Sweden.

### 1. MARKET STRUCTURE

#### 1.1. Market structure before the liberalization process

Public local or regional transports have never been under total state monopolies in Sweden<sup>1</sup>. The state-owned railway company *Statens Järnvägar*, SJ, has always had a great share of the regional, intercity bus transports, but in parallel with private enterprises. In the larger urban areas, the head provider has usually been the municipality government.

As in most other infrastructural sectors, though, public transports were liberalized in the 1980s and 1990s as a result of the new, neo-liberally inspired economic paradigm. The reforms were, as mentioned in other PIQUE reports, largely launched by the centre-right government that came into office in 1991. Yet, the new economic paradigm had then already spread among Swedish politicians and decision-makers of other political background too; it is not unfair to say that the Social Democrats had paved the way already in the mid- and late 1980s (Lindvall 2004). In the case of transports, the most notable change was the new system to achieve permits to enter the markets (Månsson 2006).

It should be noted that while the opening-up of other sheltered, infra-structural markets were more or less without exception motivated by the low productivity in the public sector, it was a common understanding among politicians of different colours in the 1970s that regional transports needed urgent improvements. This led to a reform in

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<sup>1</sup> In the following, we thus preferably talk of ‘liberalization’ and not so much of ‘privatization’, since it is not possible to pinpoint either a starting-point for the privatization process or any ‘landmark years’. Of course the text still concurs with the definition made in the PIQUE guidelines presented by Verhoest and Sys (2006), i.e. that liberalization is ‘the opening-up of markets for competing providers regardless of who owns the competing companies’, while privatization is ‘the existence of some privately owned shares in public service providers’.

1978 to coordinate local and regional personal transports, but still organized by public authorities (see further below). The result was at first a genuine improvement, but the process stagnated in the mid-1980s and thus it was rather easy to motivate the liberalization process: if centralization had not worked, why not try the opposite, i.e. decentralization? The liberalization process can therefore be said to have taken off in the mid-1980s, under a social democratic government and with 1990 – the year before the centre-right government came into office – as the most important year for the formal, legal deregulation (SOU 2001 # 106). In other words, the neo-liberal drive just fuelled the process; it did not start it.

## *1.2. Steps and processes of liberalization and Market structure after the liberalization process*

As noted by Jonas Månsson (2006), it is not possible to get any figures for the exact number of local transport providers before the liberalization. Before 1993, all figures also include long distance busses and rail transports. Yet, also according to Månsson (2006: tables 1 and 2) we can still get a rather good overview of the changes due to the liberalization *process* from the official figures. Following Månsson's suggestions, table 1 shows the 'raw data' divided into three categories: small companies (less than 50 employees); medium-size companies (50 to 200 employees); and large companies (more than 200 employees). Please note that we here follow Månsson's categorization, even though it differs a bit from the usual definitions of small and medium-sized companies.

Table 1: Number of firms in local and regional public transports 1985-2003, including long distance busses and railways 1985-1992)

Year	Small	Medium	Large
1985	232	7	4
1986	248	7	5
1987	256	7	5
1988	n/a	n/a	n/a
1989	238	5	6
1990	238	6	9
1991	429	6	10
1992	326	3	16
1993	35	2	11
1994	37	1	8
1995	36	0	7
1996	29	3	7
1997	30	3	7
1998	29	4	7
1999	26	3	7
2000	26	3	7
2001	27	3	8
2002	30	4	8
2003	36	4	9

Source: Månsson 2006, tables 1 & 2.

The starting-year, 1985, is the year when Swedish municipalities got the right to sell out transport permits to private entrepreneurs. The guiding rule should be that the ‘lowest bidder’ should get the monopoly of the market; a rule that is today common in all industries and branches where a municipality government has a monopoly position. The first ‘real’ deregulation took place in 1990, which, as clearly shown in the table, led to a great increase in the number of small-firm providers. As often when a market is opened for new competitors, however, the rise was rather temporary and already the year after, more than 50 per cent of the new actors had left the market. How the trend developed further is not possible to say because of the change in statistics. It is notable though that the number of firms has remained very stable over the following decade.

One point of reference between the two different measures is however to be found for 1994. In that year, there were a total of 351 companies – both public and private-owned – that run local and/or regional public transports (which is to be compared with the 46 local companies in the table above.) Of these 27 firms were owned by municipalities, which held more than one third of the total Swedish market. Two years later, in 1996,

the number of municipally-owned companies had decreased to 20 (*Konsumentverkets rapportserie* 1996 # 2: 14). The most salient feature regarding ownership changes is that the selling out of municipal companies and permits that started in 1985 has led to the privatization of more than 40 local transport companies. Today, only seven Swedish municipalities have their own bus companies (*Uppsala Nya Tidning*, 17 March 2007).<sup>2</sup>

## 2. REGULATION

As mentioned in the previous section, it was a common notion among politicians of all brands and labels in the 1970s that the nation-wide, regional transports system was in need of urgent improvements. The means to solve the problem should be the so-called Traffic Authority Reform (*Trafikhuvudmannareformen*) in 1978. Previous to that year, urban and rural public transports had been organized separately; now, a Traffic Authority Ombudsman (*Trafikhuvudman*<sup>3</sup>) should instead be appointed to be responsible for the coordination of local and regional personal transports, but still under the overall authority of a public government. In practice, a majority of the Swedish municipalities formed special, municipally-owned joint-stock companies that took on the rights and duties of the Traffic Authority Ombudsman, in particular the responsibilities for fees and supply of bus transports.

The reform was successful for some years. The ‘traffic supply’ increased and more people began to use local transports regularly, while the travellers’ fees remained reasonably stable. In the early/mid-1980s, however, the improvements stagnated. The Traffic Authority Ombudsmen argued that they had got the responsibilities and the legal power to make a change, but not the financial means to carry the reforms through in a proper way. Another complaint that was more crucial for the future was that the fight *for* markets instead of *in* markets had led to a lack of competition, which leads us to the other changes in regulations in the 1980s and 1990s.

Above we have discussed the two important years 1985 and 1990. There are however two other important years that must be mentioned in the history of liberalization in Swedish local and regional public transports. The first year is 1982 and the second one is 1989. Both years mark changes in how to get access to the markets, i.e. not changes in the rights of ownership. Up to 1982, it was the local authorities that gave permits to companies interested in joining the market. The local governments’ decisions were mainly based on estimations of the need for extensions of the already existing transport network. In a later perspective, it is easy to see the reform in 1982 as the first step towards the rights to sell out to the lowest bidder in 1985; yet, even though the changes

<sup>2</sup> The seven municipalities are Gothenburg, Borås, Uppsala, Uddevalla, Luleå, Skellefteå and Västerås – the latter in joint ownership with the county council.

<sup>3</sup> Månsson (2006) use the translation ‘Traffic Authority’, while we prefer ‘Traffic Authority Ombudsman’, which we believe is slightly more adequate. There is a risk of confusion, however – which Månsson avoids – that readers think that an ‘ombudsman’ must be a single individual, which might be true in legal terms, but not in practice. We hope this shall not cause any trouble.

in 1982 was a necessary precondition, the reform in 1985 was not a necessary consequence.

Between 1982 and 1989, the authority within the municipalities that had responsibility for the execution of the permits, also including pricing, was the Traffic Authority Ombudsman. The Traffic Authority Ombudsmen were in turn under control of the county councils. In 1989, the Traffic Authority Ombudsman got an independent status and its role increased at all levels. Its role was now extended to handle planning and organization of both the need for, and the price-setting of, new public transports within the area in which it had authority. Since the municipalities or counties are still today the official buyer of the service, the main task is to evaluate tenders for access from different companies, both public- and private-owned, and compare their bids regarding price, service and environmental aspects, to see which offer is the one that benefit the citizens the most (Månsson 2006).

According to Månsson (2006), a majority of the market operators are today (i.e. 2003) mostly private-owned, a statement in which we agree, even though we have not found any very clear evidence for this. There are still a great number of public-owned companies in the markets, despite the selling out of municipal companies. In particular, the monopsonic situation of the municipalities makes it difficult to tell how important the private-owned firms really are: are they new permanent competitors in a market, or do they just act for a short while thanks to a 'low bid' to take over a certain transport for a year or maybe two?

In 1997, the legislative regulation for Traffic Authority Ombudsmen's responsibilities was officially replaced by a new law, the Responsibility for collective Personal Traffic Act (*Lagen om ansvar för viss kollektiv persontrafik*), but the changes were not very radical but rather a means to define exactly the tasks, powers and responsibilities for the Traffic Authority Ombudsmen (SOU 2001 # 106).

An often claimed problem with the regulation, ever since the mid-1980s till now, is that the system does not promote improvements. Once a private entrepreneur has got the permit for a certain bus line/distance, there is no real need to make any more improvements, since the profit is already in practice decided by the contract with the municipality, that is, the official buyer. The private enterprise cannot decide the fees and the number of passengers do not either improve the private entrepreneur's benefit much, but rather the buyer, i.e. the municipal government that sold the rights (SOU 2001 # 106). There are ongoing attempts to change this, but for the moment, we have no figures of how it has succeeded.

### 3. OWNERSHIP RELATIONS

Swedish municipalities got the right to sell out transport permits to private entrepreneurs in 1985. The guiding rule was, and still is that the 'lowest bidder' should get the monopoly of the local or regional market; a rule that is, as already mentioned, today the

guiding rule in all industries and branches were a municipality government has a monopsony position. The increase of new actors was however rather temporary, as shown in table 1 above and the discussion related to the table.

In 1994, which is the best point of reference we have found, there were 350 private and municipally-owned companies concerned with local and regional public transports. 27 municipality-owned firms controlled 39 per cent of the total market; Swebus AB, a state-owned company, controlled 29 per cent and Linjebuss, largely municipality-owned, but a 'free company', competing on so-called open markets, controlled about 16 per cent. The remaining 16 per cent of the market was open for minor entrepreneurs. Already two years later, in 1996, the number of municipality-owned companies had decreased to 20 (*Konsumentverkets rapportserie 1996 # 2*).

Even though we have not found any exact figures for the present situation, it seems that little has changed regarding the trend. As already mentioned, about 40 local transport companies have been privatized and only seven remain in municipal governments' hands. Still, though, it is not open, competitive markets, due to the monopsonic situation. In total, there were 39 companies present in 2003, of which nine had a dominating, or in fact monopolistic position in its market (Månsson 2006).

Moreover, international companies, such as Connex, have tried to take over parts of the public local transports in Sweden. The international companies' focus has however been on Stockholm and this far local transports in the vast part of Sweden has seemingly not been profitable enough.<sup>4</sup>

#### 4. *ROLE OF GOVERNMENT AND STAKEHOLDERS*

The opening up of the local transport markets was not a process that was solely driven by the political parties. Yet, there were no other actors that really stressed the development. The international companies showed interest at a rather late stage and only for especially profitable, or rather seemingly profitable, areas. The liberalization therefore has a lot in common with the deregulation in other, infra-structural markets, even though the point of departure differed. There was also a stronger trade union resistance against the selling out of the public transports than in other infra-structural industries, a resistance mainly stressed by the Municipal Workers' Union (*Kommunal*) and the Union for Workers in Service and Communications (SEKO).

As far as we know, though, union protests have not had any significant impact on the outcome of the liberalization, or in this case rather the privatization process.<sup>5</sup> The main driving force outside the political establishment and the big political parties has thus

<sup>4</sup> The competition for railroad traffic is left out here. Connex has focused on the subway in Stockholm and long distance transports by rail, not other local transports.

<sup>5</sup> We have both for long been working very closely with, and even within Swedish trade unions. Thus our conclusion on this point.



been the Swedish Employers' Confederation (SAF, from 2000 the Swedish Confederation of Enterprise, SN) that as always has been in favour of the opening-up of sheltered markets. In this case, however, the press for deregulation was never as accentuated as in the cases of the electricity market, the postal market, or in particular, the health care sector. The latter was in particular in focus for election campaigns, which local transports never were: thus the difference. The election programme that however brought the centre-right coalition into office in 1991 was strongly influenced by neo-liberal thoughts and the whole campaign was carried through holding out the bright prospects of a new, liberal society based on individual freedom, private entrepreneurship and low taxes. All remains of the classical Swedish welfare state were declared outmoded by the bourgeois parties and therefore obstacles to renewal and vitalization. Even though privatization of local and regional public transports was not the hottest item on the agenda at the time, it was still a part of a general, bourgeois strategy.

The ideological reasons for the privatization drive have been discussed in previous PIQUE reports; accordingly we close here with a reference to these reports for further readings.

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