Which regulatory state? Explaining the stability of the Keynesian state functions after regulatory reforms of network industries in UK and Germany

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What ‘regulatory state’?
Explaining the stability of Keynesian state functions after regulatory reforms of network industries in the UK and Germany

16 september 2011 – Regulatory state workshop Oslo
Questions and design

- Did the emerging regulatory functions cancelled former State intervention traditions (particularly welfare and redistribution) in post-reform public utilities?
- If not, what is the articulation between old and new State interventions (mainly regulation and redistribution) ?, are they complementary or in competition ?
- To what extent the mix of State functions varies with sectoral traditions ?
From the Positive to the Regulatory State
(Majone, 1997)

Positive State
- after WWII
- intense activities of redistribution and public investment in social welfare
- direct intervention in the economy and monopolies/industrial policies

Regulatory State
- end of 1970’s
- opening up to competition
- focussed on market regulation
- broad change in public intervention and management

Redistribution = Welfare state

Regulation = Regulatory State
Questions and design

Table 1 Possible types of intervention by function, in the three sectors studied

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<th>Telecoms</th>
<th>Electricity</th>
<th>Rail</th>
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<td>Regulation</td>
<td>- implementation of rules and instruments to steer markets</td>
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| Redistribution | - universal service funds financed by equalization payments between operators  
                 - universal service funds financed from public budgets               | - incentives to consume or produce a given type of energy (fossil fuel, nuclear or renewable)  
                 - continuation of partial public financing                           | - public financing for infrastructure or services                         
                 - aid targeted at public service provision                             |
Questions and design

- Two countries: UK and Germany
- Three sectors: telecommunications, electricity, railways
Results

1. - exception status of the telecommunication sector with a clear shift from the positive state to the regulatory state, since 20 years

- but, a limited change regarding states’ past redistribution practices, before reforms
Results

2 - Electricity and railways: persistence of strong allocation and redistribution functions: support of renewables consumption and production; public funding of railway infrastructure

-> energy subsidies: from coal to renewables, a rapid rise of redistribution and transfer since mid-2000s
Railway investments and subsidies:

Figure 1 allows a comparison to be made between Germany and the UK, showing the high levels of investment spending in rail infrastructure maintained by Germany since the early 1990s and the effort made by the UK to catch up from 2001 onwards. This outlay appears even greater in the light of the fact that the UK has 16,450 km of track in contrast to Germany’s 35,900 km (Source: UIC, 2007). The data include not only investments made through public subsidies but also those using income from infrastructure access tolls.

In Germany, state involvement has remained constant since the early 1990s. The state uses two mechanisms to subsidize investments. Construction of new track and extension of existing track are subsidized under the Federal Railway Expansion Act (the BSchwAG). Projects are financed based on proposals from DB Netz which are then approved by the EBA as regulator and by Parliament. The state allocates subsidies for construction costs and grants interest-free loans for track replacement. In Figure 1, which shows total investment, the peak observed in 1999 is explained by the move from support partly granted through interest-free loans to plain public subsidies for infrastructure. This shift allowed investment projects to be stepped up. The second peak, which can be observed in 2002 and 2003, relates to the reallocation of income from the auction of 3G licences to infrastructure investment. Moreover, regional aid also remained constant. It consisted of packages of €4.5 billion and €6 billion between 1996 and 1997; in 2006 it was still rising and had reached €7.1 billion (Peter, 2008). A significant share of subsidies to regional services was devoted to allowing operators to meet high toll costs. Public subsidies to regional traffic therefore indirectly subsidized DB Netz, via the tolls paid by its subsidiary DB Regio. In 2004, DB Regio paid a total of €2.2 billion in tolls and received €4.5 billion in regional aid. Subsidies granted directly to DB Netz by the state have remained.
Factors of explanation:

- European union intervention
- different levels of sectoral profitability
- weight of innovation (mainly for telecom)
- environmental externalities
- security and safety issues
- states’ public policies: national cohesion, economic performance
Theoretical lessons:

➡ Redistribution remains a structural function in two of the liberalized sectors and not an exceptional or transitory one.

➡ These functions are complementary of regulatory functions: supply and demand adjustment in the energy sector; viability of infrastructure and of the whole railway sector.

➡ Alternative functions are mainly linked to environmental policies, energy independency and public services obligation, territorial cohesion, security.
A conversation with Levi-Faur’s paper

➡ interest of keeping the analytical categories separated
➡ “from service-provision state to the regulatory state” ?
➡ “from the Tax and Spend State to the regulatory state” ?
➡ hybrid between welfare and regulatory states, but here we identify signs of a welfare stability or even growth in the regulatory state