CATALYST

What works

public services publicly provided

Colin Leys

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Market-Driven Politics: Neoliberal Democracy and the Public Interest, is published in November by Verso. More information can be found at the end of this paper.

In southern Florida over a hundred dentists and their 'associates' have recently been arrested for persuading children from poor neighbourhoods to come in for treatment – scooping them up in van-loads from their homes, from the streets, from summer "camps". The children were offered little bribes, such as Pokémon cards; parents were offered cash. But why should they be arrested for this? Well, because the dentists billed the government for their treatment under Medicaid. But isn't that what Medicaid is for? Yes, but much of the treatment was unnecessary – even dangerous. For one thing, the same child often got the same treatment several times over – including X-Rays… as many as eleven times, in one reported case.

Yuck… But British dentists would never do that, surely? Not today, perhaps, but give it time. Most Americans might well have said the same about American dentists fifty years ago. The key point is: when a service is provided by public servants the issue is whether they are serving the public well. When it is provided by private enterprise the issue is whether it is maximising profits.

Here's another example from health care in the USA: when the managers of a for-profit hospital review doctors' "admitting rights" – i.e. the right to treat their patients in the hospital – they increasingly look at how much money the hospital has made from those doctors' past admissions. They want to know how much revenue each doctor has "harvested" (to use their own revealing term). If it isn't up to the corporate target he or she will eventually be told to take their patients elsewhere – to a non-profit hospital, if there is one. In other words, in this situation the logic of profitability *requires* over-treating. What the Florida dentists were doing is just the same logic pushed further, into criminal territory. It's where you finish up when a whole service sector has been turned into a for-profit industry for long enough. People become inured to the effects, even to malpractice. Indeed the Florida atrocity might perhaps have escaped attention if it hadn't been illegally costing Medicaid a lot of money – an estimated two to three million dollars a month. (A lot more dentists are currently under investigation for a lot more dollars. And that's just southern Florida.)

To understand what drives these cases we have to grasp one central point: when services become a source of profit – when they are "commodified" – they immediately start to undergo a transformation, following a distinctive logic. First they are "Taylorised" – the work involved is broken up into its component parts and as much as possible is reassigned to the lowest-paid and least qualified workers you can get away with employing. So in a hospital, instead of seeing a doctor you see a nurse, and instead of a nurse you see a "nurse assistant", and so on.

Second, as many parts of the services as possible are cut. Offices open for shorter hours; staff capable of answering questions by phone are replaced by automated answering systems; queues are longer; consultation times fall; cleaning staff numbers are cut so they can't clean thoroughly; patients provide their own crutches, bandages, syringes, bedpans...

Third, people are made to do more and more of the work themselves, as in any other successful mass-market service industry – IKEA, for example. IKEA employs very few staff in relation to sales. Instead of operating shops in high streets IKEA gets us to travel to one of a handful of warehouses and then take away and assemble the furniture ourselves, cutting storage costs and eliminating delivery costs. On the same principle GPs no longer visit patients at home, patients visit them, while hospitals are being closed and the new PFI hospitals are built on cheaper sites out of town, so we must travel to them. And so-called "hospital at home" schemes are being developed which transfer the so-called "hotel costs" (all the work of feeding, laundry, cleaning, heating, lighting), and much so-called "personal care", to patients' families.

But, fourth, the ultimate goal of all for-profit service provision is even more radical: to substitute the sale of a material commodity for the provision of services, because productivity levels in manufacturing are far higher than they can ever be in services. Services are inherently labour-intensive, as William Baumol famously demonstrated 35 years ago (1); to make money from them through economies of scale and technical innovation means eliminating the service and substituting a manufactured product. McDonald's is a good example. Most McDonald's staff, even those who work in the restaurants, are not really providing services but working on the final section of a sophisticated mass-production line, producing packages of food for sale across a counter. The productivity of a McDonald's employee is huge compared with that of, say, a hairdresser, and so are McDonald's profits.

And this is the ultimate dream of any ambitious company looking at fields like health care, education or social services as opportunities for profit-making. Producing home-dialysis machines is far more profitable than giving dialysis to patients in a clinic, once the market is large enough. Producing interactive educational software will pay infinitely better than running a school ever can. Producing Ritalin to "calm down" disturbed children is highly profitable; employing social workers and therapists to help them overcome the effects of their confused, abused or just neglected childhoods will never be. So, eventually, these services are progressively reduced and disappear, for all but a few who can pay for them themselves; most people are left buying *things*, if they can afford them.

The original purpose of providing services gradually disappears from view. What matters now is profit, because the companies providing them have to be profitable to survive. Their survival depends on keeping up with productivity in other fields. Standing still is not an option. So the service is progressively changed following the logic outlined above, and our values and expectations gradually change as well. We forget what we used to expect from services, and why we valued them (anyway, we are told, they are now "unaffordable"). Eventually the idea that dentists are in business mainly to make money – even that some of them try to make it criminally – ceases to shock. By the time we realise we are headed for the American situation – with a quarter of all health spending absorbed by "transaction" costs, yet with fraud still spiralling out of control (for the years 1991-1995 the FBI estimated that the cost of health care fraud in the USA totalled $418 *billion* (2)) – it will be too late.

I've taken these examples mainly from health care because that is one of the cases studied in detail in my book, *Market-Driven Politics* (due out from Verso in November). But examples could just as well come from other fields – from television broadcasting (also covered in my book) to education, social services or the provision of government statistics – the range is vast.

Commercial service providers complain that they face "unfair" comparison with public sector providers, from the BBC to hospitals, because public providers get all sorts of "subsidies". This argument is revealing. It is really a demand that we should forget why we have public services at all. *We "subsidise" them because we want the kind of society they sustain.*

I recently had an educative experience in this connection. A private residential care home that had been looking after an elderly, learning-disabled cousin of mine for the past ten years declared they could no longer manage her incontinence and other health problems. By fantastic good luck we found her a place in a voluntary-agency nursing-home in St Leonard's-on-Sea where there were highly-qualified nursing staff and the staff-patient ratio was far higher. Within a few months her incontinence had stopped and she became happy in a way she hadn't been for a decade or more. Yet the fees were *lower* than in the previous home.

How could this be? First, of course, in a non-profit home the fees didn't have to pay for profits. Second, however, it turned out that a few years back the voluntary home had faced closure. The highly dedicated nursing sister in charge had gone on TV and in a very short space of time raised an endowment of over £2 million from the local community. Third, the place was always full of volunteers. In other words, the local community valued this home and what it did very highly. It was run for local people, not for profit, and they backed it. As a result it was about twice as good as the private home my cousin had lived in for all those years, as well as cheaper. Why would anyone donate money to a for-profit home? Or volunteer in it? They won't. On a wider scale, this is the basic reason why we fund public services out of taxes, and get them provided publicly too. We want them to focus on our collective interest, and only on that.

The drive to commodify public services

So it is true that "what matters is what works"; but contrary to New Labour propaganda, what works in public services is *never* for-profit provision, precisely because services are inherently unprofitable; put them in the private sector and they get commodified and eroded and eventually disappear. Yet this is where policy is pushing us, for two main reasons. One is the drive of global capital to occupy vast new fields of highly profitable and low-risk operation. The other is the way governments, including New Labour, have become market-driven.

As everyone knows, there has been a massive process of concentration over the last few years, as the global market has taken shape. Mergers and acquisitions reached unprecedented levels and a high proportion of these have been cross-border deals, so that Ford now owns Volvo, the French conglomerate Vivendi owns a significant part of the British water industry, American companies own much of the British train system, Vodaphone owns a big chunk of Germany's telecommunications system, and so on. But what none of them so far own is the NHS or the British school system. From their point of view, especially the American point of view, this must change.

This is because as competition intensifies, public services paid for out of taxes become very tempting potential markets. The NHS, for example, accounts for 14 per cent of all government spending, or £50 billion a year, and education accounts for another 11 per cent. The profits to be made if this were all commercial revenue are stupendous. What is more, while fees may increasingly be charged for services like health care, most people will never be able to afford most of the cost; and so long as the services are mainly funded out of tax revenue the risks involved are minimal. And what applies to health also applies to schools, prisons, public buildings, military bases, and so on – the most secure potential markets in the world.

As a result a huge drive is under way to condition us to accept the private provision of all these public services. It goes on domestically, by constant attacks on state provision. Of course public provision is never perfect – what is? especially when starved of adequate funding over decades – but the attacks are incessant and grossly biased. It also goes on internationally, through the drive for the Multilateral Agreement on Investment, or MAI, and when that was blocked, for regional equivalents like the Free Trade Area of the Americas (FTAA); and through the revision of the General Agreement on Tariffs and Services (GATS). The aim is always the same: to oblige national governments to let transnational corporations run their public services.

And this has already gone far. Manchester University's Jean Shaoul has shown that in the UK 60 per cent of all current government spending, other than income transfers, now goes to private companies – up from just over a quarter in the 1970s (3). Schools are put under private management to be run for a profit. Private firms already run air bases, prisons, government offices. Hospitals are built by private companies and leased to the NHS on 30-year leases. And under the so-called "Concordat" NHS clinical services will be delivered by private corporations too.

Why New Labour supports this: market-driven politics

The reason why New Labour is pushing ahead with this increasingly unpopular policy – not merely declining to sort out the railways, but pressing on with the privatisation of London Underground and promising a new wave of private involvement in public service delivery – boils down to one basic factor: the way trans-border capital mobility has eroded government sovereignty. In the Bretton Woods era governments controlled capital movements and so, at least in the case of rich countries with large domestic markets, set the terms on which companies could do business in their countries. Now companies set the terms on which they are willing to be there. In effect, real sovereignty belongs more and more to global capital, especially global finance, which operates in a substantially unified global market. Financial analysts now scan all the countries of the world for the best possible returns on capital. Prospective rates of return, however, are always adjusted for risk – including the risk that government policies will negatively affect overall profits. In fact analysts assign a general "political risk premium" to governments according to whether the party in power is seen as friendly to capital or not.

In the early 1990s, for example, the Labour Party faced a two per cent risk premium: i.e., if Labour won an election owners of capital were advised to move it out of Britain unless they could get two per cent more interest. So, anticipating winning the 1992 election (wrongly as it turned out), John Smith, as Labour's shadow Chancellor, is said to have made an arrangement with the Treasury to raise interest rates by 2 per cent the minute Labour was elected – even though that would have meant a huge economic constraint. By the next election, however, in 1997, the Labour leadership had changed. Under Tony Blair the party dropped all its old policies that the financial markets disliked. Labour's risk premium fell to half a per cent. (4)

Non-financial companies – manufacturers, especially – are hardly less influential. John Dunning, a leading American authority on multinationals, says: "Anything and everything a government does which affects the competitiveness of those firms which … have some latitude in their … locational choices must come under scrutiny" (5). George Monbiot's brilliant exposé, *Captive State*, shows all too clearly what this means for the direction of government policy in Britain.

All this, of course, is the "new reality" that Peter Mandelson made the keystone of New Labour policy, and it implies a new kind of politics. To reassure the financial markets the central bank is removed from government control. No longer able to exercise much control over the domestic economy, politicians try to insulate themselves from the electorate while at the same time renouncing responsibility, declaring that they have no alternative. The party constitution is rewritten to make the leadership more thoroughly unaccountable to party members. Meantime the mass media and especially television become the dominant arena for party competition. This is very expensive, so money becomes more and more important. Party membership loses importance and corporate support becomes crucial. Philip Gould's suggestions for "spin", based on reports from focus groups, replace the ideas of party activists in party policy-making.

If a single moment had to be chosen when this new model of politics took root in Britain it would be Blair's and Brown's famous "prawn cocktail offensive" in the City of London in 1996-97, when the real power of the markets was brought home to them. New Labour's devotion to capital was cemented then, and its current commitment to new forms of "partnership" with the private sector – in effect, letting capital into the rich field of tax-funded public service provision, whatever voters feel about it – is a predictable result.

The myth of private sector "efficiency"

New Labour leaders pushing for the commercialisation of public services rely on the assertion that the private sector is more efficient. This is the meaning of New Labour's mantra that "what matters is what works", and what Blair means when he says there should be "no ideological barriers" to doing things in new ways. But in reality there are very strong ideological barriers – barriers to any criticism from the left, however well-informed. Such criticism is not confronted honestly but merely denounced (as "out of date", "archaic"), and the critics are subjected to cheap abuse (Alan Milburn, a leading practitioner, sneers at "third rate academics"). For the gold standard of intellectual integrity in public debate, set in the Victorian years, New Labour has substituted the Gould Standard. Why? What is there to hide?

The answer is: a lot. First of all, it isn't true that the private sector is efficient. If private providers are so efficient, how is that British Telecom, which has a near monopoly of the fixed-line UK telephone market, has come close to financial collapse? And why is Railtrack, the private owner of the rail network, coming back repeatedly to demand huge new grants of public money – after making large dividend payments and neglecting to maintain the system, let alone update it, ever since it took it over ten years ago?

Second, there are huge transaction costs in private provision that are avoided in public provision. To take just one example, before the NHS was remodelled on business lines its administrative costs were estimated to be 5-6 per cent of total spending. After the remodelling they were 12 per cent, and were predicted to rise to about 17 per cent (6). In the US, the administrative costs of health services are an estimated 24 per cent. In US for-profit hospitals they are a staggering 34 per cent. These costs arise from the huge accounting problems involved in tracking all the transactions involved once they have to be paid for as commodities. They also arise from the massive problem of monitoring and policing systems that are so rich in opportunities for fraud – a problem they still fail to solve.

Third, private provision invariably leads to unequal provision – the US health care system makes this totally clear. Some 40 million people have no cover at all. A third of all personal bankruptcies are said to be due to health care bills.

There are also major problems of stability and accountability. For instance, the government makes a contract with a private provider. Not every detail can be covered in the contract, but there is a degree of trust because the provider has a decent track record. But a year later the provider is taken over by another company with different priorities. Services are cut back, standards fall. (A recent study of the state of cleanliness in UK hospitals found that most of the ten dirtiest hospitals were cleaned by private cleaning companies.)

And a big provider has leverage. A company providing long-term residential care for frail old people dependent on public support, for example, owns a number of homes and demands higher fees from the local authority. The local authority thinks the demand is unjustified. The company says right, then we will have to close our least profitable homes. What happens? Are the residents evicted, or do the fees go up?

The point is this: in the private sector, if a company goes bust its workers suffer but the customers can normally buy elsewhere. But with public services, once you let private companies run them it is often very hard politically to let them go bust. They get a sort of monopoly because the services have to go on being delivered. And then the whole rationale for their alleged superior efficiency – the risk of failure – disappears too.

What is to be done?

Powerful as market forces are, they are not the will of God. We *can* retake democratic control. It is not the first time that capital has had to be re-subordinated to democracy. It has been done twice before, first in Europe at the end of the 19th century (the first post-industrial exercise of state intervention to arrest rampant social inequality and insecurity, the era of “social liberalism”), and again more widely after WWII. Both times it was preceded by mass protest movements. Seattle, Porto Alegre, Quebec City and Genoa are portents; and this time, new models of democracy are emerging out of the protest movements. Not the familiar pseudo-democracy, a somewhat cynical game played by a professional political elite, but something much more pervasive and taking many new forms.

Porto Alegre itself, with its popular participation in the budget process, is one example. Health care in Cuba is another. A British doctor I know, attending a medical conference in Havana last year, was invited by a Cuban doctor to one of the open meetings all Cuban GPs have to hold once a year. The hall was full of people, including a 90-year-old woman and several teenagers. They studied pie-charts and graphs and discussed every aspect of the health of the local community and the health services provided to it. In other words ordinary people are fully capable of participating in government when given the chance.

New forms of accountability at all levels and in all spheres, new ways of developing and rotating leadership, new ways of involving people in shaping the world they live in, are perfectly practicable and in many cases already tested. In a renewed democracy a pervasive democratic culture of this kind will be crucial. On that basis we can re-create a strong public sphere, with public services that are properly funded, honoured and defended, meeting the needs we want met, not the needs of corporations.

The fall-out from the carnage at the World Trade Centre in New York is bound to affect the prospects for doing this. In the short run the prospect is of a massive lurch towards the “security state”, but the existing form of economic globalisation has also suffered a major setback. The Chief Economist at Morgan Stanley, Stephen Roach, has even speculated that “the terrorist attacks of September 11 and their aftermath may bring about [globalisation’s] demise” (7). He points out that tightened security at borders and against the risk of cyber-attacks on financial transactions will inevitably raise the costs of trans-border operations, and so reduce their extent, while risk-aversion, and a shift of government spending towards defence, will also tend to make firms and investors turn inwards. The myth that private enterprise can best deliver public services has also been brutally shattered by the failings of privately-provided airport security in the USA, forcing President Bush to announce that this function will now be taken over by the state.

The climate is changing. In Britain, the intellectual credibility of PFI and “Public-Private Partnerships” has been damaged beyond repair. The case for having states, not private firms, provide reliable, equal and high quality public services has become unanswerable. For states to do it well, however, the services themselves must be democratically organised and effectively accountable to the public that uses and pays for them. All this is now back on the political agenda. And to make it possible, so are measures of capital control, since the Bush administration is calling on all “friendly” states to adopt them in order to thwart capital movements by or for terrorist organisations (incidentally also disposing overnight of the oft-repeated claim that modern communications technology makes such controls impossible). It is now up to the left to develop convincing alternative policies, not for “ending globalisation”, but for a global order of a different kind.

Notes

1. William J. Baumol and William G. Bowen, (1966) Performing Arts: The Economic Dilemma, Twentieth Century Fund.
2. Health Policy Network, (1996) Health Care – Private Corporations or Public Service? The Americanisation of the NHS, p. 31.
3. For the original calculations, for 1996, see Shaoul, J., (1999) "The Economic and Financial Context: The Shrinking State?" in Corby, S, and White, G, (eds), Employee relations in the Public Services: Themes and Issues, London, Routledge.
4. Interview with David Walton at Goldman Sachs, and issues of Goldman Sachs’ UK Economics Analyst.
5. Dunning, JH, (1993) Globalization: The Challenge for National Economic Regimes, Dublin, Economic and Social Research Institute, p. 15.
6. Webster, C, (1998) The National Health Service: A Political History, Oxford, Oxford University Press, pp. 25-28.
7. The Financial Times, September 28 2001.

Market-Driven Politics

Neoliberal Democracy and the Public Interest

by Colin Leys

With the globalisation of the capitalist economy the economic role of national governments is now largely confined to controlling inflation and facilitating home-grown market-performance. This represents a fundamental shift in the relationship between politics and economics; it has been particularly marked in Britain, but is relevant to many other contexts.

Market-Driven Politics is a multi-level study, moving between an analysis of global economic forces through national politics to the changes occurring week by week in two fields of public life that are both fundamentally important and familiar to everyone – television broadcasting and health care. Public services like these play an important role, because they both affect the legitimacy of the government and are targets for global capital. This book provides an original analysis of the key processes of commodification of public services, the conversion of public-service workforces into employees motivated to generate profit, and the role of the state in absorbing risk. Understanding the dynamics of each of these trends becomes critical not just for the analysis of market-driven politics but also for the longer-term defence of democracy and the collective values on which it depends.

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Catalyst was set up in 1998 to promote new, practical policies directed to the redistribution of wealth, power and opportunity.

Catalyst is not aligned to any political party, but we are an organisation of the left, of democratic socialists, with a clear statement of purpose and an Editorial Board comprising individuals who have all made substantial contributions in the fields of politics, economic and social policy. We intend to use our network of Board members and contacts to identify and publicise radical proposals which conform to our values.

We believe in the importance of argument and the victory of ideas and we welcome the support - moral, intellectual and financial - of anyone who shares our beliefs.

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