

# Commercialisation of Public Service

## Introduction

For the period 2005 to 2012, the share of the UK's GDP taken into central government revenues in the form of tax will totter around a basically stable 37-38%.

By international comparisons, this would be regarded as a medium-to-high figure: similar to Ireland's, much higher than that of the USA (ca. 25%) and, predictably, lower than that of a traditionally mega-taxed economy such as Sweden (ca. 50%).

It is still fashionable for many on what we might call the friedmanite right of political debate to criticise what they would regard as the financial obesity of the British state. Famously, Irwin Stelzer, house economist to Rupert Murdoch's **News Corporation**, has tempered his admiration for Blair-Brown economic management by bluntly stating that in the UK "taxes are too high". And though this is a claim which is not creating too much contemporary resonance in British electoral politics (ie. few political leaders are calling for significant tax reductions), it remains silently true that many people in the UK think that the state is, in the sense we mean here, much too big. The Future Foundation's **Changing Lives** data (2006) confirms that some 70% of the UK agrees that "*the political parties should be promising tax cuts for hard-working families*".

And yet, as we shall come to review, perhaps the really interesting and modern feature of this discussion is a) just how much the state is itself actually withdrawing from delivering public services in the conventional way and b) just how much the consuming public is reconciled to accepting state-endorsed private suppliers.

Our multi-tiered question here is:-

- **Does it matter any more who or what actually delivers the services which today's society needs?**
- **Is there no part of public provision, as until now understood, which is not penetrable by a commercial offer or a privately contrived alternative?**
- **Must today's consumers brace themselves for ever greater household spend on services which they once thought a) were meant to be supplied on a not-for-profit basis or b) had already been covered by their tax contributions?**

## The Shape of the State to Come

Consider the mix of some mid-decade innovations, straws in the wind of change:-

Scotland's first commercial (ie private) tourist body – called, significantly, **Destination Management** – opens for business, setting out to attract more visitors to the Cairngorms area.

The Government contracts the supply of patient services, once the duty of **NHS Logistics** (public sector), to the German company **DHL** (private sector). Some 1,700 employees are thus, with one stroke, transferred out of Government employment.

British dentists – for the first time (since presumably the 1940s) – earn more from the supply of private services than from treating subsidised **NHS** patients.

Owned since 1987 by its local authorities, **Leeds Bradford Airport** is sold to a private company.

**Highland Council**, following the practice of many local councils across the UK, transfers a third of its care homes to private sector management companies.

The operation of the capital's **East London Line** is handed to a commercial concern.

Some 11 prisons – and even some immigrant detention centres – are managed by private companies (such as **GSL, Serco, G4S Justice Services...**) and it is suggested that small investors may even, courtesy of the Government's **REIT** programme, be allowed to invest in new jail build and effectively become landlords of a new generation of prisoners.

Often, these developments and others like them are characterised by the following:-

- An essentially shallow and transitory newsworthiness: the withdrawal of formal state-only provision, no matter on what scale, is rarely a headline story in mid-00s Britain
- Squeals of outrage from the representatives of localised producer- and supplier- (and sometimes customer-) interests
- Little detectable movement in general public opinion about the issues or the sectors or the outcomes involved

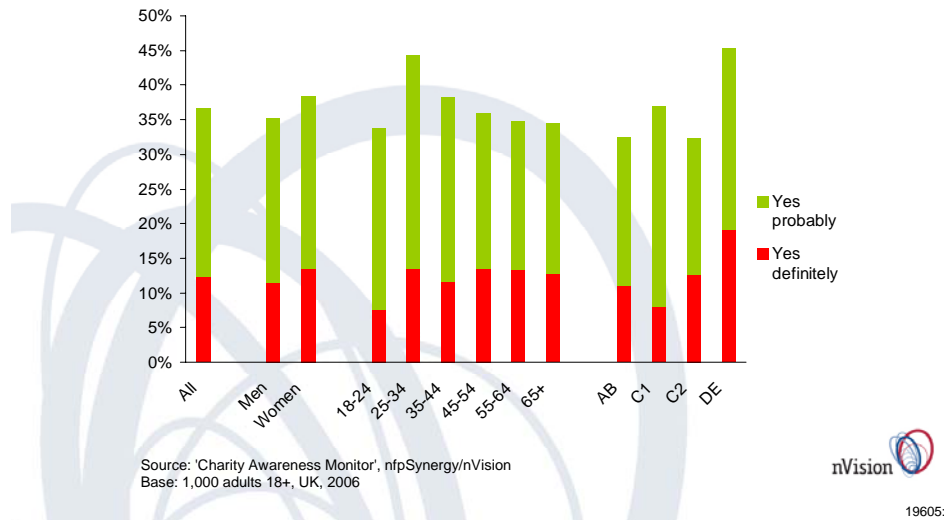
As the decade has progressed, the **Ipsos MORI Political Monitor** regularly shows negligible prominence in the public mind for the issue of Privatisation – to be compared with some 40% of us who will regard Race Relations/Immigration as one of the top concerns of the day.

We juxtapose this with the campaigns run by, say, those trade unions which naturally abominate any de-positioning of the state as opposed to the corporate employee. We might well bring into the juxtaposition our folk-memory of so much national revulsion when, for example, energy supply and telecommunications were privatised hardly a generation past.

The general tone of things here is that the electorate now holds little ideology and is agnostic about whosoever does the supplying – for as long as the need is met and the service is good. (As we can see in the chart, a significant number of Britons would now actually be happy for the voluntary sector to do more. We do not believe that the percentage recorded here would have been anything like as high a generation ago).

**“Would you be happy for charities to take a bigger role in the provision of public services (such as healthcare and social services)?”**

Proportion who answer yes definitely/probably



This mood must suit the Government of the day really rather well.

For there is something of an under-spoken and rather confusing truth lying at the heart of our public finances. If in 1997, over-the-counter state spending totalled roughly £370 billion, this figure had risen to £484 billion for 2006 in real terms. We can put two overlapping interpretations onto this very point: a) a Labour Government has, true to its instincts, simply increased public expenditure on what its leaders and its supporters would naturally regard as socially valuable purposes and/or b) the first Government of the Millennium is simply racing as hard as it can to keep pace with the ever-ripening expectations of a demanding electorate inhabiting a scientifically sophisticated era in which nobody readily tolerates the statement: *“Sorry, you simply cannot have it”*.

There is clearly a bit of both versions in creative interaction in Britain today.

**Budgetary Balancing Act**

Take the state of health spending. At the Labour Party Conference in 2006, delegates supported a policy motion from **Unison** to the effect that NHS reforms should be decelerated and that, effectively, the market should be kept out of the supply of patient-focused services. It would surely seem odd to, say, a team of socio-economic analysts visiting the UK from a nearby galaxy that such an agitation takes place at all – given that health spending takes a 16% chunk of that £484 billion we mention above and is increasing (mid-00s) at an annual inflation-breaking rate of 7%. The NHS has never in its history, by any yardstick, been bigger and better.

Yet health care management in Britain today is a gruesome daily search for economies (and it is in this light that we would re-reference the cash-saving shrinkage of NHS Logistics we mention above). In an article in **Prospect** magazine in 2007, Charles Leadbeater ponders some of the contemporary contradictions of health spending:-

*“A health system based on hospitals is working efficiently when the beds are full as much of the time as possible. Yet a healthy society is one in which people do not need to go to hospital”.*

But this last point is surely only superficially true. The, as it were, whole point is that the alternative to hospital care (in or out) for thousands of people in the UK is not a healthier existence but a funeral. Scientific and pharmaceutical advances are transforming the life-chances of those with serious conditions – but at a frequently horrendous price for the NHS and its **Primary Care Trusts**.

Take the case of the breast cancer drug Trastuzumab (**Herceptin**) which, by a ruling of the **National Institute for Clinical Excellence** in 2006 (following a storm of national publicity and lobbying), should be made available to all relevant sufferers across the UK. An annual dose of Herceptin costs a PCT around £20,000 for each patient. This has led to anxieties that some (non breast) cancer patients will suffer as savings are wrung from some other services to accommodate the costs of Herceptin. In 2006, **Norwich & Norfolk Hospital** claimed that NICE's decision over the drug would (in their particular case, with 75 breast cancer patients) cost nearly £2 million, a sum for which it had been given no budget. Painful executive decisions would thus have to be taken at the local level: breast-cancer winners would mean other-cancer losers.

This is a familiar type of argument, taking place in hospital corridors across a UK in which, let's recall, NHS spending is rising far ahead of the CPI. For so many once death-certificated illnesses, new treatments are becoming available at extravagant cost. And any hesitation over making the drugs concerned available to all sufferers across the country is naturally met with fierce pressure-group lobbying (the Herceptin campaigns being a case in point). NHS planners must inwardly think that they just cannot win so many emotion-laden battles and must simply force through economies elsewhere in the system.

This is an easy prediction to make: by the end of the decade, the doings and the decisions of the almost sardonically acronymed NICE will be subjected to the same noisy scrutiny as General Election results or expulsions from **Big Brother**. So many lives will turn on them. NICE is now positioned as the state's blocking agent for costly healthcare obligations.

**Our point is that modern Britain is replete with examples of creeping de-nationalisation; the rise of ever more pay-for-what-you-get transactions between state and individual; ever-widening possibilities for commercial suppliers (both those who either merely replace previous state provision and/or those who offer something extra for the citizen willing to pay that little bit extra).**

Much localised anguish attends, for example, the Government's decision to reduce the number of **Post Office** branches by 2,500 (from the current total of 14,000) by 2009. But the cold fact is that, with every more efficient forms of service delivery (eg. direct-to-bank-account payments of **Child Benefit** or **State Pensions**) and with virtually no limit to what supermarket chains can now supply (eg. savings schemes, banking services, insurance...) the Post Office model, as now configured, is unsustainable without state subsidy – a situation no Government will (in this or any foreseeable decade) tolerate for long.

Meanwhile, within education spend (a chunky 13% of the total), the real average growth rate, in the period 1997-2008, is 5%. Some sectors, notably the vocational, have seen their state-sourced income increase by 50% in real terms since 1997. But once again such improvements partly disguise the colossal re-adjustment in skills generation and in skills funding which the Government and the economy is facing in the next decade - a decade in which both China and India will have doubled their share of global income and thus will have radically re-defined the entire competitive environment for the output of UK plc.

The **Leitch Report** on skills (commissioned by **The Treasury** and delivered in 2006) calls for revolutionary new targets for Britain. For example, by 2020, some 40% of adults are to be qualified up to Level 4 and above, an ambition which we set beside the fact that the proportion achieving Level 4 was but 21% in 1994 and had grown only to 29% by 2005. Though it is, perhaps strangely, not a topic generating much cosmopolitan excitement, the Government, supported by Leitch, is also quietly abolishing the school-leaving age and obliging everyone up to 18 (and millions beyond) to be either in training-rich employment or in full- or part-time education.

As this skills revolution comes to pass, there can be no doubt that it will be increasingly plain that it is simply horrendously expensive to fund. Already (mid-00s), learners at vocational colleges personally contribute some 25% to their course costs. As with tertiary sector students – now liable for tuition fees of £3,000 per annum with effect from the Autumn of 2006 – this burden is bound to grow heavier. It is obvious that the Government intends to devolve as much financial responsibility for the skills revolution as possible to the individual. We note this in the context of highly limited increases in public expenditure programmed for the second half of this decade – something made evident in the plans for the **Comprehensive Spending Review** in 2008 as well as The Treasury's attempts to limit public sector pay increases to almost half the inflation rate. In the future, will adult skill-seekers be allowed to spend their state entitlement (to subsidised education) on a choice of either public or private sector suppliers? Yes, we rather think that this is precisely where we are bound.

### **Concluding Remarks**

We do agree with Charles Leadbeater when he argues that "*a tax-funded public sector...cannot hope to keep meeting people's rising expectations for tailored services*". Household income growth multiplied by rising levels of educational achievement simply means that the consumer citizen is ever less fatalistic, ever more understanding of his/her rights, ever more demanding of public service. So, something has to give.

Slowly but assuredly, Government spending is being rigidly prioritised along some of the lines we outline above. Along the way, where a once publicly-supplied service can be delivered by private enterprise with a cost saving for the state, then we can expect the state to de-monopolise itself at every opportunity.

It might seem ironic to the point of counter-intuitive that this is the case in an era of very substantial increases in public spending. But, as we try to suggest above, Government feels that it simply has to limit what it does in the interests of this new century's as yet not fully revealed or matured pressures.

And, for now at least, the country as a whole does not sound viscerally unhappy about all this or about the opportunities for private-replacing-public provision which it represents. It is as if the state is quietly taking on itself the role of guarantor of last resort: ready to beckon private suppliers into service delivery but, while continuously monitoring and measuring the performance thereof, primed to resume its own interventionist role as needs (and public/electoral pressures) demand. And, of course, some items are so expensive – for example, cancer care – that an appropriate pay-as-you-go transfer-price for the consumer could never be found. And such examples show the limits to the commercialisation of public service in a society generally primed to accept it.