

Public Money in Private Services

The International Nature of Privatisation and Democratic Socialist Alternatives

Presentation by
Brendan Martin
Public World

bmartin@publicworld.org

www.publicworld.org

My job in this session is to try to put what is happening in Britain today into a global context and I am also going to talk a little about why campaigning against privatisation and for quality public services also requires an international dimension, and the shape such an initiative might take. To do this will require some historical context and I'm going to start with a little personal history.

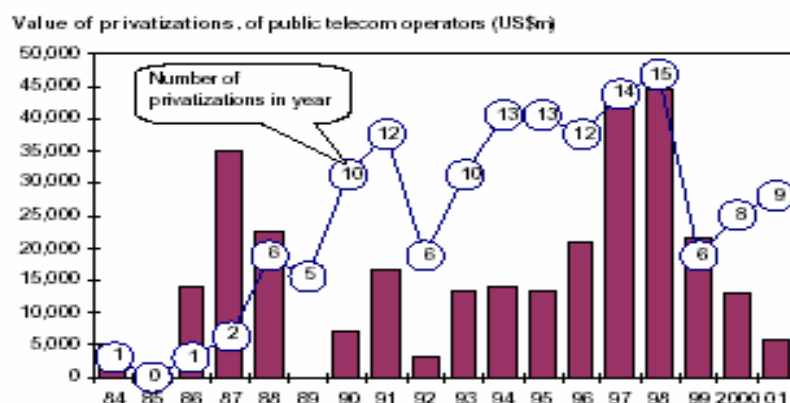
In the late 1980s, when I was working for Nalگو, one of Unison's predecessor unions, among my frequent tasks was to make presentations to visiting delegations of PSI affiliates and others about what was then seen as potentially Britain's least welcome export.

As Britain's programme of selling off state-owned industries progressed into the public utilities, through telecoms, public transport, energy supply, and water and sanitation, and as contracting out, compulsory competitive tendering and market testing were applied to local government, health care and the civil service, so public service trade unions internationally became increasingly aware that their governments were following suit, and alarmed about what this would mean for services and workers.

And it became increasingly clear to me that privatisation of public services not only happened to be an international phenomenon, as a result of one country copying another, but that it was *essentially* international.

This is because what has driven it most fundamentally has been the insatiable pursuit of new markets and global integration on the part of transnational corporations. Both national borders and boundaries between private and public sectors represent intolerable barriers to the transnational corporate quest for new sources of profit, new opportunities for accumulation, new markets to create and dominate. Nationally structured public ownership of key strategic sectors were the first target.

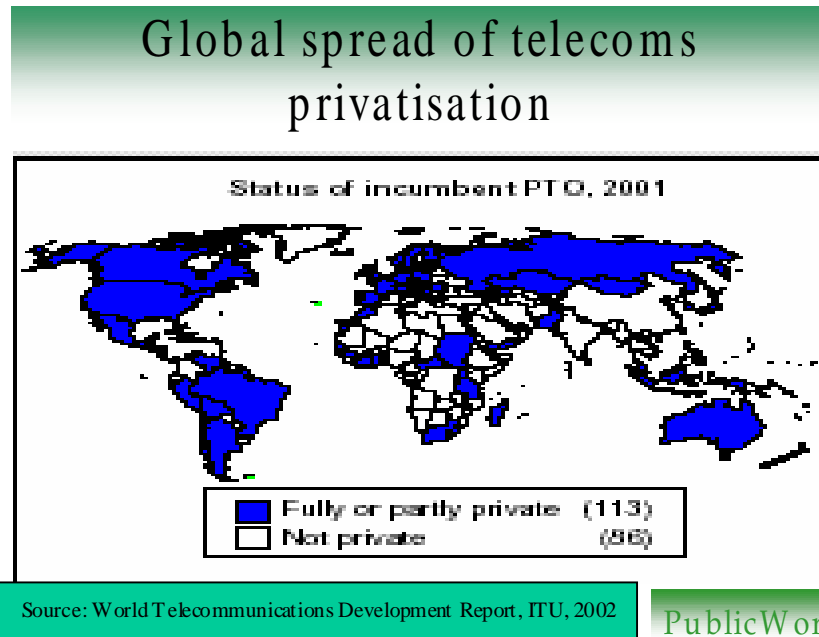
How telecommunications was privatised worldwide



Source: World Telecommunications Development Report, ITU, 2002

PublicWorld

In 1984 British Telecom privatisation kick started both Britain's privatisation programme and the international privatisation of telecommunications, a key strategic industry not only for national economies but also for the globalised economy



And here we see that, although telecoms privatisation has spread around the world, it is the poorest countries most in need of investment that the private sector has neglected.

Of course, public services have long involved some elements of private provision. No public sector can provide directly for all its needs, and strategic procurement of goods and services from private suppliers better placed to produce them is clearly a necessary and rational option for public service providers.

But what we have seen with systematic privatisation in a variety of forms, including many forms of public-private partnerships, has been the capture by private business of areas of public service provision to which its ethos and priorities are badly suited. And the more that happens, the more the balance of power shifts to the private side of unequal 'partnerships', and before you know it the contractor rather than the client, the regulated rather than the regulator, is calling the shots in terms of public policy.

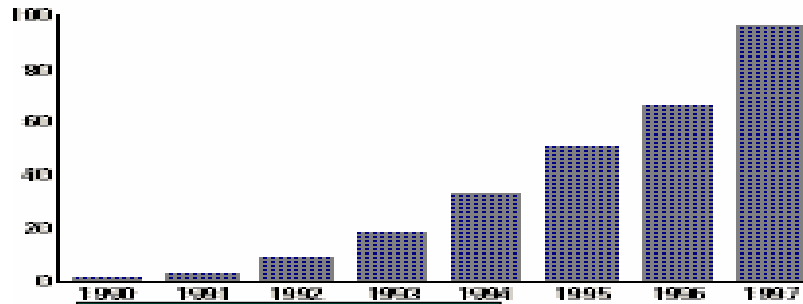
So the private corporate beneficiaries of this process soon have very strong incentives to use their growing political power to make sure that publicly provided public services remain under-resourced. Moreover, they become increasingly demanding in terms of making sure that whatever public money is made available for public services is provided to them. The title of this conference refers to private money in public services, but what we see being engineered through the Private Finance Initiative (PFI) and other health service reforms in Britain is actually public money in private services.

I say that not because private delivery of public services necessarily turns them into private services: the government, as you know, strongly insists that PFI and the like do not amount to privatisation. But regardless of the government's intentions, there is a dynamic. The more transnational business has invaded public services, the stronger has become its position to shape policy and priorities, and the weaker that of under-resourced municipalities and other public authorities to set standards and conditions.

What we have got into is a sort of self-fuelling spiral of increasing private involvement in public services, leading to changes in public policy to create an environment more favourable to private provision, and to further weakening of some of the essential characteristics of public service, such as universal access, equity and solidarity.

Growth of water privatisation in developing countries

FIGURE 1 CUMULATIVE WATER AND SEWERAGE PROJECTS WITH PRIVATE PARTICIPATION IN DEVELOPING COUNTRIES, 1990–97



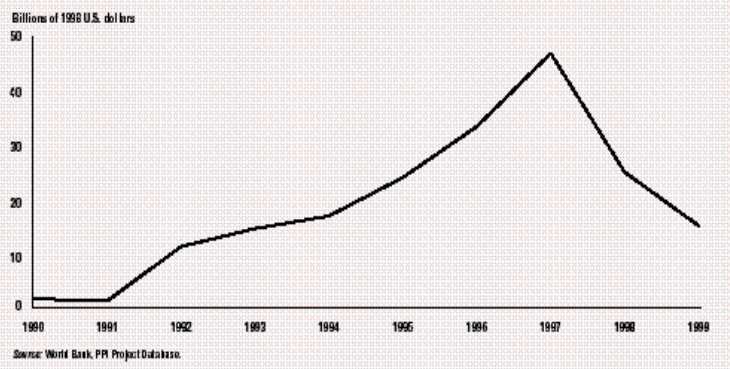
Source: World Bank PPI database

PublicWorld

This graphic shows how privatisation grew in the water and sanitation service in developing countries during the 1990s. Ninety-five per cent of the world's piped water supply is still in public hands but, especially in urban areas, privatisation grew steadily from 1990 to 1997.

Growth of energy privatisation in developing countries

FIGURE 2 TOTAL INVESTMENT IN ENERGY PROJECTS WITH PRIVATE PARTICIPATION IN DEVELOPING COUNTRIES, 1990–99



Source: World Bank PPI Project Database.

Source: World Bank PPI database

PublicWorld

A similar trend is clearly visible in the case of energy supply, and in this graphic we also see how the trend made a downward turn from 1997, as it did in water. This was the result of the accumulation of the economic and social problems it caused as the process matured. I will return a little later to why this happened, but a clue comes in looking at the dominant corporations involved in international electricity privatisation.

Top 10 corporations in electricity privatisation

Sponsor	Projects
AES Corporation	35
Enron Corp.	23
Electricité de France	22
Endesa (Spain)	11
Southern Energy Inc.	10
CMS Energy Corporation	17
Cia. Naviera Perez Companc	8
Endesa (Chile)	15
Tractebel	17
Enerjis	7
Total	156

Source: World Bank PPI database

PublicWorld

The leading company involved, AES of the United States, is now close to bankruptcy having left a trail of failures behind it in India and elsewhere. It was ultimately state budgets and electricity users that paid for these failures. Just look at the name of the company that is second on the list and perhaps the previous graphic, showing the growth and downturn in the annual number of energy supply privatisations, becomes easily explained.

Despite this slow down in the spread and growth of international privatisation in public utilities, we have seen continued pressure to use essentially similar privatisation techniques in services such as health care and education.

And we have now come to a decisive point in this process because it could lose its politically unfashionable reverse gear as a logical consequence, over time, of the World Trade Organisation's General Agreement on Trade in Services (GATS). It is true that no government is legally obliged to commit any service to the GATS process, and it is also true that services exercised on what the WTO calls 'governmental authority' are excluded.

However, just as actual imbalances in power between transnational capital and local authorities shape their relationships, rather than the letter or intention of contracts and regulatory arrangements, so the imbalance in power in world trade relations has a similar effect. Hence the European Union's insistence on poor countries opening up their water and sanitation services to the GATS process, because that is a sector in which European transnationals are dominant. The United States makes similar demands about health care and education for the same reason.

How the WTO understands public services and governmental authority

'Many public services are not provided on a commercial or competitive basis and are not subject to the GATS. The Agreement excludes from its coverage all services provided in the exercise of governmental authority, which are defined in Article I:3(c) as *those supplied neither on a commercial basis nor in competition with other suppliers.*'

Source: *Gats – fact and fiction*, WTO, 2001, p.10

PublicWorld

As for the governmental authority exclusion, the WTO defines services over which governments have authority as those which are not provided on a commercial basis or in competition with private suppliers. Taken to extremes, that would reduce the scope of governmental authority to core public goods such as the judiciary and national defence.

Certainly, the more the boundaries between public and private sectors are eroded through PFI, Foundation Hospitals, privately sponsored schools and the rest, the less viable would become any future government's insistence that these services are excluded from the GATS. And the more vulnerable they would become, therefore, to escalating privatisation, to privately delivered public services becoming private services using public finance.

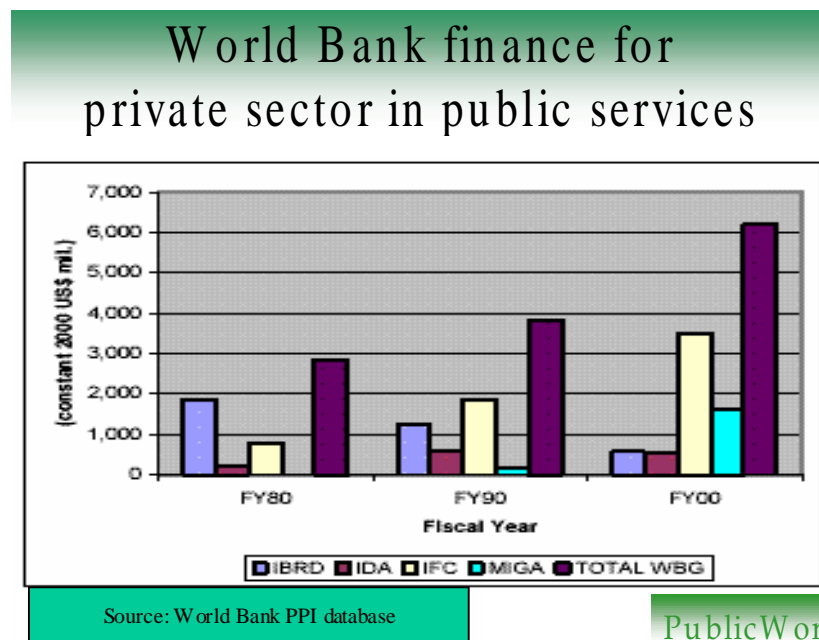
If private corporations have been among the major beneficiaries of this trend, their increasing political power has helped to drive it. It should not be forgotten that it was not Mrs Thatcher but General Augusto Pinochet that launched the first systematic privatisation programme in public services, following the 1973 US-backed military coup in Chile.

In general, though, democracy has been subverted by other means. Throughout the 1980s, the United States Agency for International Development (USAID) used its dollar power to impose privatisation throughout the global south, as it is doing in Iraq as we meet. Its leverage came from the debts and budget deficits that Latin American, African and Asian countries were suffering – debts and deficits caused not least by the lending policies of US and other international banks which theoretically took the risks but in practice passed the risk to the public budget, just as public-private partnerships of the PFI type are doing.

The US and to a lesser extent the EU are also the dominant powers in the International Monetary Fund, which further undermined public spending and stimulated privatisation, both directly and indirectly, as a condition of cushioning states from bankruptcy. The IMF's role was complemented by that of its sister organisation, the World Bank, which took things a stage further by building privatisation in all its forms into Structural Adjustment Programmes. It went on to plough money into public service development and reform only on condition of private sector involvement.

Again, in the name of private financing of public services we have seen increasingly the converse. Although the World Bank is increasingly obliged to factor into its policies concerns for poverty alleviation

and civil social involvement, it has shown in the latest World Development Report, *Making Services Work for Poor People*, that privatisation and market solutions to public service problems remains its default position. Yes, it is more prepared than in the past to be critical of privatisation and more willing to consider alternatives. But whereas failings of public sector provision tend to be treated as generally intrinsic to public sector provision, failings of private sector provision tend to be treated as errors of a case of a particular design or implementation. Moreover, the Bank's techniques are changing significantly: increasingly, it is financing what it calls output-based aid, which in effect allows it to provide finance direct to private providers in a way that gives companies with access to capital an advantage over cash-starved public providers.



This graphic shows not only how the World Bank has helped to build the international market for private provision of public services, a process that has in fact involved public money financing increasingly privatised services. It also shows how the two sections of the World Bank group that finance private companies to take over public services, or provide what are in effect international sovereign guarantees of private investment, have steadily increased their roles. These are the International Finance Corporation and the Multilateral Investment Guarantee Agency, which are represented respectively by the yellow and purple bars in the graphic.

But, we must ask ourselves, if it took a brutal military dictatorship to get this bandwagon going, if it took viciously anti-union ideological governments in the US and UK to load it up further, and if it took international institutions to keep it well fuelled, why have they by and large got away with it?

And here, I fear, we must look at some realities that are less easily faced by public service unions. The truth is that, although the neo-liberal ideologists in their anti-public rhetoric have both exaggerated public sector failures and caused and exacerbated them as a matter of policy, they did not create all the gaps into which they have driven their wedges. The problem has been that public services have not been public enough.

While the strengths of the bureaucratic state underpinned with representative democracy have enabled public services to exist at all, the weaknesses of that model of the state and its lack of participatory democracy have eaten away at the foundations. And while the strengths of the public service ethos have transformed the lives of billions, the weaknesses of management systems that undermine responsiveness and

quality, by failing to mobilise and develop their employees' knowledge and commitment effectively, have frustrated billions too. We have to face these challenges if we are to prevent the damage that could be done by public-private partnerships of the wrong type, and make the case for publicly funded publicly delivered public services.

There are three main elements to the case for public-private partnerships:

- A first element is that risk is transferred to the private sector; but increasingly we see that, because public services cannot be allowed to fail, it is ultimately public finance and service users that are at risk.
- A second is that public finance cannot afford to pay for the investments required to improve public service infrastructure, but in reality it is still the public purse and users that pay in the end; private finance only postpones the burden, at the same time as increasing it;
- A third element is that the disadvantages of the first two are more than offset by the greater efficiency and know-how that private companies bring; it is here that it is so important to develop alternatives based on mobilising the knowledge and commitment of public service workers and users.

The weaknesses of the first two elements of the argument are becoming increasingly clear, and not only in Britain. If Latin America provided the cradle of public services privatisation, it looks as though it could also be digging its grave. Earlier this year, I spoke at a seminar for the Latin America and Caribbean region of the World Bank called 'Rethinking Privatisation'. It was prompted by two big developments: that increasingly the resurgent people of that continent won't put up with it, as we are seeing more and more in Brazil and Argentina as well as Bolivia and Venezuela; and that increasingly the transnational corporations have been unable and unwilling to deliver services to those who need them most. Even in the World Bank's most celebrated case of water privatisation, that of Buenos Aires, investment in water supply infrastructure was only a third of what was promised, and in sewerage only a fifth. Hence the downturn shown in earlier graphics about water and energy privatisations.

More than that, alternatives are emerging that represent a growing challenge to the third element of the case for public-private partnerships. The models of participatory democracy that have been developed in Brazil are being replicated elsewhere just as models of privatisation had been a decade ago. Like other examples, such as that of Kerala in India, they show public resources effectively used can combine greater efficiency with improving quality in increasingly democratic and responsive systems of governance.

Meanwhile, here in Europe, as we shall hear later from Swedish and Danish speakers, participatory management processes in the workplace are providing answers to both employment security and service quality, overcoming the false division between public service workers and users that is central to pro-privatisation propaganda. They are showing that management systems that enable public service workers' knowledge to be mobilised and developed more effectively are the way forward.

These trends have brought us, I believe, to a crossroads on an international scale. It is time to capture the lessons of all these experiences and to build an international initiative for a General Agreement on Public Services, or GAPS for short. And the gaps to be filled are large.

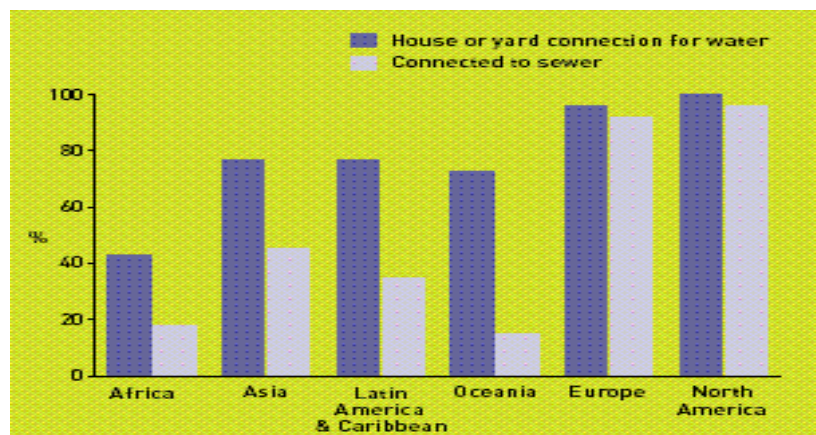
UN Millennium Development Goals

1. *Halve the proportion of people living on less than a dollar a day and those who suffer from hunger.*
2. *Ensure that all boys and girls complete primary school.*
3. *Eliminate gender disparities in primary and secondary education.*
4. *Reduce by two thirds the mortality rate among under-fives.*
5. *Reduce by three-quarters the ratio of women dying in childbirth.*
6. *Halt and begin to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases.*
7. *Reduce by half the proportion of people without access to safe drinking water.*
8. *Develop a global partnership for development.*

PublicWorld

The international community signed up in 2000 to a set of eight development targets called the Millennium Development Goals. Not only UN agencies but also the World Bank subscribes to these targets. As you can see from this slide, they effectively place the provision of effective public services at the centre of economic and social development, because at least six of these goals have direct implications for the capacity and performance of basic public services. These Millennium Development Goals, minimal though they are in terms of alleviating poverty and social injustice, simply won't be achieved without a radical change in policy to fill the gaps.

The equity gap in world water



Source: UN World Water Development Report 2003

PublicWorld

The uneven distribution of access to water and sanitation services is indicative of similar inequalities in health care, education and other services. Where private investment in these has taken place, it has been skewed towards serving those who can pay user fees at or close to market rates. If you look at the distribution of private investment in public services, as we saw in the case of telecommunications worldwide in an earlier slide, it is the poorest countries that are neglected. And in all countries, it is the

poorest people who are neglected. So the poorest are being further marginalised, which shows up in the disparities both within and between nations in terms of access to basic services.

It is not only gaps in resources and investment that must be filled, but also gaps in accountability, in equity, between classes, genders and ethnic groups. In your handout, you will see that we have identified 10 categories, but you could easily come up with others. You can find out more about our thinking about a General Agreement on Public Services (GAPS) by visiting our website, www.publicworld.org.

Among the gaps is a productivity gap. Unions need to champion a new approach to measuring and improving public service productivity, so that public service outputs and outcomes can be evaluated and improved in accordance with the special character of public service and its ethos, rather than measured only against financial commercial criteria, important though they are as well. In this way, the expertise and commitment of public service workers can become the source of building better and more public public services. Employment security and what the International Labour Organisation calls decent work can be reconciled with more effective and efficient use of public money, which is in turn a condition of making the political case for adequate resources for public services.

Privatisation will not bring piped water to the billion people without it, or sanitation services to the two billion deprived of them, or the efficient and equitable health care and education that are denied to even more. But nor is privatisation as such the cause of those scandalous gaps, which governments and international institutions as well as the market and private companies have failed to fill. Privatisation of public services more an effect of public service failings as a cause of them.

Kill the GATS? Fill the GAPS!

GAPS INITIATIVE
FOR
A General Agreement on Public Services

www.publicworld.org

PublicWorld

That is why Public World has launched an initiative for a General Agreement on Public Services. We believe that what is needed both to bring basic services to all who need them, and to increase the efficiency and quality of services provided to those lucky enough to have them, is a step change much more radical than anything New Labour has come up with. It requires not privatisation or ever more market-type mechanisms but reforms that make public services more truly public. This means involving citizens more through participatory democracy and public service workers more through initiatives to mobilise their commitment and knowledge more systematically on the basis of effective social dialogue.

We hope that unions and civil society internationally will work with us to build a global movement for a GAPS, and we are encouraged that PSI has taken a parallel step with its campaign for Quality Public

Services. Perhaps we can find ways to work together effectively on these initiatives, which have much in common. We also intend to work with progressive governments and those elements of international institutions that recognise that the future of public services must be based on rights, democracy and social dialogue. On that basis, private sector involvement can in some circumstances be beneficial, but without that firm basis, private money in public services can turn inexorably into public money for private services.

Thank you.

Brendan Martin
Director, Public World
email. bmartin@publicworld.org