

The ecology of public services

Brendan Martin

Brendan Martin analyses some of the necessary conditions for the flourishing of public services.

On the day after his friend and erstwhile Cabinet colleague Alan Milburn was parachuted back into government, former Secretary of State for Transport Stephen Byers denied that theirs was a 'free market' agenda. 'That is just barking mad,' he told *The Guardian*. 'Where I think we agree, Alan and myself certainly, is that there is a role for the private sector in the delivery of public services. But it's got to be the private sector working for the public services in the public interest.'

It is clear that this approach to the relationship between the public sector and private enterprise is the intended shibboleth of Labour's third term, the defining issue of modernity, the way to cast opponents of New Labour's public service agenda as reactionaries, and - hardly an afterthought - a crafty wedge between Gordon Brown and the unions.

Though it is overdoing it a bit to describe as 'barking mad' those who view New Labour's approach to public service modernisation as just a continuation of neo-liberalism, Byers is right to make a distinction between government employing the private sector to deliver public services and delivering public services to the private sector. There are well-founded fears that the one leads to the other, but that cannot be prevented by denying the gap between them.

On the contrary, the way to lose the coming argument is to fail to distinguish between different kinds and contexts of relationship between the public, the state, private business and the market. If they are all lumped together and the term 'privatisation' used to inspire loathing rather than understanding, the effect

is to close debate that needs to be stimulated. In this article I look at a variety of political environments shaping relationships between the public and private in a number of countries, whose experiences can cast some light on current controversies and provide a focus for a radical reforming alternative to corporate seizure of public services.

People's states?

The need to be clear about terms - and conscious of different approaches - was vividly illustrated for me on a Spring day in Prague shortly after the 'Velvet' revolution of 1989, when I spent a morning discussing the post-communist future of public services with Czech labour leaders. For a while I was perplexed: why were they so sanguine about the prospect of hospitals being privatised? They were baffled too: why would a Londoner favour state control of pubs? We were at cross purposes because we were talking about 'public services' without having defined what we meant, but there was more to our misunderstanding than that. It took a while to establish our agreement that market-designed health services are about as much fun as state-run bars, because our different political histories had shaped not only our assumptions about the meaning of 'public' service but also our attitudes to it.

My hostility to privatisation was the product of growing up in a welfare capitalist state that for a decade had been ravaged by the Thatcherite project of exploiting its weaknesses to destroy its strengths. The Czechs' enthusiasm for privatisation expressed a national consensus that much of the country's economy needed to be relieved from bureaucratic control, so as to re-establish property rights, diversify culture and fuel economic growth with the energy of market forces and entrepreneurship. It was also born of the experience of living under a regime whose control of the public realm systemised pernicious forms of informal privatisation of what was formally common wealth.

As Nobel prize-winning former World Bank chief economist Joseph Stiglitz observed, some years before his outspoken rejection of market fundamentalism secured his place in many a left heart:

A central problem facing all the Eastern European countries in the process of making the transition to market economies is the privatisation of the currently 'publicly' owned and operated firms. I put the word 'publicly' in

quotation marks deliberately. In different countries there are different patterns and forms of ownership and control - as we would normally use those terms. While *nominally* all the property may belong to all of the people, the 'people' do not directly exercise control, and even in democratic governments the link between those who actually make decisions and those on whose 'behalf' they exercise control, may be very weak.¹

Similar observations have been made about other political contexts in which the state represents popular will no better than (and possibly less than) the market does -- for example, in many Latin American countries. Luiz Carlos Bresser Pereira, a member of the former Cardoso government in Brazil, argues that there has been a convergence in views between social democrats and conservatives about the kind of reforms needed to rescue public sector governance from a clientelist political culture. Addressing in particular problems such as 'rent seeking' (individuals using their public positions to seek private gain), he writes:

If the historical realisation of the need to protect the individual from an oligarchic state took place in the eighteenth century, and if ensuring the democratic rights of political participation and protecting the poor and the weak from the rich and the powerful occurred in the nineteenth century, the importance of protecting the public patrimony only became dominant in the second half of the twentieth century.²

He goes on to argue that there is a convergence around the idea that it is necessary 'to protect the *res publica* and define another basic right - the public right that all citizens have - that what is meant to be public should indeed be public'. Pereira adds that 'this right guarantees that state property be available to everybody, instead of being the object of rent seeking, instead of being privatised'.

Privatisation here refers not to the transfer of responsibility for delivering

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1. Joseph Stiglitz, *Whither Socialism*, MIT Press 1994, p171.
 2. Luiz Carlos Bresser Pereira, 'From Bureaucratic to Managerial Public Administration in Brazil', in Luiz Carlos Bresser Pereira and Peter Spink (eds), *Reforming the State: Managerial Public Administration in Latin America*, Lynne Rienner 1999, p4.

public services to private companies, but to the usurpation of public property and authority by private interests in control of the state apparatus. Indeed, Pereira argues that transparent privatisation in the more conventional sense can contribute to avoidance of murkier privatisation in the sense he is using it here. Privatisation of public service delivery and marketisation of public administration thus represent, for Pereira, a form of convergence between social democratic and neo-liberal approaches to the modernisation of the state.

The Swedish model

Pereira's view of convergence has much in common with the 'third way' approach to modern public management, which favours using market mechanisms to engineer politically determined outcomes. Anthony Giddens, the writer most closely associated with the third way in Britain, recently defended New Labour's approach to public sector reform by drawing attention to similarities between their approach and that of the social democrats in Sweden. He began a *New Statesman* essay by inviting readers to imagine a country that had introduced a long list of reforms characteristic of the New Labour agenda, including a voucher scheme for parental choice of primary and secondary schools, and both choice and foundation hospitals in health care. Citing the 'law of the Labour back benches', that 'if they do it in Sweden, it must be all right', Giddens remarks, 'Well, those bankbenchers had better sit up and listen, because there are close parallels between the current programmes of new Labour and those of the Swedish social democrats - and of the centre left in other Nordic states'.

I hope that at least one of those bankbenchers responds by sitting up and asking Giddens why, in an extended paean of praise for the Nordic approach to social democratic reform, he manages not to mention perhaps its most striking characteristic (and one that is noticeably absent in Britain): the systematic involvement of workers and their unions at all levels of public service management. In reality, the maturity and modernisation of social dialogue in Sweden have been crucial to such success as the reforms of recent years have achieved, although those reforms have indeed been driven by diverse pressures and have produced mixed results. (Giddens acknowledges Sweden's growing inequalities and the weakening of some public services.)

The Swedish public sector unions have been among the most creative in the world in developing public capacity, and in encouraging innovation by placing

a high value on workers' knowledge and its mobilisation. The public service union Kommunal has developed a model called 'Kom An!' (Come On!) over the last fourteen years by systematically growing collective knowledge, distilled from scores of actual municipal modernisation initiatives. Recalling the early days of his union's change of approach, Kommunal vice-president Lars-Åke Almqvist told me:

Faced with demands from employers for cuts in public services or privatisation, Kommunal realised that just trying to refuse changes is not very constructive, especially as some of the accusations of inefficiency in the public services have definitely been true. In fact, we had for many years stressed that the traditional hierarchical organisation of work in local government administration must inevitably be inefficient if it does not involve the knowledge and experience of the employees. So we started to develop a model to build more efficient, non-hierarchical organisation by involving the employees, with the aim of saving money without making people redundant.

The opportunity to try out that approach came first in a town called Malung, after the municipality there began to draw up plans to reduce staffing and to contract out some areas of service. Before going ahead with their plan, the social democratic local politicians in Malung agreed to give the union a chance to show what could be achieved in partnership with the workforce, and to allow enough time for that approach to produce results. Almqvist recalls: 'When we got the chance to test our ideas in practice, in Malung back in 1991, the municipality's goal was to decrease costs by at least 10 per cent within three years. We managed to save 10.5 per cent in the first year.'

The key to Kommunal's success in not only saving public money but improving public service quality has been the creation of workplace environments in which the union's members can identify waste and devise new ways of working without fear that by doing so they will finger themselves or colleagues for the chop. In this way a shared understanding that the status quo is not an option is reconciled with collective maintenance of employment security, getting around the paradoxical reality that employment insecurity breeds operational rigidity. Workers cannot be expected to share information that could harm them or to promote higher productivity that could put them

on the dole; yet it is the knowledge produced by their experience that holds the key to improvement.

The Kom An! model has been tested and developed, and tested and developed again, not only as an alternative to privatisation but also as a means of protecting and promoting public interest outcomes when the private sector is involved in service delivery - as it certainly is, to an increasing extent, in Sweden. It has drawn from private as well as public sector experience, and from theories of 'the learning organisation' such as those outlined by Peter Senge in *The Fifth Discipline*. This dialectic of practical and theoretical development should appeal to the Marxist in Alan Milburn, who, according to Anthony Giddens, studied Swedish and Danish models when, as secretary of state for health, he was developing his plans for foundation hospitals in Britain. But if Giddens's own selective approach to the Nordic experience is any guide, Milburn is likely to have neglected any examples rooted in participatory processes.

'Modernisers of the world, unite!' urged Giddens in concluding his *New Statesman* essay. The problem is that he is urging unity around a market model of public service reform that continually demonstrates its capacity to divide. Indeed, division between 'steerers and rowers', to adopt the metaphor with which it was popularised in Ted Gaebler and David Osborne's seminal *Reinventing Government*, is at the heart of the market model to which New Labour appears irrevocably committed. This metaphor has caught on - Blair himself has used it - but without much pause for reflection about the actual relationship between steerers and rowers, which is that they are all in the same boat, depend utterly on mutual trust and soon sink if they do not cooperate.

The new public management

Informed by neo-classical economics, and in particular by a combination of principal-agent and public choice theory, 'new public management' proceeds from the assumption that public servants are primarily self-serving. Indeed, it makes a virtue of its own vision of necessity by encouraging public servants to prioritise their own interests, through contractual arrangements that reward the achievement of output targets rather than service outcomes. The role of policy makers ('steerers') is thus to set targets, while the role of service deliverers ('rowers') is to hit them. Set the right targets, and define rewards and punishments accordingly, and the public servant will be programmed to do the

right thing even if it is for the wrong reasons. To employ Julian le Grand's metaphor, knavish instincts are rewarded to produce knightly effects.

This assumes, of course, that the contract design correctly aligns the output targets that are to be rewarded with the outcome goals of the performance management regime. But even if it succeeds in that initially, it can still produce rigid systems that are programmed neither to adapt nor to learn through open sharing and collective analysis of experience. Public service workers are disciplined to hit their targets even if that means keeping quiet about perverse outcomes, and contract-based accountability replaces ethos-based responsibility.

Examples abound about the effects of such perverse incentives on service delivery. One vivid case was passionately reported by Nick Cohen in a recent *New Statesman* article ominously headed 'Why it's right to hate traffic wardens'. Apparently common sense has been jettisoned in the London Borough of Islington, as privatised traffic wardens clamp cars parked outside shops for a moment and National Car Parks charge £250 to release them. Worse, common law has been violated too as wardens slap tickets on legally parked cars, the quicker to earn their performance bonus. The borough's efficiency drive appears to be demonstrating that financial success in public service can sometimes be won at quite a cost to ethical behaviour and other aspects of quality.

For the marketisers, the solution to this undesirable divergence between the public interest and private service delivery is simply stated. Indeed, the traffic warden story proves their point, by demonstrating that when incentives are wrongly aligned, the public interest suffers. The solution is to recalibrate the mechanism by adjusting the performance management regime. In practice, of course, fixing proximate causes often leads to unforeseen effects, new perversities at some other point in the system. In fact, the principal incentive built into such a regime is precisely to dump your problem on someone else, demonstrating the fundamental difference between contract accountability and public responsibility.

The New Zealand experience

No country has developed the market model of public administration more thoroughly than New Zealand, which not so long ago was as well known in political circles for the supposed success of its experiment as it is now in

Hollywood as Middle Earth. For a while it seemed that the Labour Party there had been taken over by Orcs, as the entire public service was remodelled into a performance management machine apparently designed by some fanatical wizard high in a castle turret. The system was evaluated in 1996, in a study by Allen Schick of the Brookings Institution, which did its very best to be positive, and found that devolution of authority away from the centre did produce some benefits; the killer blows of his analysis came, however, from its attribution of the model's problems to its contract-based accountability arrangements.

In a comment that challenges Luiz Carlos Bresser Pereira's idea of neat convergence between social democratic and neo-liberal thinking, Schick noted that 'two sets of ideas vied for influence when the reforms were on the drawing board'. As he commented, 'the two converge in many aspects, but they have different roots and point in somewhat different directions'. Schick distinguished the two approaches as being, on the one hand, a 'managerial premise that those who are responsible for government programmes and organisations should be sufficiently empowered to act so that they can be accountable for their performance'; and, on the other, 'the contractual theory that government should be organised to minimise opportunism and transaction costs in relationships between self-interested parties.'³

Those perspectives do 'make common cause', in Schick's view, in a number of ways. They both recommend specification of objectives and measurement of performance against them, as well as budgets based on estimates of the costs of producing specified outputs and allowing managers a freer hand on how those resources are spent. However, according to Schick, the two approaches go their separate ways in several respects, and contract-based performance management brings four types of costs. The first of these is the 'high transaction costs' of negotiating agreements and monitoring compliance, with their concomitant demands on staff time and voluminous paperwork. The second, which is 'more difficult to describe but may have a deeper impact', is 'the considerable risk' that this style of management 'may diminish public-regarding values and behaviour in government'. Thirdly, there is the problem of 'the weakening of collective interests'; and, fourthly, the problem of the reforms' tendency to

3. Allen Schick, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, State Services Commission, Wellington 1996, p23.

undermine joined-up government.

Schick's presentation of his report was diplomatic to a fault (he has since used more robust language), but it goes right to the heart of the logic of the market model that is now the dominant influence on Downing Street. Perhaps the greatest irony arising from Schick's balanced and understated critique is that, although the whole rationale for the arrangement is supposed to be that of shifting public service culture away from rules compliance to results achievement, 'chief executives now have a strong incentive to go by the book and ignore promising detours', thus discouraging innovation. Driven by the terms of performance agreements, senior departmental officials were impelled to 'narrow their perspective' accordingly, with the result that 'broader aspects of management - leadership, strategic perspective, interpersonal skills, organisation-building, investments that have long-term payoffs, innovating and risk taking - are ownership qualities that may be undervalued by the performance agreements and the assessments made pursuant to them.'⁴

That is a profoundly important insight, because it suggests that one thing that is achieved successfully by contract-based accountability is control from the top. And if those at the top are themselves in thrall to business interests, the outcome is precisely what Pereira was aiming to avoid: that what is meant to be public is instead privatised by the rent seeking of those with influence among the political elite.

Schick's findings did not suggest these problems can be overcome by fine-tuning the reform model, a truth confirmed by the current New Zealand government's efforts to solve its inherited problems without making the long trek up Mount Doom. Rather, his analysis suggests a fundamental flaw at its heart, that of attaching market mechanisms where they do not belong. Fortunately, although the zealots who designed New Zealand's neo-liberal reforms deliberately made them difficult to undo, a public service ethos was not wiped out, and it is through a 'Partnership for Quality' with the country's public service workers' union that the government is now rebuilding civic and workplace trust.

The flaw at the heart of 'new public management' is not only that the *market* is ill-suited to some contexts; the very notion of a *mechanism* is ill-suited to an

4. *The Spirit of Reform*, p48.

understanding of public service relationships. Public services are much better understood as systems than as machines, and the challenge is to understand how to work with their delicate ecologies to improve them. The soil in which public services should grow, and which they should enrich, is just what should define them as 'public': the participation of their users and employees in the continual process of developing learning organisations based on democratic institutions.

It is revealing that what is transforming Brazilian municipalities run by the Workers Party is not the 'managerial public administration' developed by Pereira under the Cardoso government, but the participatory budgeting pioneered by the Workers Party in Porto Alegre. Some accounts of the experience have certainly romanticised it, but, like the 'Kom An!' experience in Sweden, while rooted in its own context, Porto Alegre has produced lessons of significance elsewhere. Indeed, one of those lessons is precisely its rootedness in context - its mobilisation and development of the 'social capital' of the Brazilian *favela* - just as the Swedish unions have worked within the very different institutional context of 'social partnership'.

As one account of the Brazilian experience has put it: 'An impressive list of changes occurring in Porto Alegre may allow observers to focus on the most notable transformations brought about by participatory budgeting: not only to redistribute resources towards the poorer and install a fairer pattern of allocating public funds in the city, but also to establish a new framework of political relations and democratic format.'⁵ What public services in Britain need could be put like that: a 'new framework of political relations and democratic format', both in the institutions that connect them to civil society and those that manage their internal relationships with employees. Participatory Quality Management, we might call it.

When Alan Milburn develops his plans for reconciling the public interest with private profit in public services, perhaps Stephen Byers will illuminate the deliberations with vivid insights from his own disastrous time in charge of Britain's railways. Any honest appraisal of that experience would have to conclude that it is not what contracts capture, but precisely what they cannot create but can destroy, that is crucial to the way public service systems

5. Zander Navarro, *Participation, democratizing practices and the formation of a modern polity - the case of 'participatory budgeting' in Porto Alegre, Brazil (1989-1998)*, Federal University of Rio Grande do Sul, Brazil 1998, p4.

function. The private sector can indeed have a role in public services - and always has had - but it is their publicness that needs to be strengthened now. Otherwise, more private sector involvement in delivery, rather than adding flourishing new branches to the tree of public service, will further pollute its now fragile roots. And to let that happen really would be barking mad.