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Shrinking the State? Change and continuity in public service reform

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Abstract

It is often asserted that the transition from New Labour to a Conservative-Liberal Democrat coalition government in 2010 marked a decisive break in terms of public service policy. That break was one characterised in particular by the apparent switch from profligacy to austerity with regard to spending on public services with a concomitant shrinking of the State. This paper seeks to demonstrate that this narrative masks considerable continuity between the two periods, indeed over the past thirty-five years. It begins by demonstrating that the change of direction in economic policy, though significant, was not as unambiguous as it may appear. It then notes that, in any case, this change did not lead to any diminution of state power. On the contrary, as the private sector has come to play an ever-greater role in the delivery of public services, the British State has further extended its already significant role in legitimising and facilitating the marketisation of public services, thus promoting corporate welfare. Meanwhile, the demos have found themselves disempowered, regardless of the discourse of localism and the promised decentralisation of power from the centre.

Résumé

On affirme souvent que la transition des néotravailleurs vers un gouvernement de coalition libéral-démocrate en 2010 a signalé une rupture décisive dans la politique à l'égard des services publics. Cette rupture aurait été notamment marquée du passage du laxisme budgétaire à l'austérité avec une diminution concomitante du pouvoir de l'État. Cet article cherche à démontrer que ce récit dissimule une grande continuité entre les deux périodes, voire depuis ces derniers trente-cinq ans. Sera affirmé en premier lieu que le changement de politique économique, bien qu'il soit important, n'était pas sans ambiguïté. De toute façon, ce changement n'a aucunement affaibli l'État. Au contraire, alors que le secteur privé joue un rôle grandissant en tant que fournisseur de services publics, l'État britannique a renforcé son rôle déjà conséquent dans la légitimation et la marchandisation des services, ainsi favorisant l'assistanat étatique des entreprises. Simultanément, le pouvoir des citoyens a été affaibli, en dépit du discours sur le localisme et la décentralisation du pouvoir étatique.

Much has been made of the potential of the Conservative Party's public spending plans over the past six years to reduce the size of the State. David Cameron explicitly committed to 'building a leaner, more efficient state', claiming that 'we need to do more with less. Not just now, but permanently'.¹ The former Chancellor George Osborne's announcement to shrink total government spending to little over 35.2 per cent of GDP before the end of the decade was hailed by the *Daily Telegraph* as 'big news', leading to a shrinking of the State back to pre-welfare state levels.² For the Oxford economist Simon Wren-Lewis, Osborne's plans represented 'a shrinking of the UK state that is unprecedented'.³ The public services, with the exception of ring-fenced services such as education and healthcare, were to bear the brunt of government spending cuts, with unprotected government departments seeing their budgets cut by over 20% on average between 2010 and 2015.⁴ Yet, far from negatively affecting the

quality of these services, the government promised they would unleash a veritable ‘revolution’ in the public sector by transferring power from the State to ordinary people and improving accountability mechanisms.⁵

It was thus suggested that the arrival of the Conservative-led coalition government to power in 2010 marked a significant break from the past, not just from the profligate New Labour era but also from previous Conservative governments who, whilst attempting to ‘roll back the State’, had never attempted anything quite so ambitious with regard to public service reform. This paper aims to challenge these claims of novelty and demonstrate the essential continuity in this field over the past thirty-five years and more, despite clear differences of style and emphasis. It begins by challenging claims that New Labour and recent Conservative-led governments have been characterised by the dichotomy between profligacy and austerity. It focuses on the extremely important role played by the British State in manipulating the public discourse to create hegemonic consensus about the most recent crisis of capitalism and the need for austerity. It is then demonstrated that there has been no revolution in terms of citizen empowerment that might mark a clear break from the New Labour era – on the contrary, the march towards post-democracy has continued apace⁶ as the ‘public’ nature of public services has been eroded. Although this change has been underpinned by the huge increase in power of the private sector, there has been no shrinking of the state in favour of the latter either. Indeed, it is argued that the very concept of a shrinking state is a misleading and simplistic one which tends to automatically equate spending power and political power. In reality, the State continues to fulfil key political functions, not least with regard to public spending. Importantly, it continues to play a significant role in supporting the private sector via the creation and regulation of new markets, the distribution of various forms of corporate welfare and the adoption of mechanisms to neutralise obstacles to market ‘freedom’.

From profligacy to austerity?

It is commonly thought that the New Labour years were characterised by profligacy in public spending which contrasts sharply with the austerity of Conservative-led governments since 2010. Conservative leaders certainly sought to reaffirm such perceptions in an attempt to cast themselves as the Party to be trusted with the public finances and to frame the crisis as being fiscal rather than financial in nature. As David Cameron affirmed in 2010, ‘there isn’t really any government money left’ since ‘Gordon spent it all’.⁷ It is certainly true that total public spending was very high in 2010, standing at 53.4 per cent of GDP, compared to 40.6 per cent

in 1997.⁸ Before the financial crisis hit, it was considerably lower – 44.1 per cent of GDP in 2007 – but it nonetheless increased in the period 2000-2006 by 4.8 per cent a year, with spending on public services reaching 6.4 per cent a year during the same period.⁹ Overall, spending on public services between 1997 and 2010 averaged 4.4% per year, compared with just 0.7 per cent a year under the previous conservative governments from 1979-1997.¹⁰

It was nonetheless a gross exaggeration to suggest that New Labour was entirely lax with the public finances. Firstly, increases in public spending largely focussed on key areas such as the NHS, education and transport. New Labour spending on some areas, notably social security and to a lesser extent defence, was actually lower than under previous conservative governments.¹¹

Furthermore, public sector net debt as a percentage of GDP was lower in 2008 (37 per cent) than in 1997 (42 per cent).¹² It is hardly surprising that it rose once the economy went into recession. In any case, Britain's debt in 2010 was not unprecedented – indeed, it was low by historic standards and lower than what Labour had inherited in 1997 (when presented as a percentage of GDP rather than in absolute cash terms).¹³ What was unprecedented was not the debt but rather the size of the bank bailout, amounting to £512 billion for the British taxpayer.¹⁴ Whilst this had a major impact on public sector debt, the debt was not unmanageable. As a number of experts have pointed out, the British government, unlike countries such as Greece, could still borrow at very favourable rates in the international financial markets in its own currency and could, in any event, always print more money.¹⁵

Nonetheless, austerity was presented as the only way forward by the Conservative-led coalition government, an assertion that went largely unchallenged by Labour, at least until 2015 following the election of Jeremy Corbyn to the leadership. The austerity agenda was rapidly announced by the former Chancellor George Osborne in the Emergency Budget that was called just a matter of weeks after the general election of 2010. Osborne pledged to cut public sector borrowing from 10.1 per cent of GDP in 2010 to just 1.1 per cent in 2015, principally via public spending cuts.¹⁶ In the event, these cuts turned out to be lower than planned and hard-line austerity short-lived as the deficit-reduction plan was watered down after Osborne's first two years as Chancellor. Spending on public services such as health continued, and indeed continue, to increase even though NHS spending is set to fall significantly as a percentage of GDP.¹⁷ Whatever the rhetoric, the State will continue to play a significant role in supporting public services and in wealth redistribution. Indeed, spending on welfare increased in both absolute terms and as a percentage of all government spending – up from 33 per cent in 2010/11 to 35 per cent in 2014/15.¹⁸ As Le Grand has pointed out, there is

much continuity here, not just with New Labour governments, but with the Thatcher governments.¹⁹ Then, as now, the State has had to assume the costs of recession and unemployment which will remain high, no matter how great attempts to reduce the welfare budget.

Yet, even though austerity was not as radical as advertised, this did not mean that it did not have serious consequences. The average cuts for unprotected departments, such as work and pensions, were severe – they have been estimated at over 20 per cent for the period 2010-11 to 2015-16.²⁰ Austerity was in practice highly selective. A number of reports have shown that it is the poorest that have borne the brunt of austerity measures such as the limitation of social care, child care, youth services, housing services, and legal advice.²¹ These are the public services that have been most impacted, especially as a result of cuts to local government budgets. Indeed, spending by local authorities in England on services other than education, health, police and fire services was cut by 23.4 per cent per person in real terms between 2009 and 2015.²² Further cuts are likely following the former Chancellor's announcement in the last budget (2016) of another £3.5bn reduction in public spending by 2020.

Meanwhile, it might be suggested that a certain degree of profligacy has been practiced at the top of the economic ladder as tax breaks have been awarded to top earners and corporations. The decision to slash corporation tax to just 20 per cent (and subsequently to 17% by 2020) was described by Jenkins as a 'reckless' measure from a purportedly 'austere' chancellor.²³ The focus on public spending rather than taxation as a means of reducing the deficit suggests that this was not a neutral policy of simple fiscal consolidation. Indeed, for many economists, austerity was not even necessary and may in fact have delayed economic recovery in the UK.²⁴ They suggest that Conservative-led austerity policies were not adopted out of economic necessity but rather out of political expediency.

Austerity as hegemony

Gamble has explained austerity in terms of 'statecraft'. For him, it can be understood as a political strategy to pin the blame for the financial crisis on 'irresponsible' Labour economic policy and thus prove its own economic competence.²⁵ Wren-Lewis has developed what he terms a 'general theory of austerity' whereby the former Chancellor flew in the face of economic evidence about the dangers of austerity in order to reduce public spending.²⁶ Although the concept of 'a general theory of austerity' suggests a coherent plan, Wren-Lewis regards it as more opportunistic than a carefully thought-out strategy. This assertion would

seem to be supported by the fact that the Conservative Party actually supported Labour spending plans up until the crisis hit in 2007.²⁷ Nonetheless, austerity came to be accepted as the only way forward, even for a time by the Opposition. How was this done? Wren-Lewis highlights the British government's misleading reframing of the crisis as one of public spending in order to justify the focus on the need for reductions in the latter over any focus on taxation as a possible solution – he terms this strategy the 'deficit deceit'. The simple (and erroneous) analogy between government and household budget was regularly invoked to convince the general public of the need to 'live within their means'.

Whilst reducing public spending is often regarded as strategy to 'shrink the state' (as asserted by Wren-Lewis amongst others), the role of the State was actually reinforced in the course of this reframing of the public debate over economic policy. Indeed, the State played a vital role in creating hegemonic consent around the austerity project. Clarke and Newman have explained with alacrity how this was done. Firstly, the crisis was 'nationalised' as blame was apportioned to New Labour rather than to the failures of global financial capitalism.²⁸ This justified swift and drastic action by the nation state to remedy the crisis. Secondly, the crisis was also personalised, presented as one caused by irresponsibility of individual citizens to live within their means and be self-sufficient²⁹. Thirdly, the crisis was transformed into a crisis of morality, caused by the immoral behaviour of citizens who had failed to 'pull their weight', thus causing the state to use the hard-earned taxes of those in employment to subsidise the lazy. This was the 'alchemy of austerity', the means via which consent was sought and won (at least temporarily) for a policy that ought to be inherently unpopular.

Power to the People: A devolution revolution?

An important part of the discourse securing consent for austerity was the idea that reduced public spending might provide an opportunity for ordinary citizens to seize power from the State. Again, this policy was presented as a point of rupture from the overbearing, authoritarian State that many believed had come to characterise the New Labour years. In 2015, the Treasury promised a 'devolution revolution' whereby more power would be devolved not just from central government to Scotland, Wales and Northern Ireland but also to local government in England.³⁰ Most central government funding is to be replaced by funding from local business rates which may be used to finance local services. It is claimed this will provide local government with 'new levers of power to generate growth for their area'.³¹ That power will entail being able to fix local business rates without government intervention but this gives councils little real power over the future of local services if such

rate-fixing fails to bring in extra revenue. The risk is that this will leave some local councils impoverished whilst councils in areas with thriving businesses will end up wealthier, despite promises of alternative sources of funding for the former.³² In practice, it would seem that cash-strapped local government is being given responsibility to drive down costs without real power to shape local policy.

The policy might be regarded as a continuation of the localism agenda implemented under the coalition government whereby ‘power and control [would be pushed] away from the centre and into communities and neighbourhoods’.³³ The Localism Act of 2011 had already given councils a ‘general power of competence’, enabling them to do anything an individual can legally do, such as establishing new services and partnerships without having to first seek the approval of central government. Yet, as the Department for Communities and Local Government made it clear, the aim was primarily ‘to provide them more freedom to work together with others in new ways to drive down cost’.³⁴ With regard to public services, the localism agenda entailed making them more ‘open’, introducing further deregulation in order to ‘free [their] staff from the bureaucracy and central instruction that previous governments have used to run public services’ and to ‘free’ service users by giving them ‘a choice about the services they use’.³⁵ Far from being new, this policy was actually very much in line with previous policies: with the Thatcherite agenda of improving ‘consumer’ choice and control over public services; and with Blair’s drive to empower individuals by encouraging them to recognise their responsibilities to become more involved in shaping those services.

In each phase of reform, the State has remained highly interventionist in directing localism from above. The Thatcher governments were notoriously *dirigiste*, especially with regard to local government, imposing enterprise zones and the poll tax against the will of local councils, implementing swingeing spending cuts and abolishing the Greater London Council (GLC) and the six metropolitan county councils. The Blair governments came to power criticising top-down control of local government and promising to give them more flexibility to respond to local needs and provide the services that citizens and communities want. The Cameron-led government promised to take this agenda of citizen empowerment further in a move that seemed to represent a real rupture from previous Conservative governments. Yet, despite these apparently different approaches, the underlying logic was the same: as New Labour put it, to ensure that ‘councils will have to challenge traditional methods of delivery’ and ‘root out waste’.³⁶ In practice, this meant working in closer collaboration with the private sector.

Whilst ordinary people were encouraged to get involved in local service delivery, most strikingly under the Conservative Party's so-called 'Big Society' project, in practice, it was the private sector that was to dominate the new mode of service delivery. In the field of education, for example, the government's 'academisation' programme, initially launched under the last Thatcher government, pursued under New Labour and extended on an unprecedented scale by Conservative-led governments since 2010,³⁷ has privileged private sector involvement in education, despite government discourse concerning parental control.³⁸ Although academies and their latest variant, free schools, continue to receive government funding, they are actively encouraged to seek private sector sponsors and to outsource ancillary services, infrastructure modernisation projects, and even school management, to private companies. Meanwhile, the role of parents may be reduced – a government white paper dating from March 2016 even suggested removing parents from school governing boards in favour of professionals with experience in business and finance.

Another instructive example of the increasing role of the private sector in public service delivery is that of the probation service. Following the dissolution of the State-run Probation Service in June 2014, the private and voluntary sectors were encouraged to become involved in service provision. Yet, despite the fact that voluntary sector services, based as they are in the local community, are well-placed to provide specialist services, they are increasingly crowded out of the market. In practice, community services find it extremely difficult to compete for bids on a level playing field with the private sector. In the case of probation services, the large majority of them – worth £820 million per year – have been privatised.³⁹

It is consequently hard to assert that public service reform has really empowered local communities. Local initiatives continue to be directed by a strong central state and are often stifled by a powerful private sector. Indeed, the increased role of the latter is eroding the 'public' nature of public services, in particular by the lack of transparency that characterises many government contracts.⁴⁰ Whilst the transparency of the public sector is not always evident either, at least public bodies remain directly accountable to the demos. The private sector is accountable only to government and, as an increasingly influential governmental partner, it is questionable to what extent accountability is respected in practice. Increased power for the private sector does seem to have led to a loss of power for the public, but the same cannot be said of the State.

Big market, small state?

The rise of corporate power is not a zero-sum game for the State: just because the private sector has more power, that does not mean that the State has less. On the contrary, both the State and the private sector have extended their power conterminously. The growth of the public services industry provides a highly illustrative example. Here, the private sector has come to form something of a 'shadow state' whereby a small number of companies have come to play an extraordinarily important role in the delivery of public services.⁴¹ Indeed, the value of outsourced public services has increased significantly in recent years to reach more than twice its value in 2000 – estimated at well over £80bn.⁴² This acceleration has only been assisted by the context of austerity, regarded as an opportunity by the private sector.

The State has played an extremely important role in the creation of new markets in the public sector for private business. From privatisation to PFI (the private finance initiative), the government has helped to sell the merits of private-sector involvement in public service delivery, presenting it as a way of improving service quality and promoting consumer choice. The discourse of austerity provided further justification, as finding alternative sources of funding for services was presented as a necessity in the context of massive public spending cuts. The government thus created new 'opportunities' for the private sector. These opportunities are likely to be further extended, not just to British companies, but also to international corporations. Although Britain's exit from the EU may leave her exempt from the TTIP (Transatlantic Trade and Investment Partnership) which threatens to open up all public services to commercialisation,⁴³ the CETA (Comprehensive Economic and Trade Agreement) signed between the EU and Canada before Britain leaves the EU will ensure the UK will have to comply with its terms regardless, at least for another twenty years. This will mean that public services in Europe will be open to marketisation to Canadian companies and companies from other nations that happen to operate there. It is also likely that a UK outside the EU will seek to negotiate its own trade deal with the United States, thus further opening up the market in public services.

The State therefore plays a significant role in the creation of new markets in the public sector. But it also continues to act as overseer of those markets. People continue to look to government as the ultimate guarantor that good quality public services are delivered. In practice, therefore, government continues to play a big part in managing the market. As the National Audit Office noted, 'the introduction of market mechanisms into public service delivery does not remove the role of government' – it is up to government to 'make the market work effectively'.⁴⁴ It thus seeks, for example, to impose regulatory control to ensure that services reach certain standards as well as promoting value for money. Hence, the

establishment of bodies such as Monitor, now NHS Improvement, charged with overseeing public and private NHS services. Similarly, the last government sought to incentivise public providers to provide quality services by introducing payment-by-results. In practice, such regulation has not prevented serious malfunction such as when G4S was found to have overcharged the Ministry of Justice for the electronic tagging of offenders, some of whom were dead. Although the company was heavily fined, it continues to provide public services from NHS transport services to residential children's homes.

Far from ensuring that the market functions efficiently, government intervention distorts the market, allowing it to be dominated by what are effectively, in the words of the House of Commons Public Accounts Committee 'privately-owned public monopolies' funded by the tax-payer.⁴⁵ As Crouch and others have pointed out, markets in public services have become oligopolistic, dominated by a very small group of actors (notably G4S, Serco and Capita) that survive in a symbiotic relationship *with* rather than as an alternative *to* the State.⁴⁶ They are dependent on public money whilst the government has come to depend on them on the same way as it came to depend on the large banks that were deemed 'too big to fail'.⁴⁷

This symbiotic relationship goes a long way to explaining the extent to which the State supports the private sector through corporate welfare, described by Farnsworth as 'public policies that directly or indirectly meet the specific needs and/or preferences of private businesses'.⁴⁸ He regards the policy of contracting out public services to the private sector as just one of many forms of corporate welfare since it enables companies to make extra profits that they could not have made had they been competing in a normal competitive market.⁴⁹ He estimates the cost of these profits to the UK government at £15bn per year (out of a total sum of £238bn government expenditure of procurement overall).⁵⁰ Added to this are the costs of government subsidising low wages in the contracted out public sector, not to mention the cost of corporate tax cuts.

Finally, the State also supports the private sector in removing barriers to the 'free market'. As under the Thatcher governments, its authoritarian arm continues to be deployed against those who oppose market reforms. Although the police themselves protested against public sector cuts, they were deployed to use much-criticised 'kettling' tactics (restricting the free movement of protesters via the use of steel cordons) against striking public sector workers, notably in November 2011. Furthermore, the law itself was strengthened against trade union activity. Building on existing legislation introduced under the Thatcher era, the Trade Union Act 2016 stipulates that for industrial action to be lawful, it has to have the support not just of the majority of workers voting in a ballot but at least 50% support of all

those eligible to vote (40% in certain ‘important public services’ including health and education). In any case, and again in parallel with the 1980s, public sector unions had most probably been weakened by huge cuts in public sector jobs which have left the number of people working in the public sector at its lowest level in 40 years.⁵¹ Job insecurity, pay and pension cuts likely weakened public sector unions’ ability to use industrial action as a weapon.⁵² Indeed, while the tough line taken by recent governments against the trade unions might suggest otherwise, levels of strike action have actually been very low in recent years by historical standards. Weakening the trade union movement may have been a desired outcome of cutting public sector jobs.⁵³ The path was thus smoothed for the entry of private sector competitors into the public sector.

Conclusion

Despite some clear differences in approach to public services over the past thirty-five years, the period has been marked by more continuity than change. The dichotomy between conservative austerity and labour profligacy has not been so great as advertised. Whilst spending on public services under Blair was certainly higher than under the previous government, it was by no means excessive and was targetted on the very same services that were ring-fenced from the worst cuts by subsequent Conservative governments. Similarly, austerity, whilst evident in some areas such as local government, was not as great as advertised: spending increased on health and education even if it fell as a percentage of GDP, whilst the welfare bill, as under the Thatcher governments continued to rise in spite of cuts. More important than austerity itself was the discourse of austerity. Paradoxically, whilst austerity was promoted as a means of shrinking the State, the very fact that the State played a key role in articulating this same discourse actually ensured that the State played a highly interventionist role in creating hegemonic consensus around the Conservative neoliberal project. Indeed, the most important point of continuity in recent decades has been the significant role played by the British State. Far from shrinking, it has transformed itself, despite the discourse of localism and the apparent devolution of power from the centre. Whilst it may take less responsibility for ensuring the welfare of its citizens, it now plays an even greater role in promoting the welfare of the private sector, opening up new markets for it to exploit, allowing publicly-sponsored monopolies to develop, subsidising company profits and neutralising opposition by framing public discourse and taming the unions. As a result, the State and the private sector have developed a symbiotic relationship based on mutual

dependence. The context of the financial crisis and the discourse of austerity merely provided a new opportunity for the acceleration of pre-existing trends.

Despite headline-grabbing announcements of a change of direction under Theresa May, it seems unlikely that a change of leadership will lead to significant policy change. There will be no end to austerity. Whilst the new chancellor may have promised to restore fiscal discipline ‘in a pragmatic way’, local government is locked into agreements to reduce their budgets until at least 2020 and there has been no promise to increase spending to make up for the shortfall in the health and education budgets.⁵⁴ In any case, the discourse of austerity, or at least of fiscal consolidation, will remain important, justifying the continued contracting out of public services to the private sector. Meanwhile, the new context of a looming Brexit will justify a continued expansion of the State in its support of the private sector, with Hammond pledging to provide whatever support is necessary to protect British businesses as they make the transition to living outside the EU.

Notes

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