

The impact of privatisation and the marketisation on employment conditions in the public services



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Introduction

Since the early 1980s, public service managers have faced a plethora of government measures that require them, *inter alia*, to change their approaches to service delivery. Those measures were initiated through legislation that set out to reform all of the public services within an overarching policy framework. Market competition is at the heart of this policy, involving privatisation, controlled contracting out, Best Value, private finance initiatives (PFI) and public-private partnerships (PPP), and ‘internal’ markets.

This paper examines the impact of the process of implementing the policy, now known as ‘modernisation’, on employees remaining in the public service sector. In the first section we outline the human resource management (HRM) aspect of modernisation, as set out in government publications. Then we set out a general analysis of the underlying logic of the reform programme. This involves a brief discussion of the ‘public choice’ ideals that underpin New Public Management (NPM), which is linked to the Three Es of efficiency, effectiveness, and economy through modern versions of Taylorism. Successive reforms have introduced systematic pressures on service managers from two directions: competitive pressures to reduce operating costs by reducing unit labour costs, and regulatory pressures to meet service quality targets.

Finally, we summarise the implications for labour management and labour relations. Public service employers have a weaker role in both strategic policymaking and operational management. Managers are under pressure to run service delivery units ‘as if’ they are businesses, and to use HRM techniques to reduce unit labour costs. This is achieved through a general process of skill mix changes, intensifying effort, and tightening work controls.

As we are not statisticians, we can only point out some of the more obvious issues involved in establishing good quantitative data on the

relevant issues. There are real difficulties in measuring the quantity and the quality of public services; the quantity and the quality of the work done by public servants; and the conditions of service of public servants. As we discuss below, modernisation involves making radical changes to public service labour: in staffing structures, in payment systems and structures, and in work organisation. It also involves redefining service priorities through the use of performance indicators. Gathering evidence on the real consequences of government policy on the employment conditions of, say, nurses is extremely complex. Our concern is to set out the underlying logic of the reform process, and to construct an argument as to the resulting general consequences for the public service workforce. We hope that this will be useful for statisticians who share our dismay at those consequences.

Modernisation

The government's drive for 'modernisation' in the public sector has gathered pace dramatically over recent years, becoming increasingly focussed on human resource management (HRM) issues. Reforming the labour-intensive public services means also reforming the jobs done by the employees who deliver them. Thus managers are required to change the ways in which the service delivery workforce is organised and the ways in which the service delivery work is done. Managers therefore have to deal with a wide range of labour management and labour relations issues: 'the modernising government programme encompasses a vast range of personnel issues and it sets a bewildering raft of performance targets and standards for public servants' (Industrial Relations Services (IRS) 1999: 5). These are presented in government publications as human resource management (HRM) issues that can be handled with positive sum outcomes: better services and better employment conditions. In each service the message is the same: modernisation of services means modernisation of the workforce and of their terms and conditions of employment, as illustrated by the following examples.

The NHS Modernisation Agency was created in 2001, and within this there is a 'self-managed team' called 'New Ways of Working' that is involved with the implementation of 'Agenda for Change' and the 'Changing Workforce Programme'. Most of the NHS trade unions (but not the BMA) have agreed to the Agenda for Change. It commits the signatories to work together 'to meet the reasonable aspirations of all the parties to: ensure that the new pay system leads to more patients being treated, more quickly and being given higher quality care; assist new

ways of working which best deliver the range and quality of services required, in as efficient and effective a way as possible, and organised to best meet the needs of patients; [and] assist the goal of achieving a quality workforce with the right numbers of staff, with the right skills and diversity, and organised in the right way'. Furthermore, 'pay modernisation is an integral part of the human resource strategies of the NHS' (Department of Health (DoH) 2003: 5).

For local government the employers and the government have agreed a strategy that 'sets out a comprehensive approach to help ensure that local government has the right numbers of people in the right places with the right skills to deliver improved services, better productivity and greater customer focus in front line services'. Important HRM issues appear among the list of priorities: creating a 'high performance people management culture'; developing a 'successful partnership approach to employee relations'; creating a 'more flexible workforce, able to deliver high quality, customer focused services'; and 'remodelling the workforce, achieving greater movement across professional and skills boundaries and taking advantage of new technology to develop 'win-win' outcomes from flexible working arrangements that achieve improvements in delivery and better work-life balance' (Office of the Deputy Prime Minister and the Employers' Organisation (2003: 5).

The government has struck another deal with the employers and most of the unions (but not the NUT) in the education sector. It promises to deliver more teachers and many more classroom assistants by 2005 in order to reduce teacher workload on non-teaching duties. Within the agreement's 'seven point plan for creating time for teachers and headteachers and therefore time for standards' the same set of issues is identified. 'Personal administrative assistants for teachers, cover supervisors and high level teaching assistants will be introduced; the recruitment of new managers, including business and personnel managers, and others with experience from outside education where they have the expertise to contribute effectively to schools' leadership teams; [and] additional resources and national "change management" programmes, to help school leaders achieve in their schools the necessary reforms of the teaching profession and restructuring of the school workforce' (DfES 2003: 2).

Andrew Smith, Chief Secretary to the Treasury, sets out the position for the Civil Service in his foreword to the Makinson Report: 'As part of its comprehensive plan for modernisation, the government has recruited a

team of top private sector managers to the PSPP [Public Services Productivity Panel] – with a remit to advise on improving efficiency and productivity’ (Makinson 2000: 1).

Finally, the Bain Report issued during the bitter firefighters’ strike of 2002 concludes that ‘modernisation is long overdue. The challenge is great. Action is required to legislate for the changes; to negotiate alterations in terms and conditions of service; and to plan detailed local implementation plans and a new audit regime’ (Bain, 2002: vi).

If the employees are central to the delivery of the services, then the employees must embrace the reforms. Without the consent of the employees the reforms will fail, resulting in worse services rather than better ones. Our main interest is to discuss the extent to which employees are likely to embrace the reforms, based on an examination of their actual nature.

Neo-liberalism, public choice, and new public management

These more recent examples of government policy build upon government initiatives since 1980, resting on assumptions that private sector employment practices are more efficient, economic, and effective than those traditionally associated with the public services. Private sector involvement in public services is underpinned by the neo-liberal objective of allowing the imperative of profit seeking market competition to dominate economic, social, and political life (Chomsky 1999). The New Right has reformulated older values rooted in both the neo-classical economic analysis of the firm and libertarian views of social markets, and is concerned with the adverse fallout from market systems only when social inconvenience and political subversion are involved (Cohen 1988).

European centre-left parties, especially those in governments, regard Keynesian welfare solutions, Marxism, and social democracy with derision (Miliband 1973) and have adopted the neo-liberal alternative to both. They have embraced the New Right’s ‘public choice’ theories, which suggest that governments fail because politicians make partial judgements based on short-term electoral calculations, and their decisions about the supply of public services are not necessarily in the best interests of society. Furthermore, bureaucrats may subvert those decisions at worst, or at best they will implement them inefficiently both in terms of resource allocation and X-inefficiency (component parts of a

system may operate efficiently while the system as a whole is inefficient). As Walsh notes, 'the simplest accusation against the public sector is that it is wasteful in the way that it uses resources because politicians and public officials have no incentive to control costs' (1995:16). Conservative Secretary of State Michael Heseltine made the point with his famous demonization of the producers: 'by 1979 local government had become a barely controllable free-wheeling employment machine which for year after year had been run largely for the benefit of the machine-minders' (1987:43).

Such pronouncements have almost acquired the status of 'common sense', and friendly writers have helped to justify the resulting policy initiatives by providing an intellectual gloss (Dunleavy 1991; Rowley 1993). But claims that they are rooted in some deeper coherent and cogent theory can only retain sense if one enters a looking glass world and accepts a set of unstated assumptions about what are the best interests of society.

For example, the influential Niskanen starts a paper on the problems of public service bureaucracy with two unexplored assumptions: 'the model outlined is based on the following two critical characteristics of bureaus: (1) bureaucrats maximize the total budget of their bureau, given demand and cost conditions, subject to the constraint that the budget must be equal to or greater than the minimum total costs at equilibrium output (2) bureaus exchange a specific output . . . for a specific budget' (Niskanen 1967: 293). Those assumptions pave the way for him to conclude that putting the bureau 'in a competitive environment' results in the best choices about goods and services, and that 'the incentives of bureaucrats could be changed to encourage them to minimize the budget for a given output' (p304). He soon reached 'the unavoidable conclusion . . . that a better government would be a smaller government', and asserted that 'the national government should thus finance a smaller range of public services than at present at lower . . . tax rates' (Niskanen 1971: 227-9). These points have been repeated many times by popularisers of public choice, but even the most academic authors cannot hide their political bias: that government has failed, that this constitutes a threat to the American way of life, that it can be remedied, that the remedy lies in private markets for public provision, and that when there has to be some public provision it should be only for the very needy and even then subject to competition and management incentives (Buchanan 1975).

Competition in the pursuit of profit, according to the neo-classical model of the firm, is the motor that drives increases in efficiency, effectiveness, and economy (the Three Es) in private companies. Thus the absence of such a motor, for example in the public services, results in relatively poor performance with regard to the Three Es. The public choice position makes a neat link with the neo-classical model, justifying the involvement of private firms in public services by asserting that it results in the best allocation and delivery of services at any given cost. Politicians can avoid being trapped by the privatisation logic of this position by using the ‘what works’ argument – it is not necessary to assert that private enterprise is inherently better at delivering services than public enterprise, only that it should be involved where it is better, in terms of the Three Es.

The practical application of the public choice ideals to services remaining in public provision became known in some circles as New Public Management (NPM) (Pollitt 1993). Dunsire summarises the position in his historical survey of public administration:

The academic *locus classicus* (worldwide) became Christopher Hood’s inaugural lecture at LSE (Hood 1991), naming and defining ‘The New Public Management’ model. It covered a set of doctrines described as follows: a shift of concern from policy to management, emphasizing quantifiable performance measurement and investment appraisal; the break-up of traditional bureaucratic structures into quasi-autonomous units, dealing with one another on a user-pays basis; market-testing and competitive tendering instead of in-house provision; a strong emphasis on cost-cutting; output targets rather than input controls; limited term contracts instead of career tenure; monetized incentives instead of fixed salaries; ‘freedom to manage’ instead of central personnel control; more use of public relations and advertising; encouragement of self-regulation instead of legislation. These doctrines, said Hood, were a mix of ‘public choice’ and updated Taylorism (Dunsire 1999: 373).

Thus NPM contains two strands: the modern Taylorism, or managerialism, which aims ‘to gain more effective control of work practices’ (Walsh 1995: xiii); and the establishment of new business units under the control of strategic centres through contracts, markets, regulation, inspection and audit, and performance measures/indicators. The first strand emphasises ‘good management’, while the second

emphasises the quality of service provision driven by the newly crowned sovereign consumer. The two strands come together in labour management practice: 'quality has become associated with increased control over the public sector labour process' (Kirkpatrick and Martinez Lucio 1995: 9).

We return to the labour management issues after we further unpick the way that the neo-liberal agenda drives the government's reforms.

In the Civil Service ministers implemented the reforms directly, introducing new structures through the creation of Agencies with internal markets and with market testing against private sector contractors. Elsewhere the reforms were implemented primarily through a series of Parliamentary Acts, including, for England and Wales, the Local Government Acts 1988, 1992, and 1999, the Education Reform Act 1988, and the NHS and Community Care Act 1990. These required local authorities to create competing business units. Local management of schools and incorporation of further education colleges introduced competition between individual schools and colleges. In higher education, competition was intensified through the abolition of the binary divide between universities and polytechnics. Internal markets were introduced into health and social care, based on a purchaser-provider split which remain largely intact despite the later changes to Primary Care Trusts and Foundation Hospitals. Compulsory competitive tendering was introduced for both the NHS and local government, with Best Value continuing the competitive regime in local government. Bidding for earmarked funding, for urban regeneration and education action zones for example, introduced further competitive pressures.

Thus central government has created some of the conditions required by the public choice theorists of the New Right by setting up competition in the supply of services alongside incentives for site managers and regulation of quality outcomes. Government ministers have produced sets of performance indicators that are meant to indicate the extent to which service objectives are met. Regulatory bodies such as the Office for Standards in Education (Ofsted), the National Institute for Clinical Excellence (NICE), the Audit Commission, and the Social Services Inspectorate, have been established and strengthened, to enforce the government's priorities through a process of inspection linked to sanctions and rewards.

The reforms are based on a model principal-agent relationship, with government ministers as the principals, setting budget inputs and service outcomes, and the senior managers running the restructured public service authorities as their agents, charged to deliver the specified outcomes within their budgets through competing service providers. Tighter regulation is an attempt to resolve the ‘principal-agent problem’ (Arrow and Hurwicz 1977; Stiglitz 1986). Briefly stated, the ‘problem’ is that the owners (the principals) of large and complex private enterprises do not have sufficient knowledge about the activities of the managers that they have to employ to act as their agents, and therefore they lose control over their own enterprises. However, there is always one necessary indicator of managerial success in the owners’ terms, profit. Managers must, whatever else they do, have regard to the pursuit of profit, which is the main regulatory mechanism in the private sector, and is the main reason for owning a business in the first place. Managers are held accountable to the owners primarily through the observed profitability of the business unit. No such performance indicator operates in the public services.

Difficulties in defining the ‘success’ of any public service are inherent in the complex political nature of the public sector. Re-stating the principal-agent problem is one way of illustrating this, starting with the principals. The government, the citizens, the service users, the taxpayers, the local authorities, the service professionals, all may claim to be involved as principals in setting the objectives of services, and all may have different ideas about what constitutes success. Inevitably, there is always a bewildering array of objectives and sub-objectives, reflecting the different views within and between these groups, resulting in unresolved conflicts over how to define and test for success. Decisions about service planning and delivery are becoming management decisions, as the reforms reduce or remove democratic involvement at all levels – for example union bargaining at the workplace, political representation on employer boards, or parliamentary scrutiny of the executive – so those with the deepest pockets gain the greatest influence. Once the newly dominant principals dictate policy their agents, senior public service managers, alter their practices, especially employment practices, to accommodate to the payers of the pipers.

Managers’ responses to the NPM agenda

Public services such as health care, social care, and education are overwhelmingly organised and delivered directly by employees: they are

labour intensive, person to person, and locally (not globally) delivered. Our main argument is that by introducing the force of competition, coupled with tighter regulatory regimes, the reforms have caused changes in labour management practices which are aimed at changing the ways that service delivery employees do their jobs (their labour processes). As such changes must also change the actual service that is received by the public, the success or failure of any reform ('what works') depends crucially on both the employees and the ways in which they are managed.

While NPM literature does put management at the centre of the reform process, it is mainly concerned with the management of resources in the abstract, as if 'good' management can only result in 'good' outcomes. The complexities of labour management, involving variable and contested amounts of control over the activities of millions of service delivery employees in thousands of workplaces, are given scant regard. But actual managerial responses to the reforms are constrained, and the narrow range of available options result in labour management practices that are likely to be resisted by employees (Carter and Poynter 1999). As Braverman points out, such resistance is uncertain: 'it [the working class] protests and submits, rebels or is integrated into bourgeois society, sees itself as a class or loses sight of its own existence, in accordance with the forces that act upon it and the moods, conjunctures, and conflicts of social and political life' (1974; 378). Braverman's main focus was not on the nature of resistance, but on what it was that was being resisted: he uncovered the market-driven logic of labour management.

Exposing public service managers to the force of market-like competition over streams of income, through the twin pressures of tight budgets and competition for budget share, is intended to mimic the tendency for rates of profits to fall and the competition for market share confronting private sector managers. The latter have a range of possible responses open to them, including: closing the business or part of it; changing the product/service; changing the price of the product/service; seeking out new markets; or cutting wage rates/conditions of service. Even fraudulent reporting and accounting can become part of the everyday management functions as catastrophically illustrated amongst large US corporations.

Public service managers can exercise none of these options. Cutting unit costs is the only viable response to competition, and in labour-intensive industries this can only be achieved by cutting unit labour costs. As

wage rates are still mainly determined through national collective bargaining and review bodies (White 1999), this means cutting unit labour costs by implementing one or more of the following: reducing staffing levels; increasing work rates; reducing the proportion of staff on higher grades; changing conditions of employment to reduce their cost; and introducing flexible work schedules, including the use of agency staff, to enable managers to deploy labour strictly in accordance with business needs in the right quantity, in the right place, at the right time, and at the right price. Measures to weaken the capacity and the resolve of trade union representatives to resist are implicit in such cost-reducing measures (Ironsides *et al.* 1997; Ironsides and Seifert 2000).

This suggests the application of techniques to manage the performance of staff, based on 'scientific management' principles (Taylor 1911). As in the private sector, the Taylorist logic applies to an increasingly wide spectrum of occupational groups, including professionals such as teachers, nurses, and social workers, a tendency identified by Braverman (1974). HRM techniques associated with the control of staff performance play a key role in the thinking of government and employer decision-makers (see for example a range of government and employer statements about the best ways to manage staff: DFEE 1998; NHS Executive 2000; DoH 2001; Employers' Organisation for Local Government 2001).

Reducing unit labour costs in this way does not, *ipso facto*, result in either efficiency or productivity gains. Efficiency is gained by increasing the ratio of outputs to inputs. Thus for the outputs to remain the same – students learn the same things, and patients recover as quickly, for example – an efficiency gain would require a reduction of the inputs. This could be achieved through technological advances that would transform the delivery of mass education and health care, reducing the quantity and changing the quality of labour needed to deliver the current level of output. However, while there are some rapid and far-reaching changes in surgical procedures, the main input to mass health care and education is still labour. Any reduction in the labour input would, if all else remains equal, produce a corresponding reduction in output. The question then becomes, can the labour input be maintained if the labour input cost is reduced? The answer is yes only if one or more of the following can be achieved without affecting the labour input: make the service delivery workforce smaller; replace higher paid employees with lower paid ones; reduce relative levels of pay and other conditions of service; use

employment practices that allow for cost-free rapid adjustments of workforce size and composition.

Reducing unit labour costs does not reduce, *pari passu*, the amount of labour inputs necessary to maintain outputs, so it does not increase either the efficiency or the productivity of the service. It simply makes it cheaper, by achieving the same outputs from a cheaper workforce, with fewer employees working harder, mostly at lower rates of pay, with worse conditions of employment, with less job security, and with less trade union protection. This raises the very important question: can the objective of cheapening the workforce be achieved without worsening the quality of the service?

Service quality imperatives are built into both the market and regulatory mechanisms, imposing further constraints on managers. For example, parents of prospective pupils might have an eye on school league tables and OFSTED reports when selecting the school for their child. Competitive advantage can be gained by achieving better results than competitors, as measured by performance indicators and as certified by regulatory bodies. Where there is competition for service contracts, performance indicators are built in. Best Value is predicated on the use of performance benchmarks. National inspection regimes impose further discipline over managerial behaviour, setting national service norms and carrying with them the threat of sanctions in the event of 'failure'. Managers are locked into a system that requires them both to minimise the cost of the workforce, and to maximise the effort of the workforce devoted to hitting performance targets.

Public service employees face some very hard realities. Their managers must attack their pay, conditions, and job security, make them work harder, make them pursue targets, supervise them more closely, and employ more lower paid and fewer higher paid staff. They must minimise trade union influence over such matters. They must break with the public service traditions that included a shared sense of priorities between service delivery workers and their managers. While this goes against the grain for many experienced managers, they have no alternative but to act in accordance with the market and regulatory pressures.

Therefore there is a strong empirical and logical link between New Right ideals, embedded in public choice theorising and in NPM models, and labour management policies and practices at the point of public service

delivery (see Schwartz 1994: 57). Job evaluation-based single pay spines, being pushed into local government (Single Status), the NHS (Agenda for Change), and higher education (framework agreement for the modernisation of pay structures), provide the link between pay structures, pay levels, and the Taylorised division of public service labour. Trade unions, perhaps anxious to protect some semblance of national bargaining have, with only a few exceptions, agreed to the weakening of national agreements necessary to secure managerial flexibility at the level of the service delivery business unit. However, it is difficult to see how the weak safeguards contained in these national agreements will be enforced at local level. The trade unions appear to have accepted the idea that the government's modernisation agenda does actually hold out real potential benefits for workers.

We are not so optimistic. The neo-liberalism that underpins modernisation leads directly towards Taylorism, with its assumptions that workers systematically underperform when left to themselves; that managers can prevent underperformance through work study and related techniques such as job evaluation; that managers can establish the best way of organising work and workers; and that workers will cooperate with management decisions in return for praise and for higher pay than they would get by not cooperating.

Conclusion

The reforms have strengthened central government's control over the main strategic issues of funding and spending priorities, through a range of legislative and administrative measures. They have also strengthened the role of local service managers in dealing with operational issues, including labour management issues. This process of centralising strategic control and decentralising operational control has weakened the roles of local authorities in local government, health, and education, including their roles as employers. There are two main consequences: short-term goals based on narrow performance indicators are pursued at the expense of longer-term planning; and clear inequalities within services emerge as resources are drawn towards 'successful' business units at the expense of 'failing' ones.

The reform process has a particularly sharp impact on service delivery unit managers. Service organisation is based on a narrow range of business-like criteria, driven by the need to minimise unit labour costs

while hitting performance targets. Notions of 'best practice' are the outcomes of attempts to steer a course between cost-cutting and target-hitting, leading to standardised management techniques and stifling the traditions of public service innovation. HRM techniques are control devices aimed at securing standardised service outcomes within cost limits.

This approach can only be explained by holding onto the belief that market-like mechanisms are the keys to successful reform, and that if there are problems in implementing reforms then more of the same is needed to make them work. We have argued that the reforms logically bring about the degradation both of the skill and professionalism of the workforce and of the work done by the workforce. We do not suggest that all of the adverse consequences appear in all situations, but that the general logic does apply. The actual practical outcomes reflect the mediating impact of employers, managers, trade unionists, and professionals, not forgetting also the service users and the various campaigning organisations – all of these may resist the logic. However, the accumulating evidence is that labour standards are deteriorating despite those mitigating factors. Panglossian proponents of the NPM approach cannot conceal these consequences of the reforms: rather than delivering the best possible services in the best of all possible worlds, they are degrading the working lives of the citizens who deliver those services, with major consequences for the citizens who receive them.

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