

Putting the consumer first

We need to think coolly and critically about the alleged superiority of market forms of economic life and also at the reaction of the left which tends only to talk about planning with control. In an adaptation from a submission to the Policy Review, ROBIN MURRAY sets out the problems with Thatcher's crusade for privatisation and the market, and suggests an alternative strategy.

First it is useful to distinguish liberalisation from privatisation. By liberalisation we mean running the public sector as if it were the private sector. Privatisation refers to the change of ownership. Many of the negative impacts of privatisation on the consumer can result equally from liberalisation. It is the imposition of the principles of the market rather than simply the change of ownership which is important. In many public services liberalisation has preceded privatisation, and the main impact of restructuring both for workers and consumers has taken place then.

Running a public service as if it were a private one may involve any of the following:

- increased user charges;
- creation of profit centres;
- cutting 'unprofitable' services;
- inviting private competition to create pressure on the public services;
- increasing use of sub-contractors;
- imposing minimum rates of return in line with the private sector, as well as short pay back periods for new investment;

- increased use of private capital for investment financing.

These changes raise the following issues for the consumer:

Firstly, social needs are not reflected through market demand. Profit maximisation has led to cuts in 'unprofitable' services, and a shift in the focus of services to the better off and to business. Thus BT cuts and neglects telephone boxes, concentrates innovation on business users, and operates a charging structure that gives business users one of the cheapest telephone services in Europe, and private consumers one of the most expensive. Bus services are cut in the evenings, at weekends and to outlying estates and rural areas and concentrated on the day time trunk routes. Similarly with the train services.

Secondly, costs are shifted on to the consumer. With private accounting, the cost in time and money of the consumer getting to the service is not taken into account. Hence the closure of local hospitals, schools and sub post offices, and their centralisation (together with

leisure services, swimming pools, libraries) may appear cost efficient, even though it means longer journeys for the consumer, or (for those who cannot afford the bus fare, or who have mobility difficulties) no journey at all.

The same applies to queuing. If public transport services had to compensate users for any time over say 10 minutes they had to wait for a service, we would have a quite different service. Modern capitalism has a far more efficient system for transporting the components of a Ford car ('Just in Time'), than it does for transporting its people.

Thirdly, decline in service quality. Accessibility and promptness are both aspects of service quality. There are others. The overcrowding of trains even at non peak times has been encouraged by BR's profit centre policies, (shorter trains use less power and cut cleaning costs). Public libraries have had to cut their book acquisitions, and to remain closed on certain days to meet their financial targets.

Cuts in the number of teachers, nurses, bus conductors, station staff – all lower the quality of service. One of the main arguments for DLOs has been the problem of regulating quality in the work of private construction companies.

Fourth is the increase in service hazard. One of the common consequences of liberalisation and deregulation has been a cut in maintenance spending and investment in safety. London Regional Transport for example, cut track maintenance spending as part of a cost cutting programme, and there is clear evidence that the trade unions had warned of fire hazards prior to the Kings Cross fire. There is a major debate now about air safety, and its link to the number of air controllers (and their conditions) provided by the Civil Aviation Authority. Deregulation (and increased competition) in the US air transport industry has led to a debate about air safety because of cuts in maintenance standards.

Equally when the costs of pollution are not included in the accounting costs of a producer (public or private) then a producer interest is created in not only minimising anti-pollution expenditure, but challenging those consumer interests who raise pollution issues (the CEBG is one of the worst examples).

Fifth is their horizons. The imposition of market disciplines discourages long term investment. Many public services are having short pay back periods imposed upon them (this is a central issue for DLOs for example) or are using the length of pay back as a key criterion for

choosing between investments (British Rail).

In transport, where expansion of demand and a shift from private cars has been shown to depend on long term service commitment, short term cost accounting has led to service cuts and a shift to road. The liberalised water industry has suffered severely from cuts in investment.

A further consequence has been to seek deficit reduction through service cuts rather than expansion. One aspect of short term book balancing has been to encourage retrenchment to the most profitable (or least unprofitable) lines rather than to invest in diversification and expansion. The latter – which might make effective use of surplus capacity and key skills – is longer term, riskier, and may run foul of legal restrictions. But it may avoid the break up of teams of skilled workers, who have often been lost to the industry altogether.

This has been the issue in the run down and closure of BREL workshops, or London Transport's Acton and Chiswick maintenance plants, or the many municipal bus maintenance departments. Where such cuts involve lower maintenance quality, or a cut back in public service options (rail as against road transport for example), then there are clear implications for consumers.

Private operations also ignore interdependencies. No service is an island unto itself. Many public services are part of the infrastructural backbone of local and regional economies. The location of airports for example or modernised telecommunications networks has major implications for private sector location decisions. The privatisation of housing cuts down labour mobility for those who cannot afford to buy their own house, and has led to acute labour shortages and worsening housing conditions (as many areas in the South East have found to their cost).

Many services can strengthen each other – a co-ordinated bus, rail and metro system is greater than the sum of its parts as the Regional Transport Authorities showed before their abolition. Even within a service there are numerous examples of such interdependency, branch railway lines encouraging main line use, for example. Profit centres and the dismantling of co-ordination discourage the economies arising from such interdependency.

Pressure on labour is yet another issue. One of the main aims of liberalisation and privatisation has been to increase the discipline on labour and cut its cost. Market advocates argue that this will benefit the consumer by lowering costs and improving services. Against this we should take account of the following:

- liberalisation and privatisation has led to a cut in training;
- increased stress tends to lower service quality;
- casualisation breaks down continuity;
- lower labour costs have to be balanced

against higher capital costs – since the service must now earn a market return – and may therefore not lead to a cut in overall service costs.

Consumers will be faced with a reduction in choice. Services where there are economies of mass production will find that profit maximisation leads to a reduction in variety and choice. This is the issue at the centre of the cable television debate, and television regulation. It applies, too, to public sector catering.

Finally, comes a run down of assets for present income purposes. The sale of assets and the failure to maintain them is the inverse of lack of investment in the long term. Advocates of the market economy argue that these problems can be taken care of by regulation, by competition, by a system of taxes and subsidies to ensure that the private accounts reflect social costs and benefits. They also argue that whatever drawbacks



remain are far outweighed by improved efficiency, by greater innovation and imagination, and by greater attention to the consumer resulting from the introduction of the market.

ALTERNATIVES

There are serious issues to address in both strands of this argument. On the first, there are systems of regulation and inspection which can be effective. Some elements of competition in some services may improve service quality and encourage innovation. It is in principle possible to have a system of taxes and subsidies. We need to consider these matters with respect to each service – as the marketeers have done. There are, however a number of general points which can be made:

- * Unless there are detailed and publicly supported non-financial measurements of performance, the state of the private balance sheet will always dominate discussion.
- * Subsidisation and taxes will be determined by power as much as by abstract economic reason; privatisation strengthens and in some sectors creates the power of

private capital, at the same time as weakening the power of labour.

* Relative social power also affects the impact of any regulating agency, since all regulation is at the same time political and economic, (we need only consider the power of the large food and drug companies on the public regulation of their respective industries).

* Competition can take many forms and have different consequences. There can be cost cutting and service reducing competition, or there can be co-operative competition which competes on quality and product innovation but co-operates in other fields. The first is characteristic of Britain and the US, the second more common in Italy, Germany and Japan.

* The market often takes a long time to bring about its effects, even where it does not create and recreate particular monopolies. Planned co-ordination (as in land use planning, transport services, and any activity with long lead times) is necessary when operating in real time (rather than abstract economic time) as large corporations daily demonstrate.

* The results of the liberalisation and privatisation of the eighties – both in this country and abroad – have been in almost all cases to accentuate the problems raised above, even when carried out by social democratic governments.

More serious, however, is the marketeers' attack on public services for:

- inefficiency;
- lack of consumer orientation;
- lack of innovation;
- over centralisation;
- lack of variety/choice;
- lack of flexibility to new needs;
- mistake avoidance rather than risk taking.

NOT WHOLE STORY

Some of these are class criticisms (the right to choose in health and education is often a question of the right to privilege). But this is not the whole story. Some of the criticisms are similar to those made by socialists and by broad-based consumer groups. Among those we can distinguish:

Firstly, a radical liberal critique of the public and private sector from the consumer point of view. This emphasises the need for more information, greater safety standards, more competition, plain language, more equal income distribution, more representation in public institutions. These are measures to ensure a more effective and equitable operation of the capitalist market economy.

Secondly a red/green critique, emphasising alternative systems of service provision: preventative rather than curative health care; planned, low energy using public transport as against a system centred on the private car; energy conservation; a health centred food system; strong land use planning to reduce transport needs. One theme is the development of systems to satisfy needs which avoid the need for production. Another is a strong criticism



Congestion, cuts and privatisation crowd out public transport.

of the producer domination of many public services: Transport, Energy, Health, Agriculture, reflected in the Ministries and the professions.

Third, a feminist critique, which centres on the way in which male dominated, market determined systems of production (public and private) discriminate against women, much of whose work is unpaid and outside the market economy.

In transport, women have less access to private cars and are therefore more dependent on public transport. They have special security needs for evening travelling, but face cuts in station staff, conductors, and the quality of street lighting. They suffer disproportionately from the centralisation of public services (and shops) since it is they who tend to take children to school or to hospital, who do the shopping, who need the local post office for child benefit. Similar criticisms have been made by people with disabilities and by the elderly.

Fourth, a left consumerism which emphasises the need for greater consumer power linked to trade union power to ensure user interests are central to any socialist economic system. They argue for strong consumer laws, public funding of user groups, a Ministry of Consumer Affairs, an expanded National Consumer Council, and joint user/union alliances on particular issues.

These are not exclusive, but they are distinct. Their criticism is directed at the public sector as much as the private, seeing liberalisation and privatisation as worsening a consumer position, which was often problematic in the public services in the first place.

IMPLICATIONS

What are the implications of all this for policy? While some of the issues raised could be at least partially addressed through systems of regulation, taxes and subsidies, many require more direct public control to be dealt with effectively. The exact mix of public regulation, different forms of public ownership, and other systems of public control will vary from sector to sector, and should be worked out case by case.

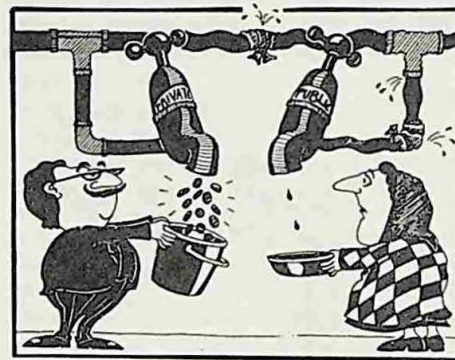
If it is liberalisation and the imposition of market criteria which is the key issue, then public ownership will be a necessary but not sufficient condition for the changes required. Reversing liberalisation in public services may be as important a priority as taking back privatised industry into public ownership.

In dealing with privatised industry, the opportunity is to convert it into a new form of public service. In each industry the case for extending public ownership will be as an instrument for achieving wider objectives. It is the wider objectives which are of the first importance, and the necessity for wider public ownership as a means of achieving these objectives will have to be argued case by

case, and a broad support achieved.

In drawing up a programme with priorities, importance should be attached not just to the significance of the industry, but the degree to which popular support has been built up around a strategy, and the means by which it can be implemented.

What is needed for each industry is a plan for a public service oriented industry rather than a market oriented one. The plan should be worked out within a brief of the goals to be achieved (including the consumer goals previously discussed) and indications of the new public service model which might be used to achieve it. Such a public service plan would not rule out private sector involvement. But it would be seeking to impose a public service orientation on each sector, public



and private, just as the present government has been seeking to impose market criteria, irrespective of ownership.

The production of such plans should involve as many people as possible, including user groups, since the process is as important as, and affects, the final outcome. Decentralised industrial planning produces more implementable plans, and is a means of building political support.

From the consumer point of view with respect to privatised industry and public services, there are two more general questions:

- how to strengthen consumer power;
- how to increase public service responsiveness to user needs, and increase their productive effectiveness.

The two are interconnected, but we will deal with them in order.

CONSUMER POWER

Increasing consumer power and resources: At the moment information, strategic capacity, specialist know how, resources, and political advocacy are largely concentrated in the hands of industrial managers and, in some cases, government departments. Trade Unions have too few of these resources, users even less. While some user interests can be protected by laws, there is a need for a publicly funded user power over and above that already existing through voluntary pressure groups and organisations.

Among the measures which might be

taken to this end, with specific reference to the interests of users of public and former public services, are:

1. An extension of local government scope in this field involving:

(a) funding of voluntary user groups. Many authorities have been successfully doing this, notably with respect to tenants associations, for example, and sector user groups such as the London Food Commission.

(b) Council Consumer Committees, with a variety of funding and monitoring tasks.

(c) Maintaining a specialist staff, where appropriate in conjunction with other local authorities, to provide advice and information to the Council and to users on relevant issues.

2. Establish a Department of Consumer Affairs in central government, with a variety of tasks from funding responsibilities, a role in servicing local councils to providing information, liaising with the Audit and Quality Commission and working with and interviewing on relevant policy issues with other government departments.

RESPONSIVENESS

Increasing public service responsiveness and productive effectiveness. Among the issues to be dealt with are the following:

1. Greater priority to non price data for monitoring public service performance, including total usage, categories of user, queuing times, time of service delivery (e.g. travelling times relative to schedule), interruptions to service through equipment failure, quality of performance indicators and so on.

2. Greater investment in user and potential user research (notably absent in a number of local authority services).

3. Democratization of public service strategy, in part through funding of user groups (see above), trade unions, and an extension of local authority capacity, and in part through the adoption of more open means of public service strategy development (hearings, commissions, enquiries and so on).

4. Involvement of users on boards of public services, alongside trade unions, where feasible by election rather than nomination.

5. Re-orientation of public services as usage maximisers rather than cost reducers.

6. Greater customer responsiveness through compensation to customers for poor performance, free phone number for complaints and ideas, monthly user and service monitoring.

7. Increasing decentralisation and diversity within a public service.

8. New forms of funding, including central and local grant funds for some of the non commercial goals assigned to public services.