Politics and the public sector

Introduction

In the previous chapter we saw the scale and scope of the public sector. Here, we begin by asking how the current public sector developed. Many of the elements of social security, health and education have been in place since before the Second World War, if in somewhat different form, and subsequently the institutions of the state were strengthened as part of the post-war reconstruction during a period of state involvement in most parts of the economy, including basic industries and manufacturing. While there may have been a majority opinion in favour of the broad shape of what became known as the ‘welfare state’, there was not a consensus in the sense that all politicians agreed even on the proper scale and scope of the public sector. Indeed as early as the first Conservative government after the war, there were cuts in the size of the Civil Service and attempts to cut spending. Since then there were other attempts to cut public spending, notably during the Labour administration of 1974–79.

What happened when Margaret Thatcher became Prime Minister in 1979 was not, therefore, a sudden ending of a consensus. It was more that those who favoured a smaller state and lower public spending had gained a majority. This majority was more keen to carry out these policies than the previous, Labour, government although it also had tried. Implementing a radical policy of making the state smaller was not to prove easy, except in the cases of the sale of nationalized industries and council houses. Both policies were achieved by giving the people who bought them a chance of making a quick, usually large, financial gain or discount on the market value. The Thatcher administrations also started a process of controlling the public sector, where they could not reduce its size. Efforts were made to control local government and to change the way in which the health service and the Civil Service were managed.
When John Major became Prime Minister in 1990, many administrative arrangements were already there for him to use in pursuit of his policies. He also found the public finances in a better state than they had been when Margaret Thatcher became Prime Minister, with no public sector borrowing requirement. He used the centralized controls to implement his version of conservatism, which was concerned to reduce the role of the state because he felt that state intervention, especially at local level, was the cause of lack of social cohesion, crime and other social problems. His, and his colleagues', solution was 'civic conservatism', which means voluntary action and voluntary associations, rather than the state, preventing and correcting social problems. In practice this meant stopping local authorities from doing things, especially building housing.

The politics of managing the state which the Major governments pursued were based on the idea that state employees are poorly motivated, unless they are on performance-related pay, that their activities need to be measured and controlled and that managers should be given the right to manage, that is to tell people what to do and expect them to do it. This approach was to be followed only if the function could not be privatized. There was a belief, which had been there during the Thatcher period, that the private sector was inherently better than the public. This was not a theoretical position about markets, rather a preference for business people over public servants.

Political alternatives to this approach come from two sources: the left and the management theorists. For a period some Labour-controlled local authorities pursued management policies which flattened hierarchies, trusted workers, developed teams, promoted public service values. Meanwhile the 'New Human Resource Management', as some people called it, recommended a similar set of features: it was argued and implemented in progressive companies that organizations are likely to be more able to change if the workers are committed to their employer, are willing to be flexible because their job is safe, and are likely to be more motivated if they can participate in decision-making.

The Labour government showed some signs of being a more sympathetic employer, taking some categories of staff off short-term contracts and allowing pay rises, especially for occupations where there was a shortage of staff, such as nursing and teaching. On the other hand, it showed itself quite keen on performance pay and very critical of some public sector workers such as doctors and teachers whom it saw as unwilling to change.

Foundations of the public sector 1945–79

The 'welfare state'

There was not a social revolution between 1939 and 1945, although the war did change the relationship between the state and civil society: government ran industries during the war and led the reconstruction after the war. During the
immediate post-war period there was rationing of industrial and building materials and planning in the economy, in land use and in public services. Industries such as coal, steel and the railways were taken into state ownership to ensure their survival. It has sometimes been argued that the ‘welfare state’ was invented during the war and implemented after it in a spirit of consensus and social harmony. The National Assistance Act, Education Act, the establishment of the NHS during and just after the war have been seen by some as the creation from nothing of a new type of state. While institutions were created and legislation passed, many of the elements of the welfare state were in place for working-class people before the war, including a state social security system, means tested access to secondary education and a national health insurance scheme. What happened in the period from the mid-1940s was that these benefits and services became universal. This meant that contributions were no longer voluntary and that the middle classes gained access to services now provided by the state, which they had previously funded from savings or insurance. To ensure universality, services were largely controlled by the central government rather than left to local institutions and organizations.

There may have been general agreement that the welfare state was a good idea, especially from those who benefitted from it, which included most of the population. There is no doubt that the returning soldiers and others who had lived through the war were keen for a form of state and welfare provision which would prevent a return to the deprivation of the Depression. However, the welfare state was not without its opponents. Glennerster has shown that there has always been a right-wing group in the Conservative Party opposed to universal benefits and tax-funded services. This right has had periods of influence ever since 1950 and did not emerge without precedent during the first Thatcher government of 1979. The Conservative administration elected in 1951 reduced income tax, cut education spending, introduced prescription charges in the NHS and reduced NHS staffing levels. Differences of opinion about the right scale and scope of the state have persisted both between and within parties ever since.

One interpretation of the immediate post-war period is that there was a settlement between the trade unions, government and employers. Unions would moderate wage demands in exchange for job security and social benefits, employers would respond by offering stable employment and union recognition, while the government would be responsible for managing the services and benefits as well as steering the economy towards full employment. While the post-war government had full employment as an objective, it was achieved as much through foreign aid, reconstruction and the growth of world trade as it was by economic management. If there was an agreement, it was never as explicit as it was in, for example, Sweden, where there were talks among the three parties – employers, government and trade unions – and an explicit agreement was reached and signed at Saltsjöbaden in 1936. An alternative explanation is that the employers
found themselves in a very weak position at the end of the war: factories were destroyed or had been converted to arms production, the workers were returning from the armed forces with ideas about collective bargaining and rights, and materials were scarce. The Marshall Plan was making funds from the United States available for investment through the government, which was also organizing the reconstruction. In such a weak position, the employers had to agree to a process of national wage bargaining and a tax and national insurance régime to finance benefits and public services.

The Civil Service

The Civil Service has not been the subject of a consensus among politicians; rather it has had much scrutiny since the war. The Conservative manifesto for the 1951 election promised to cut waste and extravagance in the service, and the non-industrial Civil Service was cut from 425,000 to 386,000 by 1955, mainly as a result of the end of rationing and relaxation of controls. After then there were many efforts to increase efficiency and modernize the management of the service, culminating in the Fulton Report of 1968 which called for improved accountability, a unified system of grading and recruitment on merit. However, growth in numbers and spending soon restarted and the number of civil servants (including industrial civil servants) reached a peak of 747,000 in 1975. Prior to the Thatcher administration of 1979 there had been efforts to improve accountability and efficiency, but no government had much enthusiasm for the task until the Thatcher administrations and their attempts to introduce ‘business’ methods, or at least business language, initially through Mr Heseltine’s attempt to find out who did what in the Department of the Environment (the Management Information System for Ministers), and later, from 1982, through the Financial Management Initiative.

At each change of party control there have been suspicions about the neutrality of the Civil Service, although few ministers, with exceptions such as Tony Benn, sustained their complaints. One aspect of this suspicion was that the Treasury ran economic policy and the Civil Service, if not the government. Two short-lived attempts were made to rectify this: the establishment of the Department of Economic Affairs in 1964, to manage economic policy, and the Civil Service Department in 1968 to manage the Civil Service.

Generally, the Civil Service, and especially the senior ranks, survived the first 30 years after the war well. Despite criticisms, reports and attempts to reorganize, the size, scope and influence of the service remained fairly stable and immune from outside control.

The National Health Service

The NHS was established in 1948, based on the principles of universal access and freedom from charges, which were established during the war. The institutional
arrangements were a compromise designed to satisfy a variety of interests, especially the medical professions, and have been adjusted many times. As Klein points out, the dilemmas faced by the original scheme for the NHS have been the sources of political controversy ever since. These included the problem of national responsibility for the service and local management of the facilities, the need to integrate hospital and family health services while preserving the independence of family doctors, how to make comprehensive plans for a service which excluded independent (voluntary) hospitals, how to achieve public accountability while involving professionals in decision-making, how to keep general practitioners independent and promote best medical practice. A further dilemma was between creating and running a national service and having local democratic control and accountability: the debate between localism and nationalism. Klein argues that: ‘The history of the NHS since 1948 can largely be seen as the working out of these contradictions: a continuing and never-ending attempt to reconcile what may well turn out to be irreconcilable aims of policy’ (p. 26).

In 1974 the NHS was organized into a hierarchical arrangement of Regional, Area and District Health Authorities for budgeting, planning and control purposes, with Community Health Councils to represent consumers. Each tier was served by full-time administrators and advised by an array of advisory boards representing the professions. As with the Civil Service, the idea of management as distinct from administration, using consultation and consensus, was not a feature of the NHS until the introduction of general management in 1983. This was the attempt to control the actions of medical professionals using management techniques. Many more were to follow.

Local government

Many services that are now directly controlled by central government or privatized were previously local authority services. Water, gas, electricity supply, public transport, were all originally started by private companies and then became local government services, together with health services, public health and ‘poor relief’. The process of transferring powers from local to central government began during the first Labour government after the war and has continued since. These transfers were not necessarily the result of central government hostility. In some cases it made economic sense to have a national level of provision. In others the nationalization was the result of a desire for equal and universal provision. When municipal services were originally developed, local business people were involved in their own municipality and its development of gas and electricity, water and sewerage. When the ownership of industry became national and then international, such a local focus was less relevant. While local businesses still have an influence on local authorities, there is no longer a strong connection between either the owners of local industry or their trade unions and the membership of local authorities.
Despite losing control of local hospitals in 1946, local authorities were the implementing institutions for two areas of social policy which were to grow in importance in the post-war years – housing and education – as well as having powerful planning and development functions allowing them to shape much of the post-war reconstruction of the cities. As with the NHS, local government was reorganized in 1974 (1975 in Scotland) into a hierarchical structure. In London from 1965 the Greater London Council and in the Metropolitan areas from 1974 the Metropolitan County Councils had ‘strategic’ functions such as planning and transport, while the main services were performed at London Borough and Metropolitan District level. In Scotland and in the shire areas of England and in Wales, the upper tier had the main functions of social services and education. They had relatively reliable sources of revenue, the domestic and commercial rates, and were seen as the natural providers of local services. The reorganization strengthened the position of local government as a whole, as it provided a reason for allocating extra resources. Indeed, local government spending increases were a large contributory factor to the fiscal problems of 1975/76.

The Labour government attempted in 1975 to introduce controls on local government spending, a process which was continued by successive governments. The attempt by central government to control local authority spending and local authorities’ attempts to evade those controls have been continuous since that time and contributed to the distrust which the Thatcher governments had of local authorities, a distrust which eventually led to the abolition of the upper tier in London and the Metropolitan areas of England in 1985, and in Scotland and Wales in 1995.

The Thatcher years 1979–90

When it was elected in 1979 the Conservative government found itself in charge of a large and relatively strong public sector. Public spending was 43% of gross domestic product (GDP), which, although lower than its peak of 49% in 1975, was 3 points higher than it had been when they had last come into office in 1970. The institutions were fairly robust: the Civil Service had mostly resisted attempts to modernize it and the Treasury was still the most powerful department within it. Local government still had a degree of independence, a tax base and a grant system which required the government to pay a grant from taxation to contribute to any spending the local authorities decided to make. The NHS was still strong and the medical professions, especially doctors, well placed to influence it. Only 5% of the population was covered by private health insurance, indicating a high degree of satisfaction with the state service among the middle classes.

New or Old Right?

There was a view during the 1980s that Ronald Reagan and Margaret Thatcher especially, but also other right parties in Europe and the Labour Party in New Zealand,
represented a new sort of politics, sometimes called the ‘New Right’. The idea was that the mid-1970s recession which followed the oil price rise of 1973 produced a break with the previous consensus about the role of the state, welfare services and individual responsibilities which had lasted since the Second World War. The new circumstances produced a new set of right-wing politicians who would reverse the previous policies towards the economy, the labour market and the welfare state. The emphasis of economic policy would no longer be on managing demand to maintain full employment but rather on stimulating profits by removing regulations and making the labour market more free. Protection of workers, either by law or trade unions, would be reduced to allow wages to find their market level and to allow managers to manage.

Part of the project was to restore to the private sector those industries which had been nationalized in the 1940s. The circumstances that made nationalization desirable were now gone and such businesses should no longer need state support.

While the inclination of this group of politicians may have been similarly to restore the institutions of the welfare state to the private sector, or abolish them, this would be more difficult than selling nationalized industries. In the early years, the policy was confined to trying to control spending, either directly or by finding more efficient ways of managing.

For the public sector, there is an important question about the Thatcher period. Did the Conservative governments of the 1980s and 1990s produce a radical break in the history of the welfare state and public services? We have seen that there was not a universal consensus on the role and size of the welfare state or on the level of public expenditure, but there had been a period of relative stability or growth for most of the post-war period. Government spending on goods and services had been a fairly constant proportion of GDP since the war, apart from the aberration of the mid-1970s, when it grew to more than 25% before settling down to the trend of around 20%. If there was not a consensus, in the sense that politicians of all persuasions agreed with all the attributes of the welfare state, there had been no radical changes in its basic form or the money spent on it.

Of course there were rhetorical speeches about individual responsibility and the dangers of reliance on the ‘nanny state’, of the tyranny of taxation and the debilitation of dependency. But was there a radical change in policy towards the ‘welfare state’ at the beginning of the 1980s? There was not a step change in 1979 in the significant areas of policy which the Conservatives claimed they would change. The targets for growth of the money supply were never met and were eventually quietly abandoned. Monetarism as the basis for economic policy was thus forgotten. Public expenditure was not drastically cut; public borrowing was initially reduced as debts were repaid briefly in the late 1980s but then the economic cycle continued and borrowing increased again. Taxation has fluctuated as a proportion of GDP but this has been cyclical rather than a strong downward trend. The only area in which a truly Right agenda was achieved was the privatization of nationalized industries, public utilities and public housing.
There were really only two efforts to implement the ‘New Right’ policy of state withdrawal from welfare activities: the attempt to privatize pensions and the privatization of council housing. The government offered inducements for people to withdraw from the state earnings-related pension scheme and join company or individual pension schemes. At the same time indexing the state pension to prices rather than earnings reduced its value. Housing privatization was achieved by selling houses and flats to their tenants, at a discount from their market value, and by virtually preventing local authorities from building any new accommodation for renting. However, the state has not withdrawn from housing and is still paying housing benefit to those unable to pay their own rent. Social housing is still available, but new building is almost entirely by housing associations, where building subsidy still exists.

As we shall see in Chapter 3 the distribution of expenditure between departments and programmes has changed over time, but the radical changes have been in the methods used to manage the institutions. The Thatcher governments hired advisers from business, especially retailing companies, to help them to think about how public services should be managed. The solutions included internal markets, competition with the private sector, performance measurement and management, decentralized operational management and revised payment systems. They do represent a change in attitude and practice, although not of the type spoken in the New-Right rhetoric: the institutions were reformed rather than abolished.

The Major years 1990–1997

During the Thatcher administrations the manner of government was forceful and based on some overwhelming convictions about what was right. Consultation was reduced, consultative processes of decision-making were not used, opposing views were ignored or punished. In part, it was the style of government which finally produced opposition within the party: if the Prime Minister had listened to advice she might have made fewer policy disasters such as the Poll Tax. John Major reversed some of these tendencies during his period of office, adopting a more open, consultative style and more collegial cabinet.6

However, did the content of policies towards public services change with the change of Prime Minister? In a speech made at the Carlton Club in 1993, John Major reasserted some Conservative beliefs, invoking Disraeli and Burke, which underlay his policies. One of these was the danger of over-government:

“We know the State can destroy, as surely as it can preserve – and more conclusively than it can create ... we utterly reject the idea that the State can manage economic and personal relations between people better than businesses and better than families.”7
While in the same speech he spoke of quality public services and the need for good management, there was one passage where he revealed a deep belief in the evils of state intervention and the creation of crime: the council estates of the inner cities are the cause of problems, not the solution:

'Look at our suburbs and small towns and villages – where people, by and large, own their own homes. Here you will find networks of the voluntary associations which tie people into their neighbourhood, from Rotary Clubs to the active PTA to fund-raising and to Meals on Wheels. The big problem lies elsewhere. It is from the inner cities, where the State is dominant, that businesses have fled. It is in the inner cities that vandalism is rife and property uncared-for. It is there that fear of violent crime makes a misery of old people’s lives. Now that comes as no surprise for Conservatives ... it is where, over many years, the State has intervened most heavily, that local communities have been most effectively destroyed.'

David Willetts, Minister of State for Public Services, saw the state as destroying genuinely local and voluntary organizations. While the government was deciding to close St Bartholomew’s Hospital, for example, he blamed the fact that it was a state institution for its closure: ‘... it is no exaggeration to say that Bart’s fate was sealed when it was nationalised in 1948 and lost control of its destiny, becoming a tool of health planners.’ In this version of ‘Civic Conservatism’, any institution is preferable to one owned by the state, whether at local or national level. Willetts even argued that market reforms were designed to strengthen local institutions: ‘The market – contracts, choice, competition – is being introduced within the public sector to achieve the authentically Tory objective of strengthening local institutions’. This belief in the benefits of competition survived the change of government in 1997, although the antagonism (or ‘visceral antipathy’ as prime Minister Blair defined it) abated.

One result of this deep-seated belief was that institutions of the state and especially local authorities could not be trusted with any major programmes. So, for example, the creation of Grant Maintained Schools (Chapter 4) was seen as ‘the emancipation of governing bodies and head teachers, taking the local authority straitjacket off their back’. Another consequence of lack of confidence in the state is that even in those areas where the Prime Minister recognized need for state intervention, if that could be carried out by the private sector on behalf of the state, then such an approach would be preferred.

Other members of John Major’s government expressed views about the state which illuminated their approach to the management of the institutions. Michael Portillo, when Chief Secretary to the Treasury, made a speech in which he echoed Mr Major’s attitude to people who live in the inner city, when he asserted the difference between the deserving and the undeserving poor:
To talk today of the deserving and undeserving poor is guaranteed to make people wince: a mark of the triumph of political correctness ... So our system tends to treat alike the unfortunate and the feckless, the thrifty and the profligate. Consequently it undermines the provident and demoralises the industrious.\(^\text{12}\)

The solution was to shrink the scope of the state and make people take more responsibility for themselves:

‘Citizens grow to respect themselves and so come to accept that there are clear limits to what the State should do for them. Then support increases for a smaller State and for the necessary measures to put and keep the public finances on a sound footing. As the State shrinks and the public finances are kept under control there is scope for permanent reduction in taxes, increasing international competitiveness and the rewards for individual effort.’\(^\text{13}\)

The implications of this for people working in public services were twofold. The principle of universality was challenged: service providers had to distinguish between the deserving and the undeserving, between scroungers and the unfortunate victims of circumstances. For those working in services which are accepted as universal, such as child benefit or state pension distribution, there is no question of selectivity or rationing. However, when people working in community care are allocating services and budgets, the rationing process is very explicit. Applying eligibility criteria and allocating help to those who need it most has always been a feature of the daily work of people in public services. Applying criteria of deserving and undeserving is a different matter and relies on a moral judgement, rather than an assessment of need. At the same time, people have been encouraged to make their own arrangements for insurance or care or help, without relying on the state.

The second implication was that management effort was dominated by the need to make cuts in spending. The overriding priority was to shrink the state and reduce taxes. While the fiscal balance has cyclical variations, both with regard to the periods of growth and stagnation and decline in the economy and with regard to the electoral cycle, deficits increasing in the approach to elections, there were enough supporters of the ‘small state, low taxes good’ position for there to be a consistent presumption against public expenditure as a solution to economic and social problems.

Michael Howard, who served in the Departments of Employment and Environment before becoming Home Secretary in 1993, extolled the virtues of voluntary collective action and decried the efforts of local authorities:

‘Communities’ built on collectivism are characterised by town hall socialism and housing and social security dependency. Their predominant features are
alienation, atomism, lack of confidence and crime. The strongest communities exist where voluntary collective action is most apparent. These communities are characterised by neighbourliness and a strong sense of identity.\textsuperscript{14}

He proposed that the government should, when confronted with a problem, think first about the voluntary sector and volunteers, before considering state intervention. When it has found ways of involving this sector, it should distribute funds in a such a way as to create ‘leverage’ from the private sector. This is a conception of the state as pump-primer and fund-raiser, rather than as a tax-raiser and service-provider. Not all members of the Major governments held these views but they had a sufficient majority to press for such policies.

**The first Blair government 1997–2001**

In 1998 Prime Minister Tony Blair published a Fabian pamphlet called *The Third Way: New Politics for the New Century*. Social Democrats in Europe and the then Democratic President of the USA proclaimed that they represented a new type of politics, leaving behind old definitions of Left and Right. This was not the old Third Way between capitalism and communism but a new Third Way. As Blair explained: ‘The Third Way is not an attempt to split the difference between right and left. It is about traditional values in a changed world. And it draws vitality from uniting the two great streams of left-of-centre thought – democratic socialism and liberalism.’

What this meant in practice is that policies could be picked from a fairly narrow menu without the prejudice of principles. If a market solution looks acceptable, then it is based on the good parts of liberal individualism. If public spending is required, for example to reduce child poverty, then the decision is based on the socially responsible parts of social democracy.

The attitude towards the relationship between public services, voluntary organizations and individual volunteering and charitable giving was a development of aspects of the Major government’s themes. Compare the quotation from Michael Howard, above, with this one from Blair’s 1998 pamphlet:

> My politics are rooted in a belief that we can only realise ourselves as individuals in a thriving civil society, comprising strong families and civic institutions buttressed by intelligent government … In recent decades, responsibility and duty were the preserve of the right. They are no longer, and it was a mistake for them ever to become so.

The idea that public services and benefits, as supported by the old Left, were responsible for a decline in individual responsibility and duty is broadly similar to Howard’s and Major’s beliefs that council estates create unemployment and crime. It certainly has the same results in practice in the social security system and the attitude to the management and ownership of public housing.
To win power the Labour Party had ‘modernized’ itself and re-branded itself as New Labour. It had changed the party constitution to give less power to organized and especially trade union interests. Internal processes of discussion and decisions through branches to the annual conference were changed so that the leadership could more easily control the policies adopted by the party. Symbolically Clause IV of the constitution, calling for public ownership, was scrapped. Elections were from now on to be fought in the media and campaigns to be managed by the party’s public relations machine. Policies presented at the election were more defined by what they were not: the party did not stand for higher tax (or at least for a higher rate of income tax); it was not in favour of re-nationalizing the public utilities and the railway; it did not align itself with the unions. Five specific pledges were made in 1997 for its term of office: class sizes for 5–7 year olds to be cut to 30; fast-track trial and punishment for young offenders; 100,000 fewer people on waiting lists; 250,000 young people to go from benefit to work; no rise in income tax rates and a cut in VAT on heating to 5%. The first four required the government to be able to influence departments and local service delivery in the school system, the courts, the NHS and Social Security and Education and Employment departments.

‘Modernization’ meant many different things. Detailed diagnoses of problems in local government, the Civil Service and the NHS varied. The solutions, as we shall see in the rest of the book, followed a pattern of trying to assert control over organizations that were seen variously as too bureaucratic, too professionally dominated and in some case self-interested and self-serving. The methods used were chosen eclectically. ‘Modernization’ of government was closely connected to the modernization of the Party and especially the abandonment of the commitment to public ownership. It was also about methods of service delivery and service design, especially getting access to services through the internet and call-centres. A quotation from the ‘Vision’ chapter of the White Paper gives an idea of the interpretations of modernization:

- We live in an age when most of the old dogmas that haunted governments in the past have been swept away. We know now that better government is about much more than whether public spending should go up or down, or whether organisations should be nationalised or privatised. Now that we are not hidebound by the old ways of government we can find new and better ones.
- Information technology is revolutionising our lives, including the way we work, the way we communicate and the way we learn. The information age offers huge scope for organising government activities in new, innovative and better ways and for making life easier for the public by providing public services in integrated, imaginative and more convenient forms like single gateways, the Internet and digital TV.
- We must unleash the potential within the public service to drive our modernising agenda right across government. There is great enthusiasm and
determination within the public service to tackle the problems which face society, to do the job better.

- Distinctions between services delivered by the public and the private sector are breaking down in many areas, opening the way to new ideas, partnerships and opportunities for devising and delivering what the public wants.\(^{15}\)

While asserting that the new was now able to sweep away the old, as we will see, many of the actions taken were a continuation of the old ideas of the preceding governments. Even so, the Prime Minister was often frustrated by the progress of the ‘modernization’ programme. He said in a speech to a group of venture capitalists: ‘People in the public sector are more rooted in the concept that if it’s always been done this way it must always be done this way than any group of people I’ve ever come across … It’s not that there aren’t wonderful people now with a tremendous commitment to public service, but you try getting change in the public sector and public services – I bear the scars on my back after two years of government.’\(^{16}\)

Previous Conservative governments had felt the need to break down resistance to change, whether it came from professional groups, trade unions or departmental interests. They had used market mechanisms, managerial authority and the undermining of public support for particular groups. The incoming government in 1997 obviously felt that the struggle had to continue. Perhaps there was less overt antagonism between politicians and these organizations than in previous governments that were openly hostile to the public sector, but the tension and frustration brought forward some strong measures to try to deliver the election pledges and more generally to make services more efficient, effective and popular.

We will also see in the next chapter that the overwhelming emphasis on cost reduction for public sector managers during the Conservative era was slowly relaxed towards the end of the first Blair government. It had become the only priority, with successive rounds either of simple budget cuts or ‘efficiency savings’ included in budgets. While such savings were still called for, they were within an expanding overall total, with quite large increases in some sectors.

**The second and third Blair governments 2001–2005, 2005+**

The spending plans for the second term were set out in the Comprehensive Spending Review of 2000. In real terms (1999–2000 prices) expenditure limits were to be raised from £191 billions in 2000–2001 to £223 billions in 2003–2004, an increase of nearly 17%. The NHS was to get an increase of £8 billions and education £5 billions. With these increases in spending, unlike anything the public services had seen for 30 years, came increased scrutiny and measurement and a series of initiatives. The Government and especially the Chancellor and Treasury had made a bold effort at increasing the resources available and wanted to make sure
that they produced results. In practice this meant elaborating the controls exercised in local government through the Best Value régime and in central government through the Public Service Agreements.

The efforts to reduce poverty, especially among children and more especially among children of working families, continued. The main tax, tax credit and benefits mechanisms had been put in place in the first Labour government and were continued in the second. Overall efforts at altering income distribution also continued but the results from the first term were offset by the underlying tendency for income distribution to become more unequal.\footnote{17}

The reduction of unemployment was also an important objective of the second Labour government. One element of policy was changes to the benefit system to reduce the ‘poverty trap’ by which it was not worthwhile for people to take low-paid jobs in preference to staying on benefits. This was combined with ‘active labour market policies’, especially through the New Deal, that both encouraged people to seek training and jobs and stopped their benefit if they did not. In addition the labour laws under which people could be hired and fired maintained their previous freedoms for employers. As a result of these policies the UK government to a large extent avoided the growth in unemployment suffered in the rest of Europe. One consequence was a large number of people in low paid insecure jobs at the bottom end of the labour market whose employment had to be subsidised by social security payments such as the Working Families Tax Credit. The combination of a liberal labour market and targeted benefits for working families constituted a distinctive New Labour approach to welfare. The approach may be summed up in the subtitle to the 2005 Budget: ‘Fairness and opportunity for Britain’s hard-working families’.

The politics of management

While the Major governments still did not achieve a big cut in the role of the state, ministers’ attitudes such as those expressed above had an impact on the way services were managed and funded. The managerial agenda of the Thatcher period continued with even more vigour. It was rooted in a general set of ideas about how people behave.

The first element is that people always act rationally and in their own self-interest, whether they work in business or public services.\footnote{18} They respond to incentives, such as the incentive to expand their budget and the number of staff in their unit. They cannot therefore be trusted to act in any interests other than their own. Producers ‘capture’ services and the users of those services are disempowered. The consequence of this belief is that the power of producers has to be reduced and that incentives have to be found to make the producers act in the interests either of the government or of the consumers.

The second is that competition is the main incentive to improve performance: the fear of going out of business, or losing a job, is the main motivator for individuals.
Monopoly in any form is a bad thing and public monopolies allow costs to stay high and quality to stay low. Without competition, managers will have no incentive to make improvements either in cost or quality and therefore will not do so.

The third is that managers should have the right to manage. Any force that reduces this right, such as trade union rights or professional organization, should be removed. Managers with incentives and authority are essential to good organizational performance. The right to manage is seen as the right to tell people what to do and expect them to do it. It is not about the right to develop staff, encourage commitment, form teams or instil loyalty. It is an instrumental view of management, implying hierarchy, authority and fear. The Labour government shared some of these attitudes with its predecessors, although from the beginning it emphasized the possibility that motivations other than selfishness can be present in people working in the public sector. It also initially played down the beneficial effects of competition and emphasized the need for co-operation in many areas of public sector work, especially where policies had to be pursued by more than one agency. In the second term competition regained importance, through a new internal market in the NHS, and by various competitions for funding.

The belief, through both the Thatcher and Major periods, that the private sector is innately superior to the public sector was replaced by a declared agnostic stance, represented by the Deputy Prime Minister: ‘Traditional values in a modern setting should be our guide, not an ideological argument about public or private ownership’. In practice the policies implemented often pushed managers towards deals with the private sector or outsourcing, but this was presented as a pragmatic approach not an ideological one.

There have been other political approaches to management. Some Labour local authorities, especially in the 1970s and early 1980s, promoted an approach to management which reflected their political values. They encouraged collaboration rather than competition. Another belief was that everyone had the right to have good ideas, so that consultation and non-hierarchical relationships were encouraged. Some of these beliefs came from the feminist movement which sought alternatives to hierarchical and authoritarian ways of working. People with such views lost influence during the 1990s, partly as a result of the politics of the Labour Party favouring more male-oriented and hierarchical ways of working. The other reason for the loss of popularity was the need to compete with private companies whose attitudes to workers were more authoritarian and which concentrated on costs rather than quality or innovation.

Strangely, experience of ‘Human Resource Management’ in successful private companies has shown that flexible and adaptable companies are those that adopt the less hierarchical, more consultative style and operate through developing commitment rather than fear. Companies such as Hewlett-Packard, Google and Microsoft have developed such approaches to managing their workforces. There is little sign of these ideas in the Labour approach to management. In fact one of its innovations is the introduction of call centres, through NHS Direct from 1998.
and Jobcentre Plus among others, a method of service delivery that is notorious for its regimentation and mechanistic managerial control over the workforce. There has been talk of greater ‘partnership’ between managers and trade unions but this has not extended to the agreements under the Private Finance Initiative whereby companies take over basic services along with building construction and financing. ‘Modernization’ has included implementing Investors in People in all government departments, but this may be more of a ritual than a genuinely participatory style of management.

A new consensus?

From the 1997 election until 2000 the Labour Party’s themes about the public sector were similar to those of the Conservatives: the need to control expenditure in order to keep taxation levels down, the importance of a mixed economy of private, individual provision and state services and benefits, the need for efficiency. A new consensus seemed to have emerged, which is at least as strong as, if not stronger than, the supposed post-war one.

The size of the public sector is one element in the consensus. The Labour government’s spending plans, as we shall see in the next chapter, were for an increase in public spending as a proportion of GDP. Previous governments had tried, mostly without success, to bring this figure down. In the campaign for the 2001 election the Conservative Party mostly accepted the spending plans as necessary to improve public services, implying a more relaxed attitude to public spending and its impact on the economy than that of the Conservatives in power. The Conservatives under numerous leaders adopted various policy stances after the 2001 election, until the campaign for the 2005 general election saw the Conservatives revert to low taxation and low spending as their main stance. After the third defeat, in 2005, and changes in the leadership, the David Cameron-led party reverted to the consensual position.

The Labour Party’s rejection of its constitutional commitment to public ownership represented more than a change in attitude towards nationalized industries; it also represented a shift towards the idea of a mixed economy in general and a tolerance or encouragement of private pensions, schools, hospitals, home helps and refuse collection companies.

What may be emerging is a consensus on management. It was natural for the Conservatives to adopt the approaches which were common in certain businesses in the late 1980s and early 1990s: they had friends and allies in business, recruited business people as advisers and in some cases as civil servants, and were generally more impressed by the style and manner of business than they were by public service. The Labour government shares both the belief and the use of business people as advisors. On some of the fundamentals of management, such as the use of performance control and performance pay, benchmarking and competition, outsourcing, there is little difference between the main parties. Competition
among the parties is based to a large extent on which one is more competent to manage, within the prevailing consensus.

Conclusions

Politics has affected the public sector both in policy and in management. If ruling politicians are deeply opposed to the activities and institutions of the state, managers at senior levels may feel the need to protect services as well as manage them. At worst the tensions between managers and hostile politicians can produce stressful and unproductive relationships. If politicians have strongly held views about the motivation and performance of public sector workers which lead them to insist on authoritarian styles of management, managers have little discretion: they will be forced to behave or appear to behave in such a way. If not, they can be replaced by managers who will.

Management is not a neutral, technical activity. Management techniques and styles are themselves political and people with different political views will have different ideas about management. In the United Kingdom this does not mean that each party has an identifiable set of ideas about management: all parties have their share of authoritarians.

There has been a period of what was felt by many people working in the public sector as a political attack which, to date, the institutions have been fairly well able to resist. However, the management style which managers are now encouraged to follow is the result of a political attitude of low trust. Some of the details of how this style or styles were encouraged in the different sectors are in Chapter 4.

In the next chapter we look at public spending and how it has been affected by changes in government. We also look at the processes by which spending choices are made, at central government level and further down the public sector hierarchy.

Notes

1 See, for example, Laura Hall, Derek Torrington and Stephen Taylor, Human Resource Management (FT Prentice Hall, Hemel Hempstead, 2004).
8 Ibid., pp. 16–17.
44 Public Sector Management

11 Willetts, Civic Conservation, p. 29.
13 Ibid., p. 13.
16 Prime Minister Tony Blair, 7 July 1999.
18 The academic name for this is ‘public choice theory’. For an explanation, see P. Dunleavy Democracy, Bureaucracy and Public Choice Harvester Wheatsheaf, Hemel Hempstead, There have also been critiques of this theory, for example, H. Stretton, and L. Orchard, Public Goods, Public Enterprise, Public Choice. Theoretical Foundations of the Contemporary Attack on Government (Macmillan, Basingstoke), and L. Udehn, The Limits of Public Choice: A Sociological Critique of the Economic Theory of Politics (Routledge, London, 1996).