

# CONTROL WITHOUT COMMAND

Julian Le Grand makes a social democratic case for choice and competition, but public service markets aren't driven by an invisible hand, writes **Gary Sturgess**

## The Other Invisible Hand: Delivering Public Services through Choice and Competition

by Julian Le Grand

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**T**he public services industry—services provided by the private and voluntary sectors, not those delivered directly by government—today employs some 700,000 people in Britain. It adds around £25 billion in value to GDP per year, more than the aerospace, automotive and pharmaceutical industries combined. These are the findings of a study recently published by the Confederation of British Industry (CBI), which has taken a particular interest in the development of public services over the past five years.

It is the first time that anyone has attempted to measure this sector of the economy, and while the methodology will be debated and the results refined, no one disagrees with the underlying proposition that in 2008, the independent sector is making a massive contribution to Britain's public services.

Some of these private and voluntary providers have existed for centuries. One charitable institution still active in the public service market

today was founded in the fourteenth century. England's lighthouses are managed by a not-for-profit corporation established during the reign of Henry VIII. Ocean rescue is provided by an eighteenth-century organisation that still refuses to accept even one penny of government funds.

Until the latter part of the nineteenth century, public service companies were common in Britain. Indeed, they pioneered many of the services that Australians have traditionally associated with government: lighthouses, fire brigades and ambulances; inter-urban highways, canals, and

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railways; urban water, gas, and electricity supplies; telegraphs and telephones; and art museums and national parks.

From the middle of the nineteenth century, many of these organisations were progressively municipalised and nationalised. This process culminated in 1946 with the (attempted) establishment of a state monopoly over the vast majority of public services. Those of us born after World War II are inclined to look on this monopoly as the norm, but for much of human history, the public service sector was a mixed economy, populated by a variety of providers in the public, private, and voluntary sectors.

### The decline of command and control

This brief experiment with a command-and-control economy for public services began to unravel in the 1960s, some years before Margaret Thatcher took up residence in Downing Street. And while the Conservatives were to preside over the privatisation of many of the nation's public utilities, it was not until well into their term of office that they turned to the marketisation of core public services such as health, education, social welfare, and criminal justice. It was left to a Labour prime minister to undertake the revolutionary task of recreating the mixed economy.

The scale of this revolution is only dimly understood in Britain, and in Australia it has been misrepresented by traditional social democrats and trade union leaders who cling to the old dream of a public service monolith. Virtually nothing has been done, even in the UK, to describe the changes that have taken place over the past decade, and the Secretary of State for Business has only recently commissioned a leading economist to conduct the first official study.

The first document to capture Labour's public service reform agenda in writing was published by the Prime Minister's Strategy Unit in June 2006 under the prosaic title *The UK Government's Approach to Public Service Reform*.<sup>1</sup> The final text seems to have been written by civil servants, but the conceptual framework had been developed over the previous year or two by a small team of special advisers close to Blair, who were looking for a way to embed their leader's reform agenda so that it survived his departure.

Exhausted by the effort involved in trying to drive a top-down, targets-based approach to reform, these men and women had increasingly turned to the use of market instruments. Of three key principles of reform, one was entitled 'competition and contestability,' and a second 'choice and voice.' Top-down performance management was the third, for which there remained a limited place. (The fourth principle mentioned in the Strategy Unit report, 'capability improvement,' was not part of the original framework developed by the team at Number 10, and appears to have been a late concession to the cabinet secretary.)

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### Julian Le Grand

One of this team of senior policy advisers was Julian Le Grand, the Richard Titmuss Professor of Social Policy at the London School of Economics (LSE), who was on a two-year secondment to Number 10. Le Grand was the author of a string of academic publications on the use of quasi-markets to deliver efficient and equitable public services, and his carefully worded dissertations had done a great deal to make market instruments more palatable to social democrats.

By the time he returned to academia in early 2006, Le Grand had become a committed advocate of the Blairite reforms. As he argued in a public lecture delivered at the LSE in February 2006, choice and competition would make those services 'not only more responsive and more efficient, but also—contrary to popular belief—more equitable or socially just. As such, they are not only desirable, but essential if the welfare state is to survive.'<sup>2</sup>

Le Grand now expands on the ideas explored in his lecture in this short book, *The Other Invisible Hand*. He retains his longstanding interest in understanding the conditions under which choice and competition work, but there is now no

question where he stands on the relative benefits and disbenefits of a public service economy.

It is worth pausing at this point to reflect on the significance of Le Grand's position. The LSE was founded by the godparents of Fabian socialism, Sidney and Beatrice Webb. I tracked down a weather-beaten copy of their 1922 series on local government a decade and a half ago, when you could not yet use the internet to locate out-of-print books in seconds. The series is great social science, but the books were primers for those who later argued for a state monopoly in public services.

Richard Titmuss is the author of *The Gift Relationship*, a classic study of the British blood donation system, published in 1971. Once again, it is great social science, but Titmuss went on to use this voluntary system that worked well enough for the collection of blood as a metaphor that justified the entire British welfare state.

Then, in 2007, the Richard Titmuss Professor of Social Policy at the LSE emerged from a two-year secondment to the personal office of a Labour prime minister with a publication arguing the merits of choice and competition in public services.

What has happened since Titmuss wrote *The Gift Relationship* is that a significant proportion of Britain's social democrats, particularly those who have been engaged with Blair in attempting to reform the nation's public services over the past decade, have been mugged by reality.

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Le Grand insists that these policies are not simply 'scribblings by mad-eyed policy wonks at No. 10, desperate for short-term solutions.' On the contrary, he says, the reforms emerged from 'a well-grounded understanding of the problems involved in delivering public services' and the inherent difficulties associated with the alternatives to choice and competition.

This is a generous reconstruction of what has transpired over the past decade. There is no doubt that well before he was elected to office, Tony Blair recognised that fundamental changes were taking place in what the public demanded of core public services such as health and education.

Globalisation and information technology were transforming the service sector, and Blair understood that there was no reason why public services would be immune from these changes. Meanwhile, Generation Xers were not content to wait in line to be served by paternalistic doctors and teachers as their parents and grandparents had been. If public services were going to change, then it was best that social democrats do the foundation work.

It is also true that Blair was more open to using market instruments than were many of his colleagues—Le Grand can take some credit for that. But to suggest that there had been a well-grounded appreciation of the problems inherent in managing a command-and-control economy is to gloss over the confused and stumbling reform agenda that characterised the first half of Blair's term in office.

### Four models of public service delivery

Blair was never taken in by the proposition that public service professionals—doctors, teachers, and police officers—were knightly figures who could be trusted to manage the vast public services edifice on their own. The challenge Blair faced (and the difficulty that all public service managers face in taking on front-line service professionals) is that the general public trusts doctors, teachers, and police officers in a way that it does not trust politicians.

The problem with the trust-based model of public service delivery, as Le Grand has explained in a succession of books and articles, is it assumes service professionals are altruistic knights motivated by the public good rather than knavish self-interest. After reviewing the available literature, Le Grand has come up with the unsurprising conclusion that most people, public service professionals included, are a mixture of both knight and knave.

Le Grand draws this chivalric imagery from an academic discourse published in 2003, in

which he adapted the eighteenth-century debate over human motivation to the modern public service environment. Indeed, Le Grand took the term 'knave' from a famous passage in David Hume's writings:

Political writers have established it as a maxim, that in contriving any system of government ... every man ought to be supposed a knave and to have no other end, in all his actions, than private interest.<sup>3</sup>

In *Motivation, Agency and Public Policy*, Le Grand assumed (as others had before him) that Hume had argued self-interest was the principal concern of all individuals.<sup>4</sup> But that is not what Hume was saying: he was simply making the point that in designing a system of government, one cannot assume that politicians and public servants will always be motivated by altruism.

This is where Le Grand has arrived in his latest publication, at the idea that sometimes the conditions encourage (or permit) front-line service professionals to engage in knavish behaviour, and one must take this into account in the design of a public service system. I have wondered to what extent Blair was influenced by the revelations about doctor Harold Shipman that came to light shortly after he was elected to office. Shipman was jailed in January 2000 for the cold-blooded murder of fifteen of his elderly patients. Investigators have speculated that he may have been responsible for the deaths of as many as 250. Shipman was able to get away with murder over some thirty years because he was trusted as a public service professional.

Le Grand takes his critique of the trust model one step further than Hume, by arguing that even if public service professionals were always to behave as perfect knights, problems would still arise. Knights are not necessarily interested in value for money, as managers are obliged to be, and they sometimes have their own view of what constitutes the public interest, differing from that of the people's elected representatives. Finally, these knightly professionals often seem to assume that they know what is best for the people they are meant to serve—better than the users themselves. Le Grand has not entirely abandoned trust, but

has assigned it only a subsidiary place in the hierarchy of models.

The second major system of public service management Le Grand identifies is command-and-control, and he includes under this broad heading some of the highly sophisticated performance-management models embraced for a time by Blair and his team. There is a role for targets in improving standards, but as Le Grand recognises, they are most effective over the short term. When they are used as a daily instrument of management across a system as large as the UK public service sector, they lead to massive transaction costs, gaming behaviour, neglect of the variations in local conditions, and demotivation of front-line staff.

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I suspect that Blair's team abandoned this highly interventionist form of management because they were worn out by the effort required to keep it going. By 2005, they were searching for a model of reform that was largely self-directed, and faced with the prospect of Blair's inevitable retirement, it had to be a system that would survive them and their leader.

What is perhaps most surprising about Le Grand's latest work is that he is prepared to downplay the third model of reform—a system where change is driven by the voice of service users. He recognises that there is a place for bottom-up reform, but again it is a subsidiary place. Voice-based mechanisms are poor at coping with questions of cost and efficiency; they sometimes result in serious inequities, and demand a great deal of effort to activate and operate. From a social-democratic perspective, they are flawed because they allow the middle classes to manipulate the system to their own advantage.

What remains is a service delivery model based on choice, and since there can be no

learning under such a system unless there are consequences for poor performance, Le Grand argues that choice must be accompanied by some form of competition:

So the model for the delivery of public services that relies on user choice coupled with provider competition can deliver greater user autonomy, higher service quality, greater efficiency, greater responsiveness and greater equity than the alternatives.<sup>5</sup>

He analyses the reforms that have been undertaken over the past decade or more in health and education, but the most powerful illustration of his thesis (in my view) is a brief case study of patient budgets in social care. Under policy reforms introduced by the Conservatives when they were in office, home care recipients were given direct payments, enabling them to recruit their own carers rather than having them provided by the local authority.

Labour persisted with these reforms, and several studies have now demonstrated the impact that increased choice has had on the beneficiaries. Many of these people speak of the increased control that choice gave them over their lives and over their homes. They had greater flexibility in being able to negotiate mutually convenient arrangements with providers of their choice. And since some of the services provided to aged and disabled beneficiaries are intimate in nature, they spoke of the dignity that had come with the freedom to choose their own carer and to rely on that same person over time.

### Smith or Bentham?

Le Grand is presently doing some work with the Policy Exchange, one of the new centre-right think tanks, on the development of new policies built around choice and competition. What he brings to the debate is a healthy scepticism about the operation of quasi-markets. There is no concept of 'free markets' here (as there is in some of the rhetoric used by the Policy Exchange). Coming from a social democratic background, and paying close attention to the empirical research, Le Grand understands that choice and competition don't always work in the public service sector.

Whether they deliver their objectives depends on the conditions under which they are used, and on the cleverness with which these man-made markets are designed.

It leaves me wondering why Le Grand chose *The Other Invisible Hand* as the title for his book. For the most part, public service markets aren't driven by an invisible hand. They are much like the environmental markets that governments have increasingly developed over the past two or three decades, with acid-rain trading, salinity trading, and now carbon trading being used to deliver better outcomes at a lower cost than command and control.

Whether these markets deliver better social outcomes is largely determined by the skill with which they are designed and managed by a small group of government policymakers. The philosophical foundations of this kind of market are to be found not so much in the work of Adam Smith as of Jeremy Bentham.

There are more books left to be written about the mixed economy in public services that has emerged in Britain over the past ten or fifteen years. While it is far from being a complete or unbiased account, Le Grand's brief analysis does have the virtue of making a contribution to the debate about markets for public services while the policymakers are still grappling with their design.

### Endnotes

- <sup>1</sup> Prime Minister's Strategy Unit, *The UK Government's Approach to Public Service Reform—A Discussion Paper* (London: Cabinet Office, 2006).
- <sup>2</sup> Julian Le Grand, 'The Blair Legacy? Competition and Choice in Public Services,' public lecture delivered at the London School of Economics, London (21 June 2006).
- <sup>3</sup> David Hume, 'On the Independency of Parliament,' in *Essays and Treatises on Several Subjects* (London: A. Millar, 1758), 30.
- <sup>4</sup> Julian Le Grand, *Motivation, Agency, and Public Policy: Of Knights and Knaves, Pawns and Queens* (Oxford: Oxford University Press, 2003), 25.
- <sup>5</sup> Julian Le Grand, *The Other Invisible Hand: Delivering Public Services through Choice and Competition* (Princeton: Princeton University Press, 2007), 45–46.