

ESSU Research Report No.1

A Typology of Privatisation and Marketisation

Dexter Whitfield



**European Services
Strategy Unit**

(Continuing the work of the Centre for Public Services)

Contents

Introduction

Summary of Typology of Privatisation and Marketisation

Marketisation of global public goods

Marketisation and privatisation of assets and services

Privatisation of governance and democracy

Privatisation of the public domain

November 2006



**European Services
Strategy Unit**

(Continuing the work of the Centre for Public Services)

Dexter Whitfield

Director

Mobile: +44(0) 777 6370884

Email dexter.whitfield@gmail.com

www.european-services-strategy.org.uk

Associate Professor, Australian Institute for Social Research, University of Adelaide

The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services which began in 1973.

Introduction

Organisation of the typology

The typology of privatisation and marketisation provides a framework to explain and understand the different ways in which public services and the welfare state are being transformed. The different forms of privatisation and marketisation do not take place in isolation. They are part of a broader restructuring of the state in the interests of capital.

There are four types of privatisation and marketisation of public services:

- Marketisation of global public goods
- Marketisation and privatisation of assets and services
- Privatisation of governance and democracy
- Privatisation of the public domain

The need for a typology

A comprehensive typology is required because of a wide range of factors:

- The partial analysis of privatisation in many studies by academics and development agencies.
- Increasing attempts to misinform and deceive the public about the consequences of public policy 'reforms' by claiming that partnerships, outsourcing and the transfer of services to trusts, arms length companies and voluntary organisations is 'not privatisation'.
- The need to understand the central role that privatisation and marketisation has in current public sector modernisation policies, in particular the introduction of market mechanisms and a mixed economy of provision.
- The need to assess the consequences of reducing and restructuring central and local government and other public bodies to a commissioning or client role. As a consequence, public services will be increasingly provided by the private and voluntary sectors and social enterprises.
- The need to understand the different facets of privatisation and marketisation, which are not confined to asset sales and liberalisation of services but rooted in neoliberalism.
- The need for rigorous options appraisal and impact assessment so that the effect of privatisation and marketisation on social, economic, sustainable development and community well being can be fully examined.
- The need to understand the different forms of privatisation and marketisation in drawing up effective opposition strategies.
- Privatisation and marketisation are more extensive in Britain than in other European countries so it is important that public sector organisations, trade unions and community organisations understand its scope and the potential impact of EU and World Trade Organisation liberalisation policies.
- The need to capture changes in gender, social and class relations as well as different economic forms of privatisation

Definitions

Privatisation is “more than asset stripping the public sector. It is a comprehensive strategy for permanently restructuring the welfare state and public services in the interests of capital” (Whitfield, 1983). Economists have sought to analyse privatisation using theories of market failure, public choice, property rights and the principal-agent approach. However, a theory of privatisation cannot be limited by economic theory alone because it has equally important political and social dimensions.

Similarly, a focus on privatisation to the exclusion of marketisation is inadequate. Privatisation and marketisation are inseparable, the latter creating the economic and ideological conditions and social relations by which further privatisation is developed. The current wave of privatisation may have started with the sale of property (council housing) and state-owned corporations but it is now embedded in the modernisation and transformation of all public services in Britain. Ultimately, privatisation and marketisation must be assessed as part of the theory of the state.

Privatisation occurs when one or more of five elements of public services or assets change:

- Ownership of public assets (services, organisations, land, buildings, equipment, information and intellectual knowledge) are sold or transferred to the private or voluntary sector.
- Governance and accountability of public bodies is reduced/diluted by new organisational structures such as the use of company and trust models.
- Finance and investment such as the use of private capital or the introduction of new/increased user charges.
- Operating principles and values are changed to reflect private and commercial interests – this ranges from planning for social needs to the provision of services.
- Management of public organisations is restructured and commercialised as a means of implementing the above changes.

Some privatisations embrace more than one type of privatisation, for example PPP/PFI projects embrace outsourcing (facilities management and design/technical services), the transfer of assets and the privatisation of governance (partnership boards).

Marketisation is the process by which market forces are imposed in public services, which have traditionally been planned, delivered and financed by local and central government. The process has five key elements:

- the commodification of services and infrastructure,
- the commodification of labour such as the reorganisation of work and jobs to maximise productivity and assist transfer to another employer;
- restructuring the state for competition and market mechanisms;
- restructuring democratic accountability and user involvement;
- embedding business interests and promoting liberalisation internationally (Whitfield, 2006).

Modernisation

In the 1979-97 period, the Conservative government privatised the transport, energy, utilities and communications sectors, as well as most other nationalised industries and state-owned corporations. This period was dominated by the sale of assets through stock market flotations and trade sales (Whitfield 1992 and 2001). Three key areas remained in

the public sector – the welfare state infrastructure, the criminal justice system, and defence. Labour commenced with a two-year commitment to the Tories spending plans and a rapid speed-up and widening of the role for Public Private Partnerships (PPP) and the Private Finance Initiative (PFI). Since then the modernisation agenda has consisted of a centralised performance management framework of targets and inspection, Best Value, mainstreaming procurement, strategic partnerships, outsourcing, the transfer of services to quangos and arms length companies, and a new efficiency drive.

The Labour government subsequently increased public spending, but modernisation has been rooted in a neoliberal ideology of competition and market forces.

Attempts to redefine privatisation

Politicians and senior management frequently attempt to redefine privatisation, claiming it is limited to the sale of assets, so that strategic partnerships, outsourcing and the transfer of services to arms length companies and trusts are 'not privatisation'. They also claim that marketisation is little more than the application of the principles of a mixed economy.

In Britain, the government has branded public private partnerships, strategic service-delivery partnerships (SSPs) and outsourcing as 'partnerships' rather than contracts which is what they are in practice. These policies involve the transfer of resources (staff, land, buildings, equipment, and intellectual capital) to private companies, private investment in the public infrastructure, and private management of a wide range of public services. This is privatisation.

These claims reflect the intellectual and political difficulty that some elected members, chief executives and senior managers have in presenting and communicating neoliberal policies to the public, service users, community organisations, public employees and trade unions who remain unconvinced or are vehemently opposed to such policies. Misinformation, if not deception, is common practice.

In order for health, education, social services and the criminal justice system to be privatised they must first be restructured, destabilised and fragmented into separate parts and corporatised to facilitate marketisation. The financial markets could not cope with a large scale privatisation through flotation or a sale of assets, nor is this a politically viable option at present.

Global public goods

The UN has identified ten global public goods which are fundamental to the implementation of the UN Millennium Declaration. They include basic human dignity for all people, including access to basic education and health care; respect for national sovereignty and global public health, particularly communicable disease control. Global security, or put differently, a global public domain free from crime and violence, and global peace are also important. Global public goods cover the harmonisation of communication and transportation systems and the institutional infrastructure across borders to foster such goals as market efficiency, universal human rights, transparent and accountable governance, and harmonisation of technical standards. The remaining global public goods include concerted management of knowledge, including worldwide respect for intellectual property rights, concerted management of the global natural commons to promote their sustainable use, and the availability of international arenas for multilateral negotiations between states as well as between state and non-state actors (Kaul et al, 2003).

The typology takes five examples of global public goods to demonstrate how they are impacted by privatisation and marketisation – the creation of a carbon market in response to climate change, deregulation of protection of natural resources and the

global commons, public health, the privatisation of global governance and the rise of privatised military industry.

Reading the charts

There are four vertical columns in the typology:

- 1) the different forms of marketisation and privatisation;
- 2) the methods used to further these policies;
- 3) the political, social and economic objectives;
- 4) the impact on the state and public services.

Summary of the Typology

Typology of Privatisation and Marketisation
Marketisation and privatisation of global public goods (examples)
Carbon market in response to climate change
Deregulation of protection of natural resources and the global commons
Public health
Privatisation of global governance
Rise of privatised military industry
Marketisation and privatisation of assets and services
Commissioning of public services from private and voluntary sectors
Marketisation and expansion of private services, including franchising of services to the private and voluntary sectors
Private finance of infrastructure and services with PPP/PFI
Choice and personalisation of social need
Deregulation, liberalisation and re-regulation
Commercialisation of the public sector
Sale of assets to private sector through share flotations and trade sales
Asset monetization – leasing of toll roads and other facilities
Sale and leaseback of government buildings
Asset based welfare state
Increase domestic & family responsibility
Privatisation of governance and democracy
Contract governance
Transfer of services to arms length companies and corporatisation of quasi-public bodies
Private companies established within public services
Privatisation of development and regeneration responsibilities
Privatisation of citizenship and political power
Privatisation of public interest information – reduced transparency and disclosure
Privatisation of the public domain
Public service values and principles being replaced by market ideology and commercial values
Privatisation of public intellectual capital
Privatisation of public space and domain

Source: New Labour's Attack on Public Services, Dexter Whitfield, Spokesman Books, Nottingham, 2006.

Marketisation and privatisation of global public goods (examples)

Type of Marketisation and Privatisation	Method	Political, social and economic objectives	Impact on the state & public services
Carbon market in response to climate change	Emissions trading system for greenhouse gases established under 1997 Kyoto Protocol. Polluter countries given 'emission credits' equivalent to 1990 level of emissions less their reduction commitment. Countries allocate credits on nationwide basis, most polluting industries receive biggest allocation. Polluters can buy and sell credits on open market and invest in pollution reduction schemes in other countries to earn credits which can be used, sold or banked. Corporate-led self-monitoring and verifications schemes run by big business.	Retain business control with minimum commitments at minimum cost.	Large sums of public money required to establish trading system. Largely privatised system which is difficult to scrutinise.
Deregulation of protection of natural resources and the global commons	Privatisation of water and sanitation systems. Deregulation of environmental protection.	Attract inward investment and create new markets. Permit exploitation of minerals and natural resources with minimum controls.	Business claims ownership of natural resources and related property rights. Environmental degradation with knock-on effect on climate change.
Public health	Privatisation and commercialisation of health care systems including demands for trade and services liberalisation. Global Public Private Partnerships for specific diseases, drugs and vaccines.	Creation of global markets. Harnessing public and private finance in Global Public Private Partnerships but remain under multilateral agency and commercial control.	Demise of health for all, segmentation and fragmentation of health care systems. Business interests more able to dictate responses to diseases and epidemics.
Privatisation of global governance	Promotion of corporate citizen and corporate social responsibility (UN Global Partnership with business). Democratic accountability given low priority in development agenda.	Increase power of business and ensure business-friendly operating environment.	Fundamental lack of accountability of international agencies. Democratic accountability marginalised at national, regional and local levels.
Rise of privatised military industry	Outsourcing services and PPP projects for equipment for armed forces. Growth of private armies and security firms hired for civil wars.	Extending the military industrial complex beyond equipment and supplies to a wide range of services and functions.	Privately financed civil wars.

Marketisation and privatisation of assets and services

Type of Marketisation and Privatisation	Method	Political, social and economic objectives	Impact on the state & public services
Commissioning of public services from private and voluntary sectors.	Outsourcing and offshoring of services and/or transfer of work to the private sector. Adoption of commissioning role and withdrawal of public provision. Negotiating concordats with the private sector to deliver public services.	Reduce costs, abolish or regionalise national bargaining & increase productivity. Create new markets for private firms, weaken trade union organisation. Create competition between schools, hospitals and other services.	Decline in public provision and reduced state capacity.
Marketisation and expansion of private services, including franchising of services to the private and voluntary sectors.	WTO General Agreement on Trade in Services (GATS). European Internal Market in Services Directive. New Labour modernisation policies to create markets in provision of public services such as commissioning role for health and social care and National Offender Management Service (NOMS) for probation and prisons. Marketisation process includes: 1. Commodifying services 2. Commodifying labour 3. Restructuring the state for competitions and market mechanisms 4. Restructuring democratic accountability and user involvement 5. Embedding business interests and promoting liberalisation internationally.	Creation/expansion of global and European markets in services. Mainstream contestability and competitive forces across the public sector. Restructure the role of the state from direct provision to making and sustaining markets.	Outsourcing of services and functions, commodification of services and commodification of labour as staff transfer between contractors. Two tier workforce, equalities marginalised. State support for market through subsidies, tax concessions. Withdrawal/reduction of public services to spur private sector.
Private finance of infrastructure and services	PFI and PPP to design, build, finance & operate infrastructure and 'back-office' services. NHS Local Improvement Finance Trusts (LIFT) & Building Schools for the Future (BSF). Private sector sponsorship of Academy schools. Public and Community Interest Companies. Increased user charges and replacing grants with loans - students. Creation of a secondary market in selling stakes in PPP consortia and refinancing projects once operational.	Access to private capital and expertise. Legalised off-balance sheet financing of public investment.	Long-term financial commitment with private sector. Design, build, finance and operation by private contractors. Support staff transfer to private sector, longer-term threat to core services.
Choice and personalisation of social need	Competition between providers and marketisation of services. Vouchers for services - child care and training	Choice through competition and contestable markets. Increase competitive pressure on 'failing' services. Promote middle class opting out.	Fragmentation of public provision. Turning public facilities such as schools and hospitals into separate stand-alone businesses to compete against each other.

Continued on page 10

Deregulation, liberalisation and re-regulation	GATS and European Union liberalisation and marketisation of services. Regulators appointed to deregulate and increase role of markets. Increased regulation of trade unions. Regulatory impact assessments to reduce obligations on business.	Create global markets in publicly funded services. Political cover provided by Regulators who operate 'independently' of government. Constrain trade union activity to oppose marketisation and privatisation.	Reduced power and capacity of state to intervene in markets. Market forces increasingly determine service provision. Increased competition and outsourcing.
Commercialisation of the public sector	Modelling public sector on private firm and organisation of services into business units operating with business values. Sponsorship of events. Public sector bodies urged to take on 'corporate citizen' and corporate social responsibility models the same as the private sector.	Market forces applied more widely across the public sector. Create conditions for further privatisation, marketisation.	Increasingly fragmented provision and internal trading. Business values gradually replace public service ethos.
Sale of assets to private sector through share flotations and trade sales	Sale of assets such as state owned companies, utilities, housing, land and property	Extend property and company ownership. Increase income to enable tax cuts or maintain services which would otherwise be cut.	Asset stripping as sales undervalue public assets. Public sector responsible only for increasingly residualised services.
Sale and leaseback of government buildings	Public buildings and offices are sold with a long lease to a private investment company which in turn leases them back to the government or public body. Large number of government offices sold.	Fixing a price (valorising) of public buildings also extends the property market into public asset management. Also has short term financial benefits for public bodies.	Public sector loses direct control of the offices and buildings from which it operates.
Asset Based Welfare State	Child Trust Fund – vouchers issued to start savings schemes. Savings Gateway Individual Learning Accounts to access training.	Promotion of individual rather than collective responsibility for future social needs.	Encourage private suppliers and new markets thus marginalising state role to residual welfare state
Increase domestic & family responsibility	Reducing scope of services and assuming family (women) take over responsibility for care of elderly & children. Separation of health and personal care.	Financial savings, promote family and social capital.	Service reductions and targeting. Means tested welfare state.

Privatisation of governance and democracy

Type of Marketisation and Privatisation	Method	Political, social and economic objectives	Impact on the state & public services
Contract governance	Mainstreaming national procurement policy across the public sector with larger and longer-term complex contracts. Partnership Boards and Joint Venture Companies run managed services contracts and Strategic Service-Delivery Partnerships. Wider use of management consultants for reviews and procurement.	Separation of strategic policy making from service delivery. Establish organisational structures to extend contracting to wider range of services. Extend private markets by increasing outsourcing.	Loss of political control by elected members and erosion of democratic accountability and transparency. Growth of corporate welfare complex with a contract services system, owner-operator infrastructure industry, regulatory and financial concessions to business and the corporatisation of public bodies.
Transfer of services to arms length companies and corporatisation of quasi-public bodies	Foundation model for hospitals and schools which creates stand alone businesses. Formation of arms length companies for council housing, economic development and regeneration activities. Transfer of assets and services to third sector organisations such as housing associations and leisure trusts. Emergence of Local Public Service Boards which could takeover responsibility for some services in Local Area Agreements. More central government quangos such as Partnerships for Schools and Partnerships for Health. Gated communities with 'self governance'	Increase business role in policy making process and delivery of services. Half-way to full privatisation at a later date. Commodification of labour.	Reduced range of direct publicly provided services. Reinforces 'enabling' model of the state. Loss of democratic accountability and transparency. Loss of provision of central and support services as transferred and corporatised bodies procure services from private sector.
Private companies established within public services	Building Schools for the Future – extension of PFI model to educational policy, provision of educational support services and build/operate schools through Local Education Partnership 80% controlled by private sector. Privately-run Academies in the school system.	Supplant role and function of Local Education Authority (LEA) which become commissioning bodies. Extend the role of the private sector in state education and marketise educational services.	Increasing marginalisation of LEA and run-down of in-house services. Loss of democratic accountability as privately controlled LEP has greater role in educational policy and provision. Parents, governors and teachers less influence in policy formulation.
Privatisation of development and regeneration responsibilities	Establishment of Urban Development (UDC) Corporations, Urban Regeneration Companies (URC) and Business Improvement Districts (BIDs) in city/town centres	Increase business involvement and influence in public policy making in growth and regeneration areas. Draw on business expertise and experience to speed-up development.	Erosion of democratic accountability, reduction in capacity of local government and public bodies. Business interests greater role in setting policy agenda.

Continued on page 12

Privatisation of citizenship and political power	Focus on opinion citizens panels, polls & market surveys and 'armchair' voting. Community organising constrained by lack of resources.	Increase voter turnout to sustain legitimacy. Promote consumerism. Capacity building limited to aiding government policy implementation.	Users, community organisations and trade unions less involved in policy-making process. Centralised policies, local involvement in marginal decisions, in effect community badging of government policies.
Privatisation of public interest information: reduced transparency and disclosure	Widening scope of contracting and PPP's results in parallel use of 'commercial confidentiality' – much contract information exempt from Freedom of Information Act.	Protect commercial interest of the state and private capital.	Separation of policy and performance information/data. Makes scrutiny more difficult.

Privatisation of the public domain			
Type of Marketisation and Privatisation	Method	Political, social and economic objectives	Impact on the state & public services
Public service values and principles being replaced by market ideology and commercial values	Extolling virtues and abilities of the private sector. Ignoring private sector failures. Creating 'no alternative' to private finance as economic orthodoxy.	Making market forces and the use of public resources to support them politically acceptable and reducing scope for opposition. Creating conditions for capital accumulation and profits from provision of public services.	Loss of legitimacy for in-house provision and increasing reliance on outsourcing and privatisation.
Privatisation of public intellectual capital	Extended use of consultants and Framework Agreements by public bodies. WTO Trade-Related Intellectual Property Rights (TRIPS) – patents on products and processes for 20 years, protects monopoly rights. Nearly a fifth of known human genes have been patented – 63% owned by private biotechnology companies.	Enable work to be carried out by either public or private sectors. TRIPS obliges governments not to disclose information of commercial value. Patents, knowledge, research, industrial designs and processes in private control and ownership.	Loss of knowledge of needs, the history and understanding of why things as they are. TRIPS hinders knowledge and technology transfer. Misallocation of public funds to corporate marketing, R&D focused on market/profit potential, not public social/health needs.
Privatisation of public space and domain	Gated communities in which people live in secured private 'villages'. Public spaces in city centre shopping streets and retail centres privatised and controlled by private security.	Increase safety for middle classes. Respond to business interests in the cities.	More private control of 'public' spaces and activities in cities restricting protest and limiting activities.

Source: Whitfield, Dexter (2006) *New Labour's Attack on Public Services*, Spokesman Books, Nottingham, and developed from Whitfield, Dexter (2001) *Public Services or Corporate Welfare: The Nation State in the Global Economy*, Pluto Press, London. (see also Whitfield, D (1992) *The Welfare State: Privatisation, Deregulation, Commercialisation of Public Services: Alternative Strategies for the 1990s*, Pluto Press, London and Whitfield, D. (1983) *Making it Public: Evidence and Action Against Privatisation*, Pluto Press, London.

Kaul, I., Concelicao, P., Le Goulven, K. and Mendoze, R.U. (2003) *Providing Global Public Goods: Managing Globalisation*, Oxford University Press.