

Privatisation: a troubling legacy

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Privatisation in the UK has left a troubling legacy. Multinational corporations now control many basic services, often requiring complex regulation to protect service provision. Workforces are often reduced. Many low-paid workers in privatised sectors, particularly women, earn less and have less job security. The sale of public housing has contributed to homelessness and housing difficulties for low-income and other vulnerable groups.

Conservative governments in the United Kingdom pioneered a highly active privatisation policy between 1979 and 1997. This policy was driven by a belief in the superior efficiency of private ownership and market mechanisms over state provision and a conviction that public expenditure «crowds out» private enterprise. It followed a history of under-investment in public services in the UK.

Many basic services were privatised, including water, gas and electricity distribution, telecommunications and transport (air, rail and bus), and support and other functions throughout the public sector such as health, education, and central and local government administration. In addition, a large proportion of local government housing was transferred to individual owners or other, non-governmental, housing providers. Privatisation was also extended into such areas as skills training, public health laboratories, and even the operation of prisons. The emphasis in pensions, long-term personal care and childcare increasingly shifted towards private provision as well.

Under Labour governments since 1997 the pace of outright privatisation has slowed, but the emphasis has instead been on private financing and operation of state capital projects such as new hospitals and schools, partly in order to keep public borrowing down.

Privatisation in the UK has left a troubling legacy. Multinational corporations now control many basic services, often requiring complex regulation to protect service provision. Workforces are often reduced. Many low-paid workers in privatised sectors, particularly women, earn less and have less job security. The sale of public housing has contributed to homelessness and housing difficulties for low-income and other vulnerable groups. There is reduced potential for pooling of risks and redistribution towards low-income groups in private pensions.

Despite public opinion against this policy, governments in the UK for the last two decades have allowed private corporations to acquire a key role in providing formerly government-run services. Restrictions on domestic regulation resulting from international treaty commitments, such as the World Trade Organisation's General Agreement on Trade in Services, may in future prevent UK governments from pursuing their own measures of social control over services which are essential to the daily lives of millions of citizens.

Basic utility services

Most of the basic utility services - water and sewerage, energy supply, and telecommunications - were privatised during the 1980s. State enterprises were typically reconstituted as private corporations, and shares were then sold to individuals.

Since privatisation, ownership has in many cases been transferred and consolidated, so that multinational companies (often based outside the UK) now hold controlling interests in much of the water and energy supply industries. In addition, markets have frequently been opened to new private corporations

that compete with former state-owned monopolies, further undermining the potential for social control over services.

Privatisation has had significant effects on employment in affected service sectors. In the years following privatisation, employment levels fell substantially in areas such as water and sewerage.² In addition, those workers remaining in privatised industries often suffered deteriorating employment conditions and loss of trade union rights.³

State regulators frequently imposed price limits on the new private corporations, but they also had to take into account the interests of private shareholders in maximising profits and dividends and the need to generate significant new investment capital as, for example, in the water and sewerage industry.⁴ Consumer groups have regularly challenged price levels for privatised services,⁵ though some prices have decreased. There have also been continuing concerns about the effectiveness of regulation in protecting services to vulnerable groups such as elderly and disabled people⁶ and the discriminatory effect of some pricing and billing practices on low-income groups.⁷ In the case of water supply, there have been general price reductions since privatisation;⁸ but there has also been an extension of water metering, which is often more expensive for low-income groups.⁹

In transport, rail privatisation proved disastrous. A fragmented private ownership structure was imposed, further discouraging investment needed to compensate for decades of neglect. Small train companies lacked the same access to investment capital as larger ones, and all operators suffered from the relatively short duration of initial franchises. Two major rail disasters heightened concerns about safety. The main infrastructure company (responsible for stations, track and signals) suffered repeated financial crises before finally collapsing in 2001. Privatisation of bus services, on which low-income groups rely heavily, has led to concerns about prices, environmental damage, and loss of transport services to rural areas.¹⁰

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3 David Hall, *Impact of Electricity Privatisation on Industrial Relations - Lessons from the UK*, Public Services International Research Unit, 2000.

4 Joanne Green, *The England and Wales Water Industry Privatisation*, Water Aid, 2001; http://www.wateraid.org.uk/pdf/psp_england.pdf.

5 *Prospects for Prices: Consumer Concerns*, National Consumer Council, 1999; www.ncc.org.uk/pubs/pdf/prospects_prices.pdf.

6 *Regulating the Public Utilities*, National Consumer Council, 1997; www.ncc.org.uk/pubs/pdf/regulating_public_utilities.pdf.

7 *The Fuel Picture: CAB Clients' Experience of Dealing with Fuel Suppliers*, National Association of Citizens Advice Bureaux, 2002; <http://www.nacab.org.uk/docks/fuelpicture.pdf>.

8 *The Guardian*, 16 October 2002.

9 *Water Debt and Disconnection*, Policy Studies Institute, 1995; www.jrf.org.uk/knowledge/findings/socialpolicy/pdf/sp73.pdf.

10 *Making the Connections: Transport and Social Exclusion*, Social Exclusion Unit, 2002; <http://www.cabinet-office.gov.uk/seu/publications/reports/pdfs/transport.pdf>.

1 On behalf of the UK Coalition Against Poverty, c/o OBAC, Gloucester House, 8 Camberwell New Road, London SE5 0RZ.

Support and administrative functions within public services

Some of the most damaging effects of privatisation on workers were caused by the «contracting out» of support and administrative functions within public services to private companies. Many of the affected workers were women and ethnic minorities.

In the civil service (providing central state functions), a workforce of around 50,000 was employed in 1980 in various office support services such as cleaning, catering and security. During the following decade, these jobs were almost entirely contracted out to private companies. The central government later imposed a similar contracting out policy on local governments and the health service.

Workers transferred to private contractors frequently faced layoffs, wage cuts, poorer conditions, and the loss of trade union representation. Women workers suffered disproportionately.¹¹ Research on privatisation in areas such as local government services has shown that attempts to maximise profits can also pose significant risks to service users.¹² The decline of cleaning standards in hospitals, for example, had reached such a state by 2001 that a special government initiative was required to improve them. In electronic data management there has been a string of failures by private contractors in such areas as child support payments, immigration records, the issuing of passports, and most recently criminal record checks, in some cases damaging the quality of service for those on low incomes.

Housing

During the 1980s, Conservative governments embarked on the «privatisation» of housing that was owned by local state authorities and rented to those unable to buy or rent housing on their own. Properties were offered for sale to sitting tenants at prices significantly below their market value. Altogether, 2.4 million houses were sold between 1979 and 2001, either to their tenants or to other providers such as housing associations, leaving 2.75 million under state ownership.¹³

This «privatisation» — combined with inadequate investment in new public housing and a change from more general rent subsidy to means-tested income support only for the poor — has created an acute shortage of affordable housing for low-income or other vulnerable groups such as unemployed and elderly people and lone parents.¹⁴ Transfer of council housing (owned by local governments) to housing associations (not-for-profit organisations outside the state sector) was intended to allow borrowing on the open market, but was resisted by many tenants, especially in Scotland. There are also chronic difficulties in recruiting essential public services staff in areas where these relatively low-income workers cannot afford to buy houses.

Some state housing remains, but its tenants consist mainly of those at the lowest end of the income scale, who are unable to buy their houses even at discounted rates, or those in housing stock so poor, or in areas so deprived, that purchasing is undesirable.¹⁵

Pensions

Conservative governments reduced the value of basic state pensions compared to earnings levels and halved future rights under the state earnings-related pension scheme, instead promoting private pension plans, under which individuals pay contributions to private insurance companies. The resulting mistrust of state pension provision has made it difficult to reverse the trend toward more privatisation.

Labour's approach

The Labour (centre-left) governments since 1997 have decreased outright privatisation, relaxed the compulsory contracting-out policies in central and local state services, and extended employment protection legislation.

But there has instead been a significant expansion in «private finance» or «public-private partnership» schemes, under which capital projects are financed by, and the facilities often then managed by, private corporations; and in other schemes designed to allow the private sector to take over the operation of existing public facilities, such as «failing» schools.

The continuing emphasis on private finance schemes poses some dangers for the long-term future of public projects. Researchers examining hospital buildings, for example, have suggested that public sector capital projects are most efficiently financed through state-issued loans: the additional financing costs of private schemes (which are always dearer because of the risk element) will therefore have to be paid for by the next generation through higher taxes and contributions.¹⁶ Often there is not a real «transfer of risk» to the private sector, as the state remains the banker of last resort.

In housing, Labour has reduced discounts on local authority housing sales and allowed some of the resulting revenues to be spent on new housing, but has continued to encourage stock transfer to private housing associations. In pensions, Labour has a specific policy aim of shifting the balance of provision further towards the private sector. Redistribution between groups with different incomes or levels of risk is likely to become more limited; state provision is increasingly restricted to those on low incomes.

Despite continuing opposition from trade unions and other groups, the Labour government remains strongly committed to private finance schemes, which it regards as essential to reversing past under-investment in public services.¹⁷

The future

The UK is now bound by its obligations under European Union treaties (principally Maastricht, 1992) that give legal form to a «single European market» in goods and services. These treaties are partly designed to prevent individual member states intervening in domestic industries or services in a way that infringes free cross-border competition.

In addition, the Labour government is currently considering applying for UK membership (subject to a referendum) of the European single currency, which would entail an obligation to abide by limits on public borrowing under the European «Stability and Growth Pact». There is widespread concern, even among some supporters of membership, that this would restrict individual governments' ability to invest sufficiently in the infrastructure necessary for public services.

Current negotiations to extend the General Agreement on Trade and Services (GATS) and to liberalise service provision at the international level also threaten to prevent any UK government, now or in the future, taking action to remedy the effects of decades of neglect and under-funding in basic services that affect the lives of all its citizens. A revised GATS threatens to limit domestic regulation and the ability of the government to channel public funds to meet social need.¹⁸

Popular opinion in the UK has consistently opposed the privatisation of public services.¹⁹ Many groups, including trade unions, professional associations and consumer organisations, continue to campaign against privatisation. Yet action to restore social control and public accountability over basic services will in the future increasingly depend on co-ordinated efforts at the European and global levels.²⁰ ■

On behalf of the UK Coalition Against Poverty

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