



Public Services  
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# PUBLIC SERVICES WORK !

Information, insights and ideas for our future




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# **PUBLIC SERVICES WORK!**

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## Abbreviations

AMC	Ahmedabad Municipal Corporation
BOTT	Build, Operate, Train and Transfer
DWASA	Dhaka Water and Sanitation Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HELCOM	Helsinki Commission
HIPC	Highly Indebted Poor Countries
IADB	Inter-American Development Bank
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFIS	International Financial Institutions
IMF	International Monetary Fund
IPPS	Independent Power Producers
MDG	Millennium Development Goals
MERC	Maharashtra Electricity Regulatory Commission
MIGA	Multilateral Investment Guarantee Agency
MNCS	Multinational Companies
MSEB	Maharashtra State Electricity Board
NGO	Non-Governmental Organisation
NHS	National Health Service
NIS	Newly Independent States
OECD	Organisation for Economic Cooperation and Development
OP	Orçamento Participativo
OSS	Open Source Software
PFI	Private Finance Initiative
PPA	Power Purchase Agreement
PSI	Public Services International
PSIRU	Public Services International Research Unit
PUD	People's Utility District
PUP	Public-Public Partnership
SK	Stadtsparkasse Köln
SMES	Small and Medium Enterprises
TAP	Transparency, Accountability and Participation
TED	Tenders Electronic Daily
TQM	Total Quality Management
UN	United Nations
UNDP	United Nations Development Programme
UPE	Universal Primary Education
WB	World Bank
WHO	World Health Organisation
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation

# Preface

**P**ublic Services International is running a global campaign in support of Quality Public Services. PSI and its affiliates are committed to working to build public services that meet the needs of communities. In some circumstances, this means campaigning for more and better services or defending services that are threatened; in many circumstances it means working to reform and build existing services. In all circumstances it means working positively with communities to ensure that problems are addressed and quality delivered.

“Public Services Work!” has been commissioned by Public Services International as part of the campaign for Quality Public Services and to contribute to the debate about equity and development, made more urgent as the effects of globalisation are increasingly and inequitably felt.

This booklet presents a wealth of information about the role of quality public services in building strong societies. It is based on researched cases and empirical information from the past and the present, from developed and developing countries. It refers to official, academic and unofficial sources. Importantly, it identifies the principles that underpin Quality Public Services: the commitment to community and solidarity and the need for accountability and democracy. It offers concrete, documented examples of what works and why. Delving into the great history of public services, it examines successes and failures and advances proven and new ideas about reform. It identifies the issues facing public services in developed and developing countries today and offers insights, ideas and options for the future.

“Public Services Work!” is based on the central premise that the world has a great and long-term experience in why public services matter. Services such as healthcare and education have been developed in almost every country on earth over the last century or two. The effects of such systems are delivered and studied over years and decades, and debated by the public and politicians throughout this time. It is these experiences that the booklet draws on.

As the 21<sup>st</sup> century progresses, it is becoming apparent that the ideals expressed in the United Nations’ Millennium Development Goals will not be met under prevailing market based economic policies. If the world is to achieve the eradication of extreme poverty and hunger, universal primary education, improved health and lower infant mortality rates, equity and sustainable development, there must be a positive plan built on a foundation of quality public services.

Since the early 1980s, neoliberalism has dominated debates and decisions. Its ideological champions, including political leaders influenced by corporations, and international organisations controlled by the wealthiest nations, advance privatisation and market forces as one-size-fits-all solutions to development. Under their policies, often pushed aggressively by multilateral lenders such as the World Bank, public services have become commodities to be bought and sold and citizens have been turned into customers. Under the guise of policy innovation, the developed world, whose populations are key beneficiaries of strong public services, now tries to deny developing countries the same opportunities.

Proponents of privatisation argue that reforming public services requires radical new solutions. Numerous critiques by academics, international organizations like the UNDP, NGOs and trade unions have highlighted the risks of those radical ideas and the reasons why they fail again and again. After so much disappointment and many outright catastrophes, there is now a well-documented analysis of why it’s so hard



for privatisation to work - even in wealthy countries with strong institutions, let alone in poor countries with weak governance.

Ironically, the problems of privatisation are better understood than the promise of public services. Even though a huge percentage of the world's population depends on quality public services every day, there is still a perception that government "doesn't work." Of course, it's not hard to find places where this is true. Problems in design and delivery of public services can be profound and diverse. Whether the problem is lack of funding or expertise, poor management or work performance, lack of accountability, corruption or conflict of interest, all prevent the delivery of Quality Public Services and must be addressed through a range of specifically targeted reforms. These are best achieved through citizens, workers and governments working together to deliver quality.

"Public Services Work" provides powerful evidence that high quality public services underpin strong economies and provide opportunities for growth and development. Built on principles of community and solidarity, accountability and democracy, Quality Public Services offer the opportunity to achieve the objectives expressed in the Millennium Development Goals, and to build a better world.

Hans Engelberts  
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## 1. Introduction and executive summary

**T**his booklet examines public services by looking at their past, present and future. It charts the actual development of public services and the effect they have had on social cohesion and economic growth, the political structures and activity which creates and sustains them and the current problems and future opportunities, including the opportunities arising from globalisation. This historical framework helps identify factors which may be more important for the future of public services than the experiences and fashionable solutions of the last 20 years.

The first section outlines an historical account of how public services have been developed over time to meet the changing needs of communities. It outlines early forms of public service, including roads and defence, and how systems developed to provide both quality of life and services supporting economic development. It examines the role of the welfare state, the role of public services in building communities at local and national level, and the wide range of services that are provided publicly in different times and places, which is not limited to economists' definitions of public goods. It further examines how public services make a positive contribution to economic growth and how the financing of public services requires redistribution through taxation and cross-subsidy, which has differential impacts on rich and poor.

The second section looks at the political structures of public services, and focuses on four aspects. Firstly, it discusses the need for governments to have the capacity to deliver public services, whatever the role of regulation. Secondly, it looks at the relative role of central and local governments, how these change between countries and over time, and the particular ways in which this affects public services in former communist countries in transition. Thirdly, it notes the importance of political activity and public participation both to create public services and to maintain their accountability and responsiveness. Fourthly, it discusses the role in this process of trade unions representing public service workers.

The final section looks at the present and the future of public services. It considers the internal and external problems which are making it difficult for public services in many countries to deliver their objectives. It discusses the impact of introducing the private sector, including the question of relative efficiency, and the particular relevance of labour in public services. Finally, it considers what are the future prospects for public services, and the potential contributions of internationalisation.

In conclusion, the booklet highlights the historical importance of democratic political activity in developing and directing public services, the need for central and local government institutions to have the capacity to deliver services, and the importance in future developments of effective solidarity at all levels from local to international.

In all chapters, some points are illustrated by boxes containing case studies drawn from both current and historical experiences, in both developed and developing countries.

## 2. Community and solidarity: historical development of public services

Public services are a normal part of civilised human life. They are organised to meet political, social and economic needs. They are a central function of the state and a central issue in political debates. These services have not been developed as technical exercises in filling gaps where the market has failed, or is in need of temporary supplementary help. The history helps show how public services have been central elements in the development of communities, nations and economies; how political institutions have developed and delivered these services; and how their finance has been based on politically contentious redistribution through taxation.

This section aims to set out:

- the outline of how public services developed
- the principles of community and mutual support underlying the development of social welfare
- the role of public services in building nations and communities, and the diversity of services



- the contribution of public services to economic development
- the systems of financing public services.

## 2.1 History of public services

Public services have been developed over a long period - over a century - in virtually all countries. They are found in most societies in history. The ancient Chinese state managed irrigation, canals, security and emergency public grain stores; the Inca state in South America organised roads and water supply; the Roman empire provided theatre and pensions. Health and education are generally thought of as the two main public services, but in different places public services may still include nearly all services from banking to music, food subsidies to airlines, wakeup calls and prisons, forestry and radio wavelengths.

In medieval Europe, the state carried out the functions of defence, public order and justice. Roads, bridges, harbour maintenance, and lighthouses were developed; drainage and water boards were established to manage agricultural common services; poor relief, hospitals and schooling were offered by charities. Later, postal services were set up as a 'royal' service. Much of this was done by raising taxes and employing people to do the work. In the 18<sup>th</sup> and 19<sup>th</sup> centuries, new infrastructure services in transport and utilities were started privately and then taken over and extended by public authorities – these included canals, railways, gas, water and electricity. The 18<sup>th</sup> century frequently provided these networks and services by a process of farming out concessions to private companies who were then given a protected monopoly to raise charges and taxes to finance the business. This system broke down in France because of corruption and excessive exploitation of the monopolies, where it was one cause of the French revolution. In the UK the same abuse by monopolies led to an increasing trend towards ownership and operation by public authorities.<sup>1</sup>

Over the next century, the old system was almost entirely replaced by public ownership and public provision because of the inefficiency, costs and

corruption involved in the old private system, the 'ancien regime' of public services. In the late 19<sup>th</sup> century, the main mechanism of this was municipalisation. Democratically elected councils bought existing utilities and transport systems and set up new ones of their own, on the basis that they could exercise more effective control, more efficiently, with better employment conditions for workers and with greater benefit to their local population than the private operators. Councils also gained the right to borrow money, and so invest in developing their own systems. This development of publicly-owned and run local services became known as 'municipal socialism' (or gas and water socialism), although there were parallel developments at national level: the Tory and Liberal governments of Gladstone and Disraeli nationalised the telegraph system, the Tory and Liberal governments of Balfour and Asquith nationalised the new telephone system.

This extension of public provision continued into the first part of the 20<sup>th</sup> century. Compulsory public education was extended across Europe, North America and Japan; public healthcare schemes were developed; and new services continued to be added. For example, aeroplanes needed airports and the private sector was unable to provide the necessary investment, which grew as technology advanced. And so both national government and municipalities developed airports, including the vital function of air traffic control, as public services: "*The ownership and operation of any aerodrome required for general commercial use has had to be left in public hands... with charges low enough to attract traffic, nearly all these early British airports are inevitably a subsidy to air transport*".<sup>2</sup>

Following World War II, most countries in Europe were in ruins and in need of redevelopment. Industries needed rebuilding and so did countries. The state played the overwhelming central role in this restructuring, both in the communist countries of Eastern Europe and in Western Europe: despite the development of the cold war, social services were reformed and provided as universal services. In the UK, education fees for secondary schooling were abolished and free, compulsory education was provided for all children up to the



age of 15. A system of social security was set up to provide financial security for all "from the cradle to the grave". The railways, gas and electricity systems were nationalised, as were the mines and sections of manufacturing such as the steel industry (the UK post office, already nationally owned, still included the telephone service, which had made a significant research and development contribution to both winning the war and developing the first computers.<sup>3</sup>)

The creation of the National Health Service (NHS) in the UK in 1947 transformed the system of healthcare. Before the reforms, there was a patchwork system of health insurance schemes operated by various non-profit associations, religious groups and trade unions, on top of a basic national health insurance introduced in 1912. Hospitals had also developed as a mixture of charitable, religious and state provision, and general practice was a freelance occupation.

The core principle of the NHS was a universal service, funded through government taxation and national insurance, free at the point of care to everyone in the country. The previous network of hospitals was nationalised and their staff became public employees – general practitioners and pharmacists remained self-employed but paid by the state. The clear achievements of the NHS include the extension of healthcare to the whole population, sustained political support from an overwhelming majority of the public, and a system which minimizes financial bureaucracy.

As a result, the NHS is an example not only of egalitarian welfare state services, but also of efficiency. It is significantly cheaper than healthcare in other developed countries that use private and voluntary insurance systems, and was from the outset recognized as such. An American observer in the late 1950s regarded efficiency as the core achievement of the NHS: *"Its chief objective, as in the case of the nationalized coal industry, was to improve a remarkably inefficient and inadequate set of services, its chief means for doing so organizational rationalization and the use of central and regional planning..."*<sup>4</sup>

The international dimension was already becoming important. In western Europe, much reconstruction was funded by USA grants and loans under the Marshall Plan (this replaced the original USA plan for post-war restructuring which was to prevent Europe, especially Germany, from ever rebuilding its industries)<sup>5</sup>. The Marshall loans did not include conditionalities. As international cooperation developed through the creation of the successive links leading to the creation of the European Union, the principles of social partnership remained central, so that protection for employees and formal recognition of trade unions as partners in the political processes of the EU, continues today.<sup>6</sup>

Developing countries won post-colonial independence in the decades immediately following World War II, and their governments took a strong role in building the new nations. This was done through nationalisation of industry which had been owned by private companies based in the imperial countries, and also by the development of public services within the new nations.<sup>7</sup> Over the next 50 years, developing countries made health and educational advances that had taken much longer in the industrialized countries. The greatest advances were made through countries with state-run systems, universally available and financed out of government revenues. These systems provided state-supported services with above-average spending for developing countries, and policies targeted at communicable diseases, nutrition, and maternal and peri-natal care. They achieved major reductions in the mortality of mothers and children by pregnancy management, household visits and high rates of immunization. Primary healthcare workers were supported by a well-functioning network of hospitals. Doctors were required to work with the government health service for a certain period of time. Countries with the greatest advances in healthcare had a much higher level of education for women, which is associated with better nutritional levels for children and lower mortality rates.<sup>8</sup>

Contrary to much conventional wisdom, poor countries can transform the quality of life for the majority of people through the provision of public

services, especially healthcare and basic education. The people of Costa Rica, Sri Lanka and Kerala State (India), Botswana, Mauritius and Zimbabwe, where these services were allocated above-average resources,<sup>9</sup> enjoyed much greater life expectancy than people in richer countries with higher per capita income, such as Namibia, Brazil, South Africa and Gabon, with less provision of services. These services are affordable even in poor economies because they are labour-intensive, and labour costs are low in such countries. As a Nobel Prize-winning economist notes, "a poor economy may have less money to spend on health care and education, but it also needs less money to spend to provide the same services which would cost much more in richer countries"<sup>10</sup>.

There was a slowdown in the 1980s, as economic policies began to constrain state spending. The number of children enrolled in primary school stagnated and even decreased in some countries: in sub-Saharan Africa the enrolment ratio fell from 77.5% in 1980 to 68.3% in 1990.<sup>11</sup> But strong public services remain possible for developing countries: the abandonment of educational charges has had major

effects in expanding education in some African countries (see box 2a); the achievements of the Cuban healthcare system demonstrate what is possible even for a poor country (see box 2b).

## 2.2 Social welfare and income distribution

The central feature of modern public services is based on the principle of mutual support across communities, based on shared social objectives.

The strongest model of modern welfare states is the Nordic model, as found in Sweden, Finland, Denmark and Norway. It has a number of features: a large scope of social policy covering social security, social and health services, education, housing, employment, etc; an emphasis on full employment, accompanied by active labour market policies; and universalism, whereby all citizens are entitled to basic social security benefits and services, regardless of their employment status, supplemented by earnings-related benefits. Services are financed mainly through taxation, *"without high user fees, and supporting significant transfer from rich to poor, so there is a high level of taxation and spending as a percentage of GDP. Public employees are a high propor-*

### Box 2a

#### Ending education charges in Uganda and Malawi

Charging fees for education prevents many children of poor families from being educated. When countries end school fees it has a corresponding major boost to the numbers in school and so the literacy rate and the general level of education. The abolition of school fees after World War II in European countries was a major extension of public education systems. The same effect can be observed more recently in two sub-Saharan African countries, Uganda and Malawi.

In 1997, Uganda abolished fees for primary schools as part of a programme of "Universal Primary Education" (UPE). School fees had represented a significant part of the income of the education system, so the financial impact on the state was significant. A World Bank report concluded that: *"Even though educational facilities had been widely available even before UPE was introduced, the program led to a dramatic increase in enrolment, suggesting that the direct and indirect costs of schooling constituted a significant obstacle to more widespread primary school attendance by the poor. This is true especially for girls, whose enrolment rates increased significantly (in some cases more than doubling) after the introduction of UPE... inequalities in attendance related to gender, income, and region were substantially reduced."* Secondary school fees remained in place, however, and the number of teachers was not increased to match the greater numbers of pupils (see below).<sup>12</sup>

In Malawi, primary school fees and uniforms were abolished in 1994, which led to an increase in the enrolment rate from 83% to 98.7%. As in Uganda, there are still fees and uniforms required in secondary schools, where the enrolment rate is 72%.<sup>13</sup>



**Box 2b****Cuba's health indicators match richest countries**

Healthcare in Cuba has been one of the regime's top priorities. The system is efficient, not corrupt, and delivers excellent primary care through an extensive network of general practitioners. Despite a relatively low GDP, and a trade embargo which includes medicines, it has the lowest infant and maternal mortality rates, the highest doctor-to-population ratio and the highest rate of public health service coverage in Latin America. Its performance on key health indicators, including life expectancy and infant mortality, matches those of much richer developed countries.

Country	Life Expectancy (years)	Infant Mortality (Deaths per 1,000 live births)	Physicians per 100,000 Population
Cuba	76.3	7	346.1
Brazil	67.0	32	121.3
Mexico	72.1	29	160.0
France	78.5	5	251.6
Germany	77.0	5	241.9
UK	77.2	6	145.1
US	76.9	7	215.2

Source: World Bank, World Development Indicators 2001

*tion of employment. The systems are successful, measured by low poverty rates, equal income distribution and progress in gender equality. Finally "the Nordic welfare states enjoy broad public support".<sup>14</sup>*

In the 1990s the economies of both Sweden and Finland faced problems which led to increased unemployment and pressures on government budgets, including the adoption of borrowing restrictions. The welfare systems helped the countries deal with economic crisis through spreading the burden equally: *"developments in economic welfare, measured in terms of income inequality, show that in both countries the depression caused surprisingly little disturbance. During the deepest years of the recession, income inequality did not increase overall. This is partly explainable by the even distribution of economic misfortunes and unemployment across the population, and partly by the compensating impact of the welfare state, above all in the form of income transfers..."<sup>15</sup>*

Supportive welfare systems are not confined to northern Europe. Japan has a relatively equal

regional distribution of income, one important factor in which is Japan's commitment to maintaining levels of employment for people who would do poorly under market forces. Like Scandinavian countries, a commitment to full employment is part of social policy. The regional disparities are less. One third of Japanese prefectures have a per capita income within 5% of the average whereas in the US, only one sixth of the states fall in this range. Similarly, Japan has impressive social indicators, both in levels and distribution: the bulk of its population has access to good education, health and basic infrastructure. For example, 98% of Japanese prefectures have a high school enrolment rate within 5% of the average (compared to 84% for the United States). Japanese priorities of public spending are also different. Public expenditure in both Japan and the USA is equivalent of about 35% of GDP, but Japan spends relatively little on defence (0.9% of GDP) compared to the US (3%), but 2 to 3 times as much as the USA on public investment.<sup>16</sup>

Social objectives can form the foundation of policies on a range of public services, not only social services. A review of recent energy policies in six developing countries by an international research institute reached strong conclusions about the priority that needs to be given to social objectives (see box 2c).

### 2.3 Building political entities: nations, decolonisation, municipalities

The development of public services and social programmes is an important element in the creation of communities and political entities at all levels. The provision of national services is one central way in which national identities are created. In many countries, independence from colonial rule was marked by the expansion of public service: in sub-Saharan Africa, in the first 20 years after independence, there was a strengthening of health infrastructure and significant improvement in people's

health.<sup>18</sup> In Canada, social programmes after World War II played a strong role in creating a sense of a shared identity. One effect of cuts in public services and social support is to jeopardise this sense of national solidarity.<sup>19</sup>

The same is true for cities. In 19<sup>th</sup> century European cities, the development of municipal services was accompanied by a civic pride in the city councils themselves, visible in city halls across Europe from Vienna to Manchester. The same effect is apparent today: when Ahmedabad city council issued a municipal bond in 1999 (see box 2d), there was local pride in the fact that it was the first city in India to do so.<sup>20</sup>

The loss or absence of public services and the institutions providing them can be correspondingly damaging. Cali, in Colombia, had developed a successful municipal utility company, Emcali, which ran local energy and environmental services and was so financially sound that it even obtained

## Box 2c

### Sustainable and social development of energy

A report from the World Resources Institute in 2002 looked at the recent experience of six countries: Argentina, Bulgaria, Ghana, India, Indonesia and South Africa. The report examined how the process of reforming the electricity sector can support rather than hinder promotion of sustainable development, and achieving social and environmental goals.<sup>17</sup>

It identified major problems with the goals and processes of electricity reform in nearly all the countries which they studied: "By focusing on financial health, reforms in the electricity sector have excluded a range of broader concerns also relevant to the public interest. In this study, we have examined the social and environmental concerns at stake in these reforms. We have found that not only are they inadequately addressed, but that socially and environmentally undesirable trajectories can be locked-in through technological, institutional and financial decisions that constrain future choices." The report put forward four clear recommendations for what it calls "a progressive politics of electricity sector reform":

- "1. Frame reforms around the goals to be achieved in the sector. A narrow focus on institutional restructuring driven by financial concerns is too restrictive to accommodate a public benefits agenda.*
- 2. Structure finance around reform goals, rather than reform goals around finance... Political legitimacy in a reform program, tied to some innovation in mechanisms for raising finance, may be a more promising route than tailoring reforms to short-term profit horizons.*
- 3. Support reform processes with a system of sound governance. An open-ended framing of reforms will reflect public concerns only if it is supported by a robust process of debate and discussion.*
- 4. Build political strategies to support attention to a public benefits agenda. It is important that public benefits advocates strengthen political coalitions supporting sustainable development and counter those favouring parochial interests."*



## Box 2d

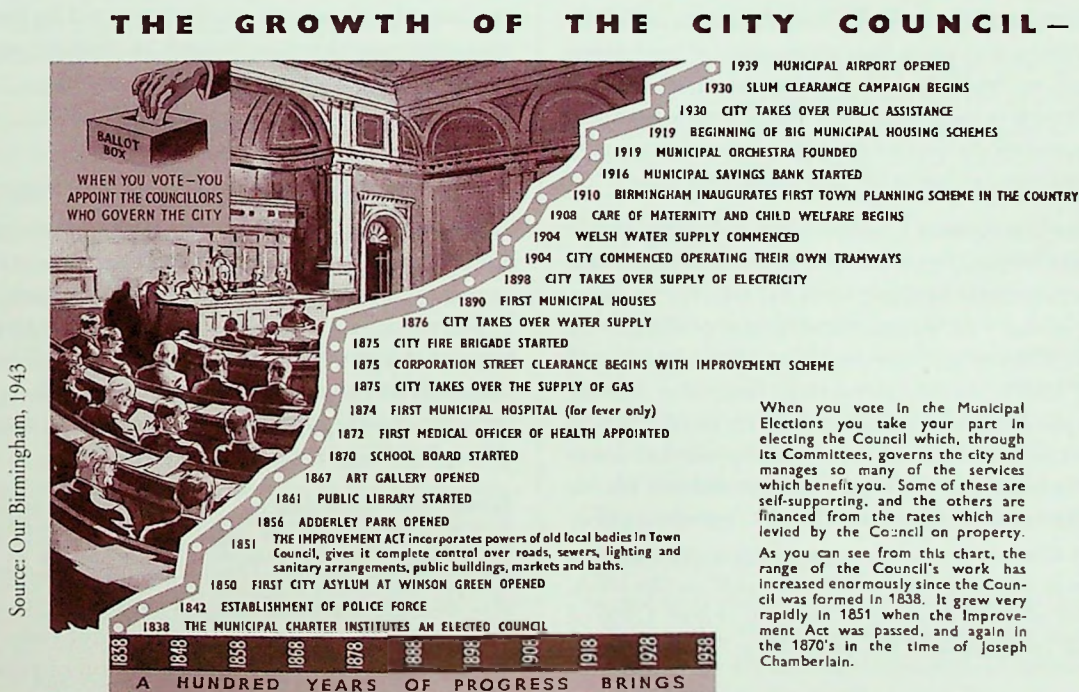
### The growth of public services in Birmingham, UK

The city council of Birmingham, one of the major industrial cities of England, developed a great range of public services during the 19<sup>th</sup> and 20<sup>th</sup> centuries, the years of industrialisation. Birmingham became famous in the UK and abroad for developing municipal services as an instrument of social and economic policy. The growth took place over a long period.

The chart below shows the development of the services provided by the city council from the council's creation in 1838 to the opening of a municipal airport in 1938. It is taken from a booklet "Our Birmingham", produced in 1943, during World War II. Subtitled "the Birmingham of our forefathers and the Birmingham of our grandsons", it was intended to interest young people in the past growth of the city *"and particularly in its future development"*.

an international credit rating. A government proposal to privatise Emcali was opposed by the local community in a vigorous national and international campaign.<sup>21</sup> Meanwhile, the local poor needed more public services, not less: research into

youth groups in the poor, marginalized and violent neighbourhoods of Cali concluded that *"while there was a sense of social solidarity in these neighbourhoods, this could not make up for the absence of any institutional presence."*<sup>22</sup>



Source: Our Birmingham, 1943

Services were developed in response to the changing needs and changing social structure of the city. The city council itself was the democratic base<sup>23</sup>, which then took on functions of law and order (police), cultural and leisure functions (art gallery, library, orchestra, park), public health (asylum, maternity services), utilities (gas, water, electricity), transport (trams, airport), education, housing, town planning, income support, fire, and banking services. Among these were functions that the private sector had started on a commercial basis, but failed to provide adequately to the whole city – water, sanitation, gas and, later, electricity.



## DIVERSITY OF SERVICES

In almost every country the services provided by government at national or local level include certain categories – the social services of healthcare, education and some form of social security; the utilities of water, energy and communications – including post, telecoms, roads, railways, and air transport; and the state security functions of police, justice and defence. But the full size and scope of public services is invariably a matter of political debate, reflecting different economic and political interests and priorities in the country at any given time.

Public services and state activity may cover a wide variety of activities. They include spending on culture, for example, with the support of public interest broadcasting, arts festivals and galleries and indigenous music, such as opera or classical music, or the dance music of west Africa – successful current bands from Mali, Senegal, Guinea and Zaire all grew out of active state sponsorship of local dance music in the 1970s. *“At that time people didn’t have the means to make music. The instruments were expensive and the public had no money to buy records or go to concerts – it had to be supported by the state.”*<sup>24</sup>

There is no general principle for determining appropriate sectors. State services at various times and places include banking services, forestry, marketing of dairy products, manufacture of drugs – in the UK some pubs were state-run from 1917 until the 1970s. In Morocco, a government agency supplied chicks to chicken farmers until a World Bank official insisted the state stopped this activity. It left a gap which the market did not fill, so the farmers’ livelihoods suffered.<sup>25</sup> Spending priorities may vary – defence spending in some countries is relatively high: 3.2% of GDP in the USA, 3.1% of GDP in Iran; in others it is low: 1.1% of GDP in Canada, 0.9% of GDP in Somalia.<sup>26</sup>

Some functions are traditionally supported by the political right, such as the prioritisation of state security. This is reflected in both the EU Treaty and the WTO’s provisions, both of which provide that state security considerations enjoy a blanket exemption from the liberalisation and competition requirements of these organisations.<sup>27</sup> But political

perspectives vary across time and place too. At different times, traditionally conservative parties in the UK have supported, or even initiated, measures which would horrify the early 21<sup>st</sup> century Republican Party of the USA. For example, the nationalisation of the telegraph by the UK Tory government of Disraeli or the support of the Conservative party for socialised healthcare after World War II.

Some services may be viewed differently by different groups, for example the machinery of justice. Business is most concerned that property rights and contractual obligations can be upheld through the courts, while other groups may be more concerned about accessibility to justice for the poor, which leads to greater emphasis on capacity-building and on non-judicial justice processes.<sup>28</sup> State expenditure on building and maintaining long-distance road networks is also generally supported by business interests who usually seek to restrain state spending in other areas.

## PUBLIC GOODS, MERIT GOODS AND POLITICAL CHOICES

The provision of public services is not defined by economic rules alone, but by a political process. Some services – for example health and education – can be provided through the market, but societies prefer to deliver them through public services because that produces better social results. These decisions involve political choices which vary between countries and over time, and are mediated through public debate.

Economists use a concept of public goods, which is defined in terms of those services which the market fails to provide. This definition is of limited use, because it assumes that the market forces are the norm and public goods are deviant cases of market failure, whereas the organisation of public services is normal and global. On this definition, defence is the only unambiguous public good – it does not cover core services such as education and health, which are referred to as ‘impure public goods’ or ‘merit goods’, and so fails to explain the general perception of the importance of public provision of these services.<sup>29</sup>



Actual public services are subject to variations for both technical and economic reasons, as well as political values. The provision of public baths has been an important public health function at various times in different countries, but has become less important in countries or cities where the great majority of homes have bathing facilities. Others may change with technology; for example, libraries offer Internet connections or music CDs as well as the traditional function of lending books.

## 2.4 Public services and the economy

### SUPPORTING THE ECONOMY

Neo-liberal economists take the view that expenditure on public services is a burden on the productive sectors of the economy, and hence the role of the state should be minimised, and those services themselves should be provided as far as possible by the private sector. Ironically, this was *not* the view of Adam Smith, commonly recognized as the intellectual father of market economics. He saw public education as a real bargain: *"For a very small expense the public can facilitate, can encourage and even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education"*<sup>30</sup>

History suggests Adam Smith was right to see public services as a cheap asset to an economy. A major factor contributing to Japan's economic growth in the industrial era was its high literacy rate (higher than Europe's in the 19<sup>th</sup> century).<sup>31</sup> During the expansion of the post-WWII era after 1945, developed countries generally relied upon provision by the state of services through public expenditure. The post-independence growth in many developing countries in the 1960s and 1970s was also sustained by an expansion of public services. High literacy rates also contribute directly to economic growth: high provision of education and healthcare preceded the growth of all the East Asian economies. The state has taken an active role in many cases of successful growth by developing countries.<sup>32</sup>

The contribution made by public services to growth is now being explored by a number of economists, arguing that public services have a positive effect on the productivity of the whole economy<sup>33</sup>, especially when public capital investment in infra-

structure is taken into account<sup>34</sup>. Some current government policies have levels of public spending lower than they should be<sup>35</sup>; developing countries with low stocks of capital, need public spending to generate growth and avoid a 'poverty trap'<sup>36</sup>; private firms' attempts to fill the gap are more costly and less effective than public sector investment<sup>37</sup>, and industrial innovation and development may be more likely to come from active intervention by politicians.<sup>38</sup>

A review of the global experience with use of the private sector in energy reinforces the question mark against the wisdom of leaving key investments to the private sector. It concluded that *"in a long-run development perspective, full-scale privatization of gas and power sectors in developing countries entails significant risks, and therefore a flexible policy approach is preferable to a rigid commitment to extensive liberalization"*.<sup>39</sup>

The links with private consumption are also being rediscovered. Both the provision and the pricing of infrastructure services can have a huge impact on consumer spending. A study in China found that the demand for TVs, refrigerators and washing machines would rise sharply if more households were connected to water and electricity – predictably – but also that a cut of 10% in electricity prices would have a dramatic effect on demand for these goods – six times as great as a corresponding rise in income. The study offers a simple conclusion which is the opposite of the cost-recovery policies advocated by bodies such as the World Bank: the state should administer price cuts in electricity as a way of stimulating demand for manufactured goods.<sup>40</sup>

### KICKING AWAY THE LADDER

The political and economic orthodoxy has developed since the 1980s that the state should have a minimal role in the development of national economies, leaving as much as possible to market forces, with minimal restrictions on trade or private economic activity. The key mechanisms for doing this have been privatisation and trade liberalisation. Both of these policies are applied generally across all sectors, but have a particularly disruptive effect on public services.

These policies ignore the historical experience that the state played a major role in the economies of countries which are now 'developed'. Britain, the USA, Germany, France, Sweden, Belgium, Japan, Korea and Taiwan actively used interventionist industrial, trade and technology policies to promote their own industries to 'catch up' with others. For example, the USA had major tariff barriers until after the end of World War II. When developing countries used the same policies in the post-colonial 1960-1980 period, they grew much faster than under later neo-liberal policies. These privatisation and trade liberalisation policies thus have the effect of protecting the dominance of multinational companies based in developed countries by 'kicking away the ladder' of state intervention by which they developed their own position.<sup>41</sup>

A concrete illustration of this can be seen in the workings of the EU's policies of liberalising the electricity and gas sectors. The relevant directives prohibit vertically integrated public sector monopolies and require countries to split these up and allow generators and traders to compete for custom. These laws apply to the transition countries of central and eastern Europe, which have to adopt the EU laws as a condition of joining. These countries are thus obliged by the EU directives to break up their industries, which they then have a powerful incentive to sell. The buyers, in every case, are established energy companies from Western Europe which had grown to their present size as protected, often state-owned, monopolies. As transition countries break up their own electricity industries in the accordance with the dictates of liberalisation, they are also breaking up potential competitors to the western companies. The result has been the creation of a concentrated Europe-wide oligopoly - the German groups E.ON and RWE, the French (state-owned) EdF, GdF and Tractebel (part of the private Suez group) have become the owners of distributors and generators in Hungary, Czech Republic and Slovakia.<sup>42</sup>

## 2.5 Taxation, redistribution and borrowing

### *DISTRIBUTION OF TAXES AND CROSS-SUBSIDY*

Financing public services involves raising money through some form of taxation, insurance or charges

to pay for the resources provided. Without these tax-supported resources, the poor are forced to rely on less redistributive forms of social solidarity, such as financial support from networks of friends and family, as has been observed in Cote d'Ivoire (Ivory Coast).<sup>43</sup>

Cross-subsidy is crucial to this process of developing public services - otherwise the poor will never be connected to services they can't afford for themselves. This subsidy has to come from other people - either through taxes, or through prices which make the rich pay more for their services. Neo-liberals sometimes claim that this cross-subsidy is a wasteful practice typical of the public sector, and that one advantage of privatisation is that it gets rid of subsidies. But in Buenos Aires, Argentina, the private water company found that the only way it could afford to connect the poor in the shanty towns was by imposing a special 'solidarity charge' on middle class consumers, relying on the municipality to provide the pipes and on the poor themselves to provide their labour free. The private companies running rail in the UK also rely on government subsidies - Vivendi's rail subsidiary Connex successfully demanded another £58 million from the government in December 2002 as a condition for continuing to run the services. Despite being given this subsidy, the company's contract was terminated for poor performance eight months later.

Taxation is the core method of financing public services. Taxation depends on the political legitimacy of the state being entitled to collect money from the income or expenditure or transactions of people and businesses. The effect of taxation is essentially redistributive, so that the spending powers of the wealthy is reduced, and in exchange the services for the public in general, or the income of the poor, are increased. Those most likely to pay tax often seek to reduce the amount they pay, by exploiting loopholes or by political lobbying for exemptions or allowances. Another main source of financing public services is through insurance schemes which rely on risk pooling across the population. The least redistributive form of financing is charges to users of the service - especially when



they are designed to recover all the costs of provision, at which point they closely resemble the market prices which would be charged by commercial providers. Even with charges, an element of cross-subsidy can be built in, for example, users may be charged little (or nothing) for the first 50 litres of water they consume each day, and more for amounts beyond that.

#### EFFICIENCIES OF BROAD SOLIDARITY

Taxation on income at central government level is the most efficient for redistribution because it draws on the widest pool of potential contributors. Taxation at local level can only use the income of people living in the same area, which may include a high percentage of poor people (high needs, low resources) who cannot effectively finance their own services. (Taxation on incomes at international level would be even more efficient at redistribution – as advocated by supporters of the Tobin tax.<sup>44</sup>)

The advantages of a broad base include more efficient risk pooling in insurance-based schemes. Health insurance was restructured in South Korea in July 2000, when 350 health societies were merged into a single insurance society. The multiplicity of societies had led to inequity, financial instability and reliance on government subsidies and inability to cover the rural self-employed. In effect, the system has now moved closer to the single NHS-style system, like the UK, away from the pluralistic German model which had previously been followed. The reforms took place in a particular social and political context, with the election of a new president, supported by progressive civil society groups.<sup>45</sup>

#### TAX COLLECTION

There also needs to be a system for collecting taxes which is seen to be fair, honest and inescapable, to provide a reliable stream of revenue to the govern-

ment. An efficient system of tax collection positively affects a country's ability to deliver public services. A recent study found that it was one significant factor explaining the difference between countries' provision of public services and the extent of redistribution of income through benefits.<sup>46</sup>

Establishing such a system in the public sector was crucial to the development of modern European states.

Under the 'ancien regime' in France and other European countries, the wealthy and the well connected avoided payment of taxes by discretionary exemptions, and tax collection was in the hands of intermediaries. As a result, state revenues were unreliable and the burden unfairly distributed. The important advance was bringing tax collection under state control: *"Too much had been abandoned to the private initiative of tax-collectors... The English reform, which consisted of getting rid of the parasitic intermediaries, was accomplished steadily and with discretion... The first measures were the bringing under state control... of Customs... and... Excise"*<sup>47</sup> This nationalisation of tax collection was also a crucial step in developing a solid revenue base to sustain public sector borrowing: *"Without this takeover of the financial machinery of the state... England would not have been able to develop as she did a credit system that worked... the entire system depended on the 'credit-worthiness' of the state... It could... exist only thanks to the creation by parliament of new sources of revenue..."*<sup>48</sup>

#### BONDS, BORROWING AND FINANCING INVESTMENT

In virtually all cases of borrowing, governments and public authorities can borrow money more cheaply than private companies. This is true even in developing and transition countries. Multinational companies usually borrow money on the security of the local project, rather than their own funds,

Source of funds	Domestic (inside country)	International
State	Government, national funds	Aid agencies
Bank loans	Domestic banks	International banks
Bonds	Domestic bonds	International bonds
Intermediate funds	Municipal development funds	-
International finance institutions	-	Development banks e.g. World Bank

**Ahmedabad and municipal bonds**

The following table shows some of the milestones in the development of the municipality of Ahmedabad, the seventh largest city in India, three times the size of Birmingham. One key difference was that the development of the council, like the history of the city, was closely linked to the history of the struggle for independence. The municipality itself was suspended more than once as a result, before independence was finally achieved in 1947.<sup>49</sup>

1857	Ahmedabad Municipality came into existence on 19th January.
1858	Opening of first Library Himabhai Institute.
1873	Ahmedabad Municipality recognized by statute and named as City Municipality.
1882	Primary Education came under Municipal Administration.
1887	Construction of first well by Municipality.
1890	First underground drainage was laid in Khadia. Czar of Russia came to Ahmedabad.
1897	Telephone service was started.
1910	Municipality suspended first time.
1913	Electricity Company started.
1916	Town Planning Act implemented in the city.
1918	Ahmedabad labor strike.
1921	Ahmedabad Municipality was superseded because of non-co-operation movement.
1922	Arrest of Mahatma Gandhi, sentenced to six years jail for treason.
1924	Elected Ahmedabad Municipality resumed its working.
1938	Opening of M.J. Library.
1940	Opening of Gandhi Bridge and Infectious Disease Hospital.
1942	'Quit India' movement. Ahmedabad Municipality superseded. Historic Textile strike.
1946	Second Communal riot. Municipality reinstated.
1947	Bus Transport Service under Municipal control, Independence Day celebrated.
1948	Preparations for Electric Grid Scheme and expansion of Power House.
1955	New Civil Hospital building. Milk scheme in Ahmedabad. Drainage in Ellisbridge area.
1956	First Girls College (B.D.Arts College). First swimming pool opened.
1980	Kotarpur Water Works project started with the help of LIC.
1988	Drainage Project and Urban Project started for new area with help of World Bank.
1994	Several administrative reforms and strict actions initiated by the Corporation to improve its financial position. In-house computerization started.
1997	Municipal Corporation got itself credit rated from CRISIL and got A+ rating which subsequently increase to AA (so) rating
1998	Ahmedabad Municipal Corporation becomes first corporation in the country to offer public bonds for Public Subscription of Rs.1000 million.
2000	1) Widening of Gandhi Bridge. 2) Widening of Ellis Bridge. 3) Publication of Citizen's Charter for the first time. 4) Inauguration of the ambitious Raska Water Project.

Source: [www.ahmedabadcity.org](http://www.ahmedabadcity.org)

**Improving finances: tax collection and municipal bonds <sup>50</sup>**

In the mid-1990s Ahmedabad Municipal Corporation (AMC) was in financial deficit, but needed to carry out major improvements to services, especially investment in water and sanitation infrastructure. It set about a programme of increasing the efficiency of its tax collection. The main source of revenue was from an 'octroi' tax levied on imports into the city. AMC updated the rates of tax, employed extra collectors, stamped out corrup-



tion – and as a result increased the amount of money collected by 60%. Within property taxes, the next major source of revenue, the council created a computerised database, imposed sanctions on people who were not paying and strengthened the collection staff – and tax collected increased by 55%. AMC also computerised, modernised and professionalized its accounting system.

It then drew up a capital investment programme worth Rs 5,973 million (US\$150m), of mainly for water supply and sewerage schemes, based on financing 30% of it from revenue and raising the rest through loans and a municipal bond. In 1998, Ahmedabad became the first city in India to issue a municipal bond, which was given a credit rating of AA. The most significant investment was the Raska Project, a bulk water supply scheme which now supplies water to 60% of the city's population. It was completed in a record five months, and financed 20% from the proceeds of the bond, with the other 80% coming from a loan from the national government's Housing and Urban Development Corporation.

Other Indian cities followed suit: by 2002 six other municipalities (Bangalore, Ludhiana, Nasik, Nagpur, Madurai and Indore) had issued bonds worth Rs. 550 crores: (one crore is 10 million) all of which were over-subscribed.<sup>11</sup>

and so the interest charged is ultimately related to local conditions and government guarantees, not the multinationals' profitability. The amount that banks and investment companies will be prepared to lend to governments is, however, limited by their assessment of governments' credit-worthiness.

Public authorities can raise funds to finance investment from the same range of sources as used by private companies. The table below shows a simple categorisation of these sources. Money borrowed requires interest payments and, ultimately, the loans to be repaid through another source of finance, either taxation or charges. The same questions about distribution of these burdens arise.

Public authorities have for over a century raised finance themselves, through borrowing or through issuing bonds. This is done not only by governments, but by municipalities; not only in developed countries, but in developing ones, as the case of Ahmedabad demonstrates (see box 2e). It is not necessary to have a multinational as an intermediary.

### **3. Governance, accountability and participation**

Public services depend on a political system capable of organising the services. To deliver a responsive service, the relevant public authorities need to be made accountable to the population, and enable

and encourage citizen participation in the planning and prioritising of the system. This section looks at these governance issues:

- the need for state capacity to deliver services
- the structure of responsibilities between central and local government
- the need for active participatory politics
- the role of public service unions.

#### **3.1 State capacity**

Delivery of public services requires state capacity: there must be a political authority with the capacity to organise, finance and deliver universal services. This is as true for local authorities in rural sub-Saharan Africa as it is for the nation states of Europe and North America – any government needs the authority and resources to tax and employ in order to deliver services. This is difficult for neo-liberals, who believe strongly in a minimal role for the state, and prefer a minimalist state, with any functions sub-contracted to the private sector. The role of the state is then simply to regulate (or better still appoint an independent regulator).

But the problem is that a state without the capacity to deliver a service does not have the capacity to regulate multinationals either, as a number of reports on the water sector have shown. A study of a failed attempt to create public-private-partnerships in water in South Africa concluded that *"lack of public*

sector capacity is, as the BOTT experience demonstrates, an important reason not to privatise, rather than a justification for public-private sector partnerships”<sup>52</sup> The same has been said in a report to an OECD conference on the water sector in the countries of the former Soviet Union: “The capacity of most NIS governments to effectively regulate private sector participation, particularly the more extensive forms, is an important constraining factor on developing public-private partnerships.”<sup>53</sup> A general survey of water in developing countries observed that “In many countries, regulatory structures are still embryonic, in others they lack transparency, while in others they appear to be excessively complex in their organisational structure, laying them vulnerable to political interference. In particular, the study has identified questions concerning the limited accountability of the essentially ‘political’ nature of the regulatory process associated with the French-style concession contracts”<sup>54</sup>

It is important to recognise the actual and potential achievements of nation states in delivering services, as otherwise an analysis of the failings risks being simplistic and formulaic. In the case of energy in India, for example, the World Bank has blamed problems on excessive state presence, and so proposes the introduction of the private sector as a solution. But this approach ignores the real, successful achievements of public energy systems. By contrast, an analysis by Indian NGO Prayas firmly identifies the remarkable achievements of the system before identifying, equally sharply, its deficiencies: “the existing model, based on state ownership, self-sufficiency, and cross-subsidy to agriculture and households... In 50 years, capacity has increased 55 fold, with 78 million customers, and half a million villages connected. There are however limits to these achievements, and real problems in the sector: half the population is still unconnected, and there are power shortages, weak accounting and metering and huge financial losses.”<sup>55</sup>

On the basis of this analysis, Prayas was able to identify the solution as lying in greater political activity and participation, not less, in advocating the TAP approach, (transparency, accountability and participation – see section 3.3).

### 3.2 Central and local government

#### COMPLEXITY OF RELATIONSHIPS

Simple generalisations on the relationship between central and local government can be misleading. The case studies of successful initiatives in Ceara state, Brazil, for example, (see below) demonstrate that even apparently decentralised projects may involve significant initiatives and extensions of power by state government. The dynamics of the relationships between central and local governments are affected by the historical and economic environment, as well as external factors such as consultants’ reports. A study of Caribbean countries, including Trinidad and Tobago, the Bahamas, Martinique and Suriname found that factors affecting health reforms included the countries’ own historical background, international agents such as the Inter-American Development Bank (IADB), which promoted restructuring by providing funds for specific reforms, and consultants, whose advice was frequently based on ‘international solutions’ (which in practice meant the changes introduced in the UK by the Thatcher government) separating purchaser and provider functions and devolving management.<sup>56</sup>

Simple devolution of responsibilities to local government, without devolving the necessary financial and human resources, limits the ability of local authorities to deliver public services, especially in situations of economic growth and social restructuring. In South Africa, for example, new municipalities have been created, unifying areas that were separated under the old apartheid regime, with the objective of raising standards of service for communities that were previously without. But the success of this is constrained because central government is not expanding the financial contribution of central taxes to the level necessary to support local responsibilities.

In China, new national policies in fields such as health, education and environment are implemented by local authorities in a way that is “neither uniform nor transparent”. Municipalities have new regulatory responsibilities for ensuring services in a context of rapid economic growth, and so



economic and social development are more locally determined than is apparent from the formal allocation of responsibilities. This challenges their financial capacity, despite the availability of taxes on local household and rural industrial profits: "local solutions and resources have to be found to deal with social and environmental issues."<sup>57</sup>

#### TRANSITION COUNTRIES AND ISSUES IN CENTRAL AND EASTERN EUROPE

For the countries in transition from communist regimes, there are particular problems. The centralisation in the former Soviet Union and the former regimes of eastern Europe had stifled democratic mechanisms, created inefficient and unresponsive systems for managing most sectors of the economy and led to economic stagnation and political corruption.

The collapse of the regimes at the end of the 1980s brought an opportunity to restructure and develop the political and economic systems, including public services. But it should not be assumed that all aspects of these services should be changed. The previous system of financing health services from taxation, for example, is demonstrably a better way of running public healthcare than the USA-style private insurance schemes which accountancy firms and management consultants have advised these countries to adopt. The regional water authorities typical of eastern European countries enjoyed economies of scale, similar to those enjoyed by the UK regional water operators (before and after privatisation).

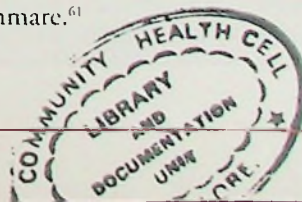
This point was made bluntly in a report by a leading World Bank water official in 1995: *"when one examines the process of reforming the Eastern German water and sewerage industry after reunification... it would appear that the guiding philosophy was simply to make 'them' (the East) look like 'us' (the West). ... The uncritical adoption of the western model in Eastern Germany has had unfortunate consequences in the East. The regional water companies in the East (the WABs) have been disbanded as a vestige of communism. The result has been the proliferation of hundreds of small, uneconomical municipal companies which provide poor quality services at very high costs."*<sup>58</sup>

Even in other former communist regimes, the issues may be different. The Chinese state remains under the control of the communist party, but the economy is growing at an explosive rate, local government is changing rapidly, and the role of public services is changing. Cuba, a much smaller country isolated by an economic boycott, has nevertheless managed to maintain an impressive public healthcare system.

#### 3.3 Political activity and public participation

Decisions over the shape and size of public services are unavoidably political. Political processes often happen in private, with decisions being made behind closed doors. This has been one weakness of public sector organisations, especially those based on a closed centralist model, which deliberately seek to keep state decisions secret and to exclude the possibility of public influence on the result<sup>59</sup>. To obtain better and more democratic decisions and accountability, there needs to be increased public participation and openness in the decision-making process. Political activity needs to be actively encouraged, especially among the poor and disadvantaged who are frequently excluded from decision-making processes in developing countries, where donor agencies and government officials collaborate in a process that excludes poor people.<sup>60</sup> Women are also commonly excluded from participation for cultural or family reasons, yet they bear the greatest burden of inadequate services.

Outstanding examples of new forms of governance aimed at increasing participation come from the south, from Brazil and Kerala state in India (see boxes 3a and 3b). The Brazilian model of participatory budgeting is now attracting attention in Europe. More than 100 Italian municipalities (including Naples and Venice) are setting up an association of local authorities which promotes the introduction of participatory budgets, the explicit model being Porto Alegre. Practical experiments are being set up in Pieve Emanuele, a small commune in the metropolitan area of Milan, and in Grottammare.<sup>61</sup>



In the USA, there is a long tradition of enabling democratic decisions to be made by local participation. Systems enabling local public decision-making on energy policies were set up in the 1930s in west

coast states (see box 3c). Referenda can be triggered – two recent examples were votes in New Orleans over a proposal to privatise water<sup>62</sup> and proposals to municipalise energy in cities in California, follow-

### **Box 3a**

#### **Participatory budgeting in Porto Alegre, Brazil**

The Participatory Budget process (*Orçamento Participativo - OP*) in Porto Alegre is a form of direct democracy, allowing citizens to participate in the neighbourhood they live in or within a particular thematic area and to choose which of their priorities the municipality should implement. It originated in 1989 when a new local government was elected, committed to a programme of tax reform and expenditure, which started using public meetings to ensure broad support for the implementation of this programme.

The OP has significant effects in increasing municipal revenue. Unlike most municipalities in Brazil today which are dependent on national government resource allotments, municipal revenue in Porto Alegre constitutes more than 50% of the total. This has come mostly from easier identification of where the taxes would specifically come from.

OP is a deliberative and transparent process: decisions made are documented, published and strictly implemented. The internal rules of the OP are established by participating citizens, making the process self-regulating. These features of the OP had fostered the emergence of a non-state public sphere.

As in many poor countries, state institutions in Brazil, including banks and state corporations, have historically attended mostly to private and particularistic interests, and not to the general public welfare. ...now the number of people that participate in the OP is growing year after year, and the number of Associative and Resident Entities registered in the OP process today number about a thousand... Priorities became more reflective of the needs of the communities, which is a direct opposite of priorities established by previous governments. It is one reason why 99.5% of Porto Alegre's population now enjoy treated water, and 84% - the highest in Brazil - are connected to sewerage.

...The system has been described as meeting three key public objectives: people's need for a sustainable service, the acquisition of a concern for the sustainable use of the natural resources, and the permanent engagement of citizens in the management of public funds".<sup>63</sup>

### **Box 3b**

#### **Kerala (India) - participative planning**

One country where such approaches are being applied is India, which has a distinctive history of participative democratic structures. An outstanding example is the state of Kerala, in South India, where a new structure, based on massive public participation, has been developed<sup>64</sup>.

This has been acclaimed even by the World Bank, which produced a report stating that: "Kerala's decentralisation programme is probably the largest of its kind in the world. Three million people (10 per cent of the State's population) take part in meetings. This is a far-reaching, innovative and courageous new approach to rural development and local governance... It reflects a profound commitment to a total change in which governments govern to empower disadvantaged groups to voice their demands, and to make institutions responsible and accountable to them."

The system includes massive devolution of funds to local meetings, which are required to draw up plans for deploying them, combined with a systematic effort through publicity to maximise public attendance, resulting in the remarkable public turnout. The state devolved 40% of its budget, organises skilled professional support



to the local panchayats, and provides training for every one of the thousands of councillors elected under this system

Democratic principles are central to the structure itself, not added on. The eight key principles include: *"maximum direct participation of the people; accountability (continuous social auditing of performance) and transparency through the right to information."* The danger of corruption, which was a problem before the new system, is dealt with by a total commitment to transparency and openness of all documents and decisions: *"Total transparency is the only way to check the danger of decentralisation degenerating into decentralisation of corruption. All documents on beneficiary selection, reports and minutes of meetings and all documents on works undertaken by the local bodies through contractors and beneficiary committees including bills and vouchers are public documents. Copies are available on payment of a fee."*

### Box 3c

## Democratic votes for public power utilities in Washington State, USA.

Electricity supply began in Washington State in the 19<sup>th</sup> century, as elsewhere, with some private companies. From 1891 municipal utilities began to develop in towns and cities, including Seattle. Rural residents became interested in obtaining electric light, power and water service under a similar arrangement, and a state wide voter initiative, supported by unions and others, won the support of 61,000 signatories, double the minimum required. Although the state senate refused to enact the law in 1929, it was automatically referred to a direct vote of the people of the state, was passed by a state-wide vote of 152,487 to 130,901 and became law in 1931.

That law provides for the establishment of municipal corporations that encompass elements of private corporations, rural electric cooperatives and municipal utility systems. A People's Utility District (PUD) has the basic business structure of a private corporation, with a board of commissioners who serve in the same capacity as a board of directors; it has the public interest benefit of a non-profit operation, with the low cost public financing methods of a municipal system; and it incorporates the area coverage concept of utility service, as practiced and promoted by the rural electric cooperatives. The law does not make this system compulsory: it enables PUDs to be set up on the initiative of people living in an area.

Today, there are 28 PUDs in Washington state, providing electric, water and/or sewer service. The majority of the population of Washington, more than 60%, is served by PUDs (28%), municipal utilities (21%) and co-ops and mutuals (5%).<sup>67</sup>

A similar system was adopted by neighbouring state of Oregon, whose State Legislature passed an amendment to the Oregon State Constitution in 1931 which also allowed for the formation of people's utility districts (PUDs). Oregon now has six PUDs, supplying 9% of the state's electrical needs: four were formed in the 1940s, and two in the 1980s.<sup>68</sup>

### Box 3d

## Political action

## Transparency, accountability and participation (TAP) in India

An Indian NGO, Prayas, based in Pune in the state of Maharashtra, has made a significant impact in opening up decision-making in energy to public debate. Prayas calls the principles of this process transparency, accountability and participation – TAP – and describes the process it initiated:

*"The Maharashtra Electricity Regulatory Commission (MERC) followed the TAP principle to facilitate a hike in the electricity tariff during 1999-2000. The MERC published a gist of the proposal for a tariff hike in scores of newspapers all over the State. In response, it got a total of 468 objections, in the form of affidavits or plain letters. This is the*

stage at which the Commission made a vital move. Instead of internally processing these objections, it launched a process of public hearings all over Maharashtra - five hearings at divisional headquarters and three in Mumbai.

*Prayas and other groups, like the Mumbai Grahak Panchayat, got intensely involved in providing information and pushing for rigorous transparency. Thus the open-to-public proceedings produced a wealth of detailed information which compelled the MSEB to admit the errors in its own data, projections and analysis. Over a period of six months the MERC, the MSEB and the public virtually worked together to formulate a tariff hike of 6.5 per cent, instead of the original MSEB proposal for 18 percent.*<sup>69</sup>

In 2002, Prayas and the trade unions developed an alternative plan for the restructuring of MSEB. The plan outlined a new 'Public Control Model' for the MSEB, involving 3 key parties – the State Government, MSEB itself, and the unions - and a set of agreed elements:

- Concrete and Quantitative Targets for Performance Improvement (bill recovery, reduction in transmission and distribution losses, availability, etc)
- Operational and Procedural Measures (TAP Participatory Process, regulation)
- Commitments about Duties and Obligations (government to pay subsidy on time)
- Disincentives and Penalties.<sup>70</sup>

### Box 3e

#### New York State (USA): management-union cooperation systems

In New York State, USA, a number of councils in the 1990s have carried out restructuring programmes which have involved a range of formal involvement with trade unions, from labour-management committees to a complex system such as total quality management (TQM).

According to a study of these initiatives<sup>73</sup>, this was based on a recognition of the strength of organised unions, and thus the attractiveness of a 'partnership' approach: *"High levels of public sector unionisation in New York State make internal restructuring through labour-management cooperation an especially important alternative"*. There were clear benefits experienced as a result of this approach: *"These cooperative workplace structures improve communication and broaden participation in decision making, leading to greatly improved management-union relations and employee morale."*

ing the energy crisis of 2001<sup>63</sup>. There are also European traditions of participation through direct citizen votes on propositions. Recent uses of these initiatives in Switzerland and Germany have resulted in votes against privatisation proposals.<sup>64</sup>

#### 3.4 The role of public service unions

Public service unions frequently play an active role in the political process concerning public services, for a number of reasons. Firstly, the representative function means that they seek to improve their members' working conditions by influencing their employers – for public service unions that means the state. Secondly, there is a strong element of professionalism in most public service unions, so

they express a collective view of their members' informed and experienced advice on how services can best be run. Thirdly, they are part of wider trade union movements which have historically been key agents in promoting the development of public services to enhance the lives of working people and their families. Fourthly, they may often have formal relationships with political parties. For example, in many developing countries the trade unions were supporters of parties of liberation.<sup>71</sup>

They are an obvious element of civil society that should be expected to be active in political debates on public services, yet they are sometimes deliberately excluded from discussion. Many consultants, development banks and academics either ignore



### Box 3f

### Sweden: come on!

One of these approaches originated in Malung, Sweden. The restructuring not only involves trade unions and workers in a central role, but was devised by trade unions, and is referred to under the simple slogan of 'Koman!' (which means 'Come on!'). The Koman approach is to place information and planning of work and control of resources in the hands of the workers: *"The members become researchers in their own jobs. They discuss how to improve quality, where responsibility lies and should lie, what are their training needs. They measure the costs of specific tasks, so that each person knows the costs associated with their own job."* The results in Malung were to reduce costs and also to change and reduce the traditional role of the management pyramid.<sup>74</sup>

workers' unions, or actively warn against them as 'dangerous'. At the World Water Forum in The Hague in 2000, the leading Dutch water research institute, IHE, presented a picture of stakeholders in water which included private contractors but did not even mention water workers' or their unions.

This is a potentially damaging blindness. There are obvious reasons why some bankers, politicians and companies should feel that their interests are not always endorsed by the unions, but in an open democratic process these conflicts are to be expected and encouraged. The strongest opponents of public service unions seem ready to describe as 'partners' multinational companies whose commitment to the services of any country can only extend as far as the profitability of that service to its shareholders. It indicates a lack of understanding of the importance of workers in public services.<sup>75</sup>

#### 4. Problems, reforms and the future of public services

Public services cannot remain static and unchanging. They have to deal with internal and external problems. The favoured solutions of many governments and the World Bank may create worse problems, however. To effectively address the issues, the role of labour needs to be recognised, not treated as a problem. Finally, public services have to develop to face an increasing role in the future, with new challenges, an increased demand as countries develop and a more international dimension. This section looks at:

Responding to change: public services are not perfect and have to be improved, but more damage can be done by 'recipes' that insist on structural

reforms to introduce privatisation; services may be especially damaged by reforms driven by a wish to cut government budgets.

Private sector in perspective: empirical evidence shows the private sector is not necessarily more efficient, and multinationals may bring more problems; attempts to use the private sector to raise investment capital have proved less successful in practice than in theory.

The role of labour matters: present day innovations confirm old lessons that proper staffing levels, training and pay are ways of positively delivering better services.

The future of public services: future economic development means that public services will become an increasingly important part of the world economy; they need to expand to deal with new challenges; and international institutions and activity will play an increasingly important role.

##### 4.1 Responding to changes and problems

Public services need to deal effectively with a constantly changing environment, so there is a constant need for change. Changes may be needed to reflect changing demographics, such as the ageing of the population in most European countries, or the impact of AIDS in sub-Saharan Africa; or changing economics, such as the extremely rapid growth in China; or technical developments, like the Internet.

Some problems faced by public services are due to changing politics, for example a reduction in financial resources made available by governments focussed on reducing public expenditure or borrow-

ing. Some of the impact comes from the policies of global institutions, notably the IMF, World Bank and WTO.

Other problems are internal: when services have become ineffective, unaccountable or badly managed; where there is corruption or 'capture' of regulators or politicians by companies; where services are burdened with 'ghost workers' created by clientelist regimes. Such problems must be faced and acknowledged, not denied.

This sub-section looks at public sector reforms, and some common problems, mostly arising from forms of commercialisation.

#### **PUBLIC SECTOR REFORM**

Reforms can take place within the public sector, and efficient services delivered. Many developing countries have extended the coverage of their water and electricity systems through the public sector,

providing an affordable service, and have improved their efficiency in the process. For example, the rural electrification in South Africa<sup>75</sup>, the extension of water and sanitation in mega-cities such as Sao Paulo or their improvement in poor countries like Malawi<sup>76</sup>, or the maintenance of an efficient and financially viable water system in extreme difficulties, such as in Ramallah in the West Bank<sup>77</sup>. Different structures may be a strength – water is usually based on municipal responsibilities, which builds on the advantages of local responsibility and capacity. However, in some countries, nationally-based operations have sustained development of water systems beyond urban centres. This would be threatened if responsibility for water is broken up.<sup>78</sup> Established services in older countries can also adapt and develop their public service roles in new contexts, as shown in the examples from Italy, Germany and France (see box 4a).

#### **Box 4a**

### **Modernised public services in Europe**

The municipality of Cremona owns a multi-sectoral utility, Azienda Energetica Municipale di Cremona (AEM SpA), which operates local public transport services, water, gas, electricity and the disposal, recycling and treatment of waste. AEM has developed an integrated waste management system, under which different types of refuse are collected separately. Organic waste and metals (35% of total waste collected) are recycled; 60% of waste is incinerated to generate energy in a state-of-the-art combined heat and power plant, and 5% is dumped at controlled sites. To improve its performance on selective waste collection, AEMSpA introduced an incentive scheme called "Ciclo and Riciclo". At each refuse collection centre, points are awarded for each kilo of waste which is sorted into separate categories, and these points can be used to gain discounts on public transport and parking season tickets or to obtain a range of gifts that includes televisions and bicycles.<sup>83</sup>

The French post office, La Poste, has 17,000 post offices, the largest network in Europe. It operates 1,048 offices, with 25,000 employees, in deprived urban areas where it is often the last service providing a link with the outside world. A new urban policy agreement signed between La Poste and the French state in March 2002 includes provision for training, career development and recruitment from socially excluded groups.<sup>84</sup>

The Italian post office, Poste Italiane, has created a subsidiary to develop public Internet services. Apart from the usual services offered by commercial IT companies, Postecom has introduced three new services: on-line payment of public utility invoices, free public internet access and email facilities at Post offices, and electronic versions of traditional post office services, an officially-certified secure gate for on-line shopping services.<sup>85</sup>

StadtsparKasse Köln is a non-profit financial services company owned by the municipality of the City of Cologne, Germany. It has 34,000 current accounts, of which one-third are held by people receiving social security benefits. SK's network of branches and staff provide these and other poor sections of society with access to financial advice which they are otherwise unlikely to receive. SK operates under a universal service obligation to accept any customer, which does not apply to commercial banks. SK also supports small and medium enterprises (SMEs) through its loans and has a department responsible for "the promotion of new enterprises", advising about 500 enterprises.<sup>86</sup>



The development of a new public service management needs to continue, based on the principles of transparency, accountability and participation.<sup>79</sup> Public service provision has to make full use of available knowledge, both in the sense of other experiences of delivering the service, and in keeping abreast of new techniques and methods. This will include formalised meetings to share experiences and best practice, a 'mutual self-regulation': one example is the practice of the Dutch municipal water companies who annually compare each other's experiences.<sup>80</sup> Public accountability mechanisms also have a positive role to play, to draw on public knowledge and perception of performance: the Maharashtra Electricity Board gained important insights into their own approach as a result of a public debate.<sup>81</sup> It also involves training and discussion between public service managers and workers on the one hand and the wider academic and technical community on the other.<sup>82</sup>

#### THE PUBLIC-PRIVATE INTERFACE

Part of this modernisation process involves the interface between the public sector and the private sector. This is managed through the procurement systems for awarding contracts for supply of goods, etc. Without privatising the service itself, the value of these contracts is large, and both efficiency and equity gains can be made through transparent and efficient procurement.

Public equity and employment policies can be pursued. For example, procurement rules can require no gender or racial discrimination in employment, and even affirmative action to promote equal employment (as developed by the USA government after WWII<sup>83</sup>); they can require the payment of wages equivalent to public service conditions; or use the sanction of debarment to enforce anti-corruption policies, as the World Bank's procurement rules provide.<sup>84</sup>

Many countries have introduced electronic procurement systems since it is possible to make major gains in transparency and efficiency with a relatively modest investment. All public procurement in the EU now has to go through an electronic portal, the Tenders Electronic Daily (TED). The introduction

of computerised procurement procedures in transition countries, for example, can help reduce costs and stimulate local enterprises.<sup>85</sup>

#### RESTRUCTURING BY RECIPE

One major category of problems facing public services in many countries is 'restructuring by recipe', where structural reforms, invariably involving some form of privatisation, are introduced as a solution, regardless of the actual problems. This may destroy the structural strengths of the system and fail to solve the actual weaknesses. A good example is the railways in the UK, which suffered from chronic under-investment and lack of capacity: the privatisation introduced in the early 1990s has made the problems worse and, by fragmentation of responsibilities amongst commercial contractors, made solving them harder.<sup>90</sup>

Restructuring is not always necessary or appropriate. A recent study of the Danish health system observed that it has rightly avoided the fashion of introducing market forces – it is not broken, so there is no need to fix it. Instead, its very structure is a strength which provides opportunities for further improvements: *"funding is very largely public... a single dominant authority, i.e. the county, which makes planning easier... Low levels of patient payments and the smaller size of the private sector reflect Danish 'solidarity' and promote equity... the GP blended remuneration system with capitation and fee for service is a major strength. The fact that the system has such potential for technical and allocative efficiency and also equity but is not fully exploited suggests the need for more investment in health services research"*.<sup>91</sup>

#### FISCAL PRESSURES

The primary motivation, worldwide, for privatisation of public enterprises is to cut public deficits or reduce debt levels. Selling the services generates cash which will improve the budget. This may be needed for local reasons, if there is a special local problem (for example the fiscal crisis in Berlin in the late 1990s, which was the justification for selling the gas, water and electricity operations) or a national policy to cut back the public sector; or a requirement of IMF structural adjustment poli-

cies.<sup>92</sup> This may be the only motivation for public-private partnerships in some sectors – a Deloitte consultant told a conference on energy in 2003 that “It is getting harder to find political leaders that are willing to truly champion privatization for reasons other than to generate cash proceeds.”<sup>93</sup>

But it can lead to policies which damage the services involved, as recognised in a paper from the World Bank itself: *“In many countries, privatization transactions are spearheaded by the Ministry of Finance, which tends to view the process in narrow transactional terms, with the focus on maximizing the fiscal revenues from the asset sale. This is unfortunate because there are some important trade-offs between the sale value of the assets, and the downstream economic and social impacts of the reform. For example, revenue considerations point toward keeping service tariffs high, minimizing rollout obligations, postponing the introduction of competition, and overlooking many of the details of regulation. However, experience shows that these are precisely the strategies that are likely to be most damaging to the poor...”*<sup>94</sup>

#### THE GLOBAL INSTITUTIONS:

##### WTO, IMF AND WORLD BANK

A major way in which these policies are transmitted globally is through the major global economic institutions – the WTO, IMF and World Bank.

- The World Trade Organisation (WTO), through the General Agreement on Trade in Services (GATS), is creating potential extra pressure for privatisation of public services, including health-care<sup>95</sup>. The key element in GATS is for countries to make ‘commitments’ to open a sector to trade. Countries are not obliged to open sectors, but can do so, and can be requested to do so by others. The EU’s negotiators in GATS have requested many countries to open their water services.<sup>96</sup>
- The IMF lays down strict conditionalities, which may include requirements on public services, for a country receiving its financial support. The conditionalities for Tanzania, for example, have included requirements to charge for hospital visits and to impose school fees.<sup>97</sup>

- The World Bank actively promotes privatisation as a matter of policy in many public services, including water and energy. The bank has a division called the International Finance Corporation (IFC) which can only invest in the private sector, and so all its investment in healthcare in Africa, for example, has been to support private hospital ventures and similar enterprise.<sup>98</sup> The bank also imposes de facto conditionalities on many loans – for example the prospective loan to Ghana for water is in effect tied to Ghana privatising the system in Accra.<sup>99</sup>

#### CHERRY-PICKING: SEPARATING THE RICH

One of the greatest source of weakness for public services is ‘cherry-picking’, where the affluent are able to purchase better quality services for themselves alone and avoid contributing to the public service. It undermines the financial solidarity on which public services are based, undermines the political consensus needed to sustain public services, and draws resources away from those services into a consumer-oriented market. It may be exacerbated by cutting back of resources dedicated to public services, which reduces the quality of the public service and encourages those who can pay to buy themselves more resources from the private sector.

Social Watch identified this process in Costa Rica: *“where quality public education has been a major factor in social equity and high living standards, a private school boom now draws better-off students away from public schools with declining resources... Thus, education has changed from being a mechanism for social mobility to becoming an instrument of status and exclusion.”*; in Malaysia, where *“two systems have emerged: higher quality private education for those who can afford it and poorer quality public education for those with low incomes”*; and in Germany’s health care system, where richer people are allowed to opt out of the statutory health insurance funds and buy private insurance more cheaply, so that the statutory funds have to carry a larger proportion of higher cost members.<sup>100</sup> This development of two-tier services whereby the rich pay for their own services, privately, and the poor



are left to pay for their own treatment through an increasingly poor public sector, which thus falls into a downward spiral. As a result the private sector, for example in healthcare, has grown, even in the poorest countries in sub-Saharan Africa.<sup>101</sup>

## 4.2 Private sector in perspective

Public services necessarily have an economic and political interface with the private sector. To varying degrees, public services use goods, construction works and some services from private companies. These relations need to be dealt with through procurement regimes, which lay down transparent rules for buying in these goods (see above). But the wave of privatisation, or public-private partnerships, goes beyond this and uses the private sector to restructure services in a commercial framework. This ideology-driven process claims to increase efficiency and provide investment capital, without affecting the services themselves. Experience shows that these claims are not justified, and that they may create extra problems.

### RELATIVE EFFICIENCY OF PUBLIC AND PRIVATE FIRMS

It is often assumed that the private sector is 'obviously' more efficient than the public sector, but both empirical evidence and theory suggest that this assumption is wrong. Finnish economist Johann Willner reviewed empirical evidence from comparative studies in a range of sectors, which showed that public ownership is no less efficient in more than half of the studies. Willner's theoretical analysis also concludes that political intervention may actually produce better results in oligopolistic markets, even if politicians are biased in favour of higher output and/or employment, and even if it creates 'over-manning'.<sup>102</sup>

One example of public sector efficiency is healthcare. The USA's commercialised system costs 13.6% of GDP, while the UK's national health system costs only 6.7% of GDP, yet the infant mortality rate in the USA is worse than in any other OECD country.<sup>103</sup> One reason is that up to a quarter of health spending in the USA goes on the bureaucracy of payments and billing. In electricity, a worldwide comparison of public and private companies found that the ownership made little difference.<sup>104</sup> The

public sector may even be better at delivering productivity improvements. A review of the industries privatised by the Thatcher governments in Britain found that most of the improvements in productivity came before privatisation, not afterwards, and municipal refuse collection services improved as much as privatised ones.<sup>105</sup> Examples of public sector efficiency can be found even in the poorest countries: the water authority in Lilongwe, Malawi, reduced its leakage rate to 17% in the 1990s<sup>106</sup>, better than Thames Water managed in the UK in 2001<sup>107</sup>.

By contrast, the legitimacy provided by public ownership is a real strength. During a drought in the UK in 1976, when water was under public ownership, there was an appeal for the public to cut consumption of water – the response was a reduction of about 25% in usage. But in the similar drought of 1995, the public made very little reduction in their usage in response to appeals by the privatised water companies, because the companies were seen as greedy exploiters of the water monopoly and so not entitled to public support.<sup>108</sup>

### UNEQUAL BARGAINING POWER

A series of economic gains can be made by the private sector at the expense of the public sector and the public itself, during and after the process of privatisation. This is because privatization is "typically characterized by asymmetric bargaining conditions. In the moment of divestiture, public capital was transferred to few rich investors (domestic or foreign) at particularly favourable conditions. ... In the cases of Brazil and Argentina, national governments were cash-stripped, trying to sell the utilities as fast as possible to overcome political and social opposition... Besides reaping many of the benefits stemming from the pre-privatization efficiency-enhancing restructuring still under public ownership, new private owners were able to capture quasi-monopolistic rents, thanks to further labour shedding, price increases, and access to state of the art technology, which was not achievable under the chronically under-financed public regime."<sup>109</sup>

A central problem is the relative lack of capacity of public authorities to deal with generally large multi-

national companies focussed on profit objectives. In France, which has the longest experience of such concessions to build roads, water works and other infrastructure, an official report observed that the system *"left elected councillors on their own, without support, to deal with conglomerates wielding immense political, economic and financial power."*<sup>110</sup>

The impact of strategic behaviour by companies has been dramatically demonstrated in a global study of infrastructure construction contracts for railways. The study found that the actual final cost of these contracts was always consistently far higher than the original estimates. A statistical analysis confirmed that the one coherent explanation of this phenomenon is "systematic lying" on the part of the companies.<sup>111</sup>

### **CORRUPTION**

Privatisation of many services generates valuable long-term contracts which in turn create incentives and opportunity for corruption. MNCs have been engaging in international corruption for years, provoking legislative action by OECD countries to try to and curb this. The World Bank has procurement guidelines, but still finances multinationals with records of executives convicted for corruption in developed countries (including Suez and Veolia).<sup>112</sup>

When countries identify corruption processes in an international privatisation transaction, the reaction of International Financial Institutions (IFIs) and OECD governments is invariably to defend the company and pressure the government to abandon legal proceedings for corruption. One example was in Pakistan, where Hubco (then majority owned by UK's National Power) had engaged in corruption to obtain a power purchase agreement (PPA) whereby the country's power authority WAPDA guaranteed to buy all the output at a price which was greater than the price at which WAPDA was selling to consumers. This agreement was obviously unsustainable, and WAPDA suffered a major crisis. Both the UK government and the World Bank discouraged Pakistan from continuing to investigate the corruption case, on the grounds that it would 'undermine investor confidence in

Pakistan'.<sup>113</sup> Instead, the army took over the running of WAPDA, banning trade union activity as they did so, in what turned out to be a dress rehearsal of a subsequent military takeover of the entire country.

Another was in Indonesia, where the World Bank's Multilateral Investment Guarantee Agency (MIGA) guaranteed a corrupt PPA entered into by Enron with the Suharto government. The electricity authority was unable to pay, Enron claimed compensation from MIGA, and MIGA reclaimed it from the Indonesian government, despite protests, threatening that it would never reinsure investment in Indonesia again if they refused to pay.<sup>114</sup>

### **CORPORATE CROSS-SUBSIDIES**

Privatisation means loss of public but not private cross-subsidy. Multinationals operate a global system of obtaining profits from various operations in a range of countries and then redistributing it and investing in other places. This is central to multinational companies and a lot of the trade deals, e.g. Energy Charter are precisely meant to permit shifting money from country A, sector 1 to country B sector 2. The extreme example of this is Vivendi in January 2000 – having borrowed a lot of money to invest in media and telecomms, the company created a new 'environmental division' covering water, energy, waste, and transport (now a separate company, Veolia). Vivendi loaded all the group's debt (\$22bn) on that section, while the communications division became 'debt-free'. The water, waste and energy customers of Veolia are still paying extra interest on all their bills.

### **MULTINATIONALS CAN WALK AWAY**

Multinational companies cannot make a long-term commitment to public services in any particular country as their primary responsibility is to shareholders. Nor can they commit their shareholders to remain in any venture which ceases to make an adequate risk-adjusted return on their capital. So their involvement in delivering services can be tenuous, subject to review if anticipated returns aren't delivered. A recent example is the policy announced by Suez to withdraw from one-third of its investments in developing countries<sup>115</sup> and the announce-



ment by their subsidiary in Manila to withdraw from a water concession in the Philippines which still had many years to run.<sup>116</sup>

There are also examples of multinationals exiting from public transport in sub-Saharan Africa. Malawi privatised its bus company to the UK-based multinational Stagecoach in 1995. As long as it was a monopoly, the multinational was successful. But in 1997 Stagecoach pulled out because it could not cope when liberalisation and competition were introduced. *"The liberalisation of the passenger and commercial transport sector pushed Stagecoach to the wall when competition from private operators starting eating into vehicle investment and capital returns."* The public authorities were left with having to provide services, so Stagecoach's shares in the bus company were bought back by a state holding company because the service was too important: *"it is government policy to maintain the present operations of the company."*<sup>122</sup>

A year later, a similar sequence of events took place in Nairobi, Kenya, which had also privatised its buses to Stagecoach. In September 1998, Stagecoach sold its Kenyan bus company. It was making a loss, and parliament had decided to revoke the

company's 60-year monopoly and expose it to competition.

Stagecoach declared 160 drivers and conductors redundant within six months. It raised fares to high levels, sometimes more than the rates charged by taxis, and then abandoned loss-making routes. But it was still unable to operate profitably, and so pulled out altogether. The service was taken over by a new company set up by Kenyans, which reduced fares substantially.<sup>123</sup>

#### **RISKS IN PRIVATE FINANCE**

Both in developed and developing countries, public services are under stress because of policies aimed at using the private sector to finance capital investment in exchange for long-term guaranteed contracts. For governments, this holds down public sector borrowing, which is a policy target for many governments and invariably a formal requirement of the IMF. For the public services, it means that money is inflexibly committed to pay a private operator under a contractual obligation for the next 20 or 30 years, and that operator has a clear incentive to sustain its profit by maximising the payments it demands and limiting the resources it provides to the service.

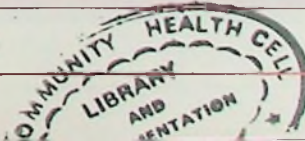
#### **Box 4b AES leaves Europe, Africa, Asian energy operations**

The energy multinational AES has also shown a clear readiness to leave operations which turn out to be insufficiently profitable. In August 2003, it walked away from the largest power station in Britain, Drax (which generates 8% of the UK's electricity) because the fall in electricity prices had made it unprofitable.<sup>117</sup> Later that same month it announced it was walking out of a huge and controversial hydroelectric project, at Bujugali in Uganda, leaving the Ugandan government to try and find an alternative company, or develop an alternative energy policy.<sup>118</sup>

Two years previously, it had done the same in India. In 1999, AES bought one of the distribution companies in Orissa, one of the poorest states in India. A month later, a cyclone devastated Orissa and killed tens of thousands of people, destroying homes and villages and parts of the electricity network. AES said it had not insured the network and so either the Indian government should compensate AES for the \$60 million cost of rebuilding the network, or the people of Orissa should pay three times as much for their electricity. Dennis Bakke, CEO of AES, reportedly said "People have to bear the cost if the government does not share the burden".<sup>119</sup> Although the point of privatisation was to deal with the financial crisis in the system, AES started defaulting in their payments to the state-owned Grid Corporation of Orissa (Gridco) for bulk supply, which in turn meant Gridco had no funds to buy the electricity. In July 2001, the AES directors resigned from the distribution company.<sup>120</sup> By the end of August 2001, the regulator effectively had to take over, with employees threatening to strike because they had not been paid and consumers taking to the street to protest against growing power cuts.<sup>121</sup>

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The private finance initiative (PFI) in the UK requires public authorities to use this system to build hospitals, repair schools, construct prisons, build sewerage treatment plants and even develop a new national insurance system. With hospitals, the cost of PFI schemes has invariably been higher than originally forecast, requiring 30% cuts in bed capacity and 20% reductions in staff in hospitals financed through PFI.<sup>124</sup> An official audit report on PFI in schools warned that expected savings were not being delivered and that *“there is a strong case for changing capital funding incentives to enable options other than PFI to be pursued equally advantageously. This would open up the PFI mechanism itself to competition.”*<sup>125</sup> One PFI project to improve schools in north London resulted in an extra costs of £6.25m for the council, due to lack of provision for items like desks, chairs and cabling for computers.<sup>126</sup>

In developing countries, similar approaches are being adopted for infrastructure investment, especially in water and electricity. Water concessions of 30 years or more have been given to multinational

companies as a device for attracting investment. In practice, many of these concessions have seen increases in prices, less investment than anticipated, inability to deal with currency devaluation or demand falling short of projections and a loss of control by public authorities.<sup>127</sup>

In the UK, where water privatisation was justified as a way of bringing equity investment into the sector, the private water companies have responded to tougher price controls by withdrawing nearly all equity and replacing it with debt finance – the classic form of finance used by public authorities. Yet public authorities can invariably obtain loans at lower interest rates, and so the return to debt finance is in effect a rejection of the central rationale for privatisation.<sup>128</sup>

#### **GUARANTEES, DEBT RELIEF AND THE LIMITS OF FDI**

The debt burden of governments has been identified as a serious problem from all perspectives, and so a programme of debt relief for highly indebted poor countries (HIPC) has been created, following international pressure. Developing countries are required by the IMF to reduce public sector

#### **Box 4c**

#### **World Bank and the 18th century**

When the World Bank and others advocate provision of services and infrastructure through delegation to private companies, they are not describing an innovation of modern globalisation. They are describing a system which is fundamentally the same as existed in 18<sup>th</sup> century Europe. They echo the views expressed by the pre-Victorian British prime minister, Robert Peel, who told Parliament in 1828 that *“an improved supply [of water] ought not to be provided by the government, nor the expense borne by the public. If so, the supply would never be procured at so cheap a rate as it had hitherto been at the charge of individual projectors [=private companies] ...the interference of government is likely to be very unpopular, as an interference with private property.”*<sup>129</sup> A few years later, a cholera epidemic in London showed the limitations of this view, and Mill explained the need for public control of natural monopolies: *“Where therefore business of real public importance can only be carried on advantageously upon so large a scale as to render the liberty of competition almost illusory... It is much better to treat it at once as a public function...”*<sup>130</sup>

Over the next century, the old system defended by Peel was almost entirely replaced by public ownership and public provision because of the inefficiency, costs and corruption involved in the old private system, the ‘ancien regime’ of public services. In the late 19<sup>th</sup> century, the main mechanism of this was municipalisation. Democratically-elected councils bought existing utilities and transport systems and set up new ones of their own, on the basis that they could exercise more effective control, more efficiently, with better employment conditions for workers and with greater benefit to their local population than the private operators. Councils also gained the right to borrow money and so invest in developing their own systems. This development of publicly owned and run local services became known as ‘municipal socialism’ (or gas and water socialism), although there were parallel developments at national level: the Tory and Liberal governments of Gladstone and Disraeli nationalised the telegraph system, the Tory and Liberal governments of Balfour and Asquith nationalised the new telephone system.



borrowing as part of their conditionalities for support and for being eligible for HIPC. However, the pressures of privatisation in public services create in parallel an increasing burden of debt obligations on governments through three main mechanisms.

Governments are expected to give guarantees to underwrite any loans taken out by private companies for investment in privatised services. For example, the Philippine government underwrites the loan taken out by one of the privatised water companies with concessions in Manila, Maynilad; the Polish government underwrites the loans taken out by the private consortium of multinational companies (MNCs) constructing Turow power station; the Peruvian government guarantees the bonds issued by the private consortium running the Rio Chillon water project. Public authorities are also expected to give guarantees to purchase output, in the form of take-or-pay agreements. Most so-called independent power producers (IPPs) are supported by power purchase agreements (PPAs), under which a public authority undertakes to buy the power at a profitable price, regardless of need. Similar long-term take-or-pay agreements support bulk water projects built with private finance at Izmit, Turkey, Rio Chillon, Peru, and Chengdu, China; and the 'shadow toll' payments guaranteed by the UK government to consortia constructing new roads under PFI schemes.

The contribution to investment in public services in developing countries from foreign direct investment (FDI) has been less than expected by market enthusiasts—and far less than commonly believed. As shown in the graph below, FDI remains much less significant for developing countries than capital investment within the countries themselves. FDI may not even be additional investment, especially where government guarantees are used, as the country's international credit

exposure will limit the acceptable total of guaranteed international loans underwritten by the government. So in 2003, when international private capital is avoiding many developing countries, "*Domestic savings is the key source for domestic infrastructure finance largely through pension and insurance funds and bank loans*".<sup>131</sup>

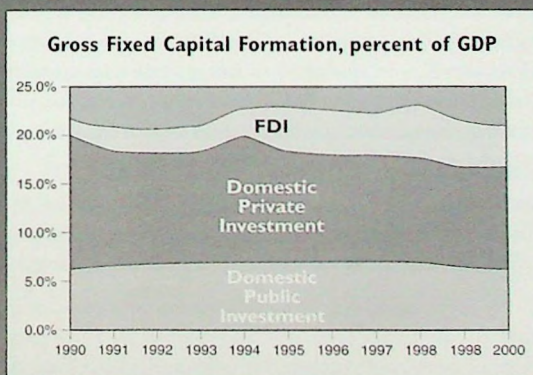
### 4.3 Labour

#### LABOUR CENTRAL TO SERVICE

In some public services, especially education and healthcare, the service mainly consists of workers themselves: the teachers, nurses, doctors, paramedics, cleaners. In business terms, these services are labour intensive. This means that the quality of these services is strongly and positively linked to both the volume and the quality of labour: in education, the pupil-teacher ratio is universally used as a measure of the quality of education delivered: the more teachers, the better. This is recognised by those who pay for private schools or hospitals, where they expect to find more teachers and smaller classes, more nurses and more highly qualified doctors.

The importance of staffing can be seen very clearly in education. When countries eliminate fees for primary education, the number of pupils increases sharply. However, without employing extra teach-

## Domestic capitals flows predominate



Percentages above are annual averages for 111 developing countries.  
Source: World Bank and IMF data.

Source: Deloitte's 13

ers this may reduce the quality of education. In Malawi, the result was that teacher pupil ratios shot up, because no more teachers were employed. Malawi has attempted to reduce the ratio from a level of 110 pupils per teacher, partly by using para-professional staff, but staffing levels and quality are still identified as problems by users.<sup>133</sup> In Uganda the results were similar: the pupil teacher ratio rose from 38 to 65 nationally, and from 48 to 70 in rural areas.<sup>134</sup>

The globalisation of the labour market presents particular problems. Public health and education services in developed countries have used skilled labour from developing countries since WWII. Recently the issue of migrant labour has become a more serious problem, with developed countries not being prepared to invest in training enough nurses and teachers and instead relying on a pool of skilled workers from South Africa, Caribbean countries, the Philippines and elsewhere. This has two particular effects: it allows developed countries to acquire skilled staff cheaply, and denies the developing countries a return on the investment they

have made in training staff, with a consequent impact on their public services and economies. In some instances, developing countries replace these skilled staff with lower paid, less skilled workers, to the detriment of service quality. The GATS provisions of the WTO may make this problem worse.

#### PAY AND CONDITIONS – EFFECT ON SERVICES

Low pay or insecurity affects the quality of service delivered by health workers. Low pay can lead to informal charging of top-up fees for access, health workers taking on second jobs or moving into the private sector. In central and eastern Europe, major problems were created by the late payment of wages to health workers, partly as a result of fiscal crises, partly as a result of crowding out by spending on drugs.<sup>135</sup> The importance of fair wages is also obvious in relation to workers who collect taxes – a point made as long ago as the 18<sup>th</sup> century by the political philosopher Tom Paine (see box 4d).

To generate improvements, improved pay needs to be combined with adequate capacity building through training. A “New Deal” scheme for the

#### Box 4d

#### Tom Paine and the tax collectors

The importance of a properly paid labour force in public services was highlighted in the 18<sup>th</sup> century by Thomas Paine, author of “The Rights of Man”. In 1772 Paine was working as a local collector of excise (indirect) taxes for the Customs and Excise service in England, when he wrote a pamphlet in support of a petition by the tax collectors for a pay rise.<sup>136</sup> Paine pointed out that the problems of corruption and incompetent staff were leading to a loss of revenue: *“Scarce a week passes at the office but some detections are made of fraudulent and collusive proceedings... Of late years there has been such an admission of improper and ill qualified persons into the excise that the office is not only become contemptible, but the revenue insecure.”* He argued that a well-paid and well-qualified staff would be less susceptible to corruption and generate more revenue for the state: *“the most effectual method to keep men honest is to enable them to live so... An augmentation of salary sufficient to enable them to live honestly and competently would produce more good effect than all the laws of the land can enforce... The officers would be secured from the temptations of poverty, and the revenue from the evils of it; the cure would be as extensive as the complaint, and new health out-root the present corruptions.”*

Paine was sacked by the government for writing the pay claim. His subsequent writings, “Common Sense”, “The Age of Reason” and “The Rights of Man” became internationally famous. He played a leading role in the American revolution of 1776, and was made an honorary deputy of the French national convention after the revolution of 1789.<sup>137</sup>

In less than 30 years, however, positive employment policies enabled England to develop an effective tax collection machinery. The introduction of income tax in 1797 provided a sustainable source of revenue which grew steadily in importance and was reliably collected; the crucial step was the attention paid to its labour force: *“The main explanation of the new efficiency was that for the first time the government succeeded in training a reliable and effective staff of tax collectors.”*<sup>138</sup>



health services in Cambodia provided increased incomes for health workers together with subsidies for fees for poor people. Access improved but there were still problems with the quality of care. The report concluded that more training and capacity building is needed if quality of services is to improve (Van Damme and Meessen, 2001).

A striking example of the potential of improving services through improving pay comes from Bangladesh (see box 4e).

#### **AUTONOMY AND COMMITMENT**

Public services workers – especially professional workers – are usually expected to accept greater responsibility and commitment to their work, beyond the normal economic incentives of pay received for work done. This relative autonomy is a source of productivity, not just in the sense of hours worked, but also in delivering a better qual-

ity service – a teacher is more likely to teach a good lesson if left to her or his judgment, than if instructed in detail what to do. One of the problems of privatisation, contracting-out or the introduction of greater ‘private sector style’ managerial practices into the public sector is the potential weakening of this strength of effective public sector organisations.<sup>141</sup>

The experiences in Ceara state (Brazil) (see box 4f) show how reform and innovation in public services can harness the commitment of workers, coupled with positive encouragement of public participation and scrutiny, to deliver new services effectively.

#### **PUBLIC SECTOR AS POSITIVE EMPLOYER**

Public services have been key providers of employment. As automation reduced the demand for labour in production industries, public services have been

#### **Box 4e**

### **Dhaka, Bangladesh doubling water workers’ pay improves service and finances (just like Henry Ford)**

The Dhaka Water and Sanitation Authority (DWASA) was created in 1963 as a public sector utility to cater for potable water, sewerage and storm water drainage of Dhaka, the capital of Bangladesh. By the 1990s DWASA was financially and operationally inefficient, with high system loss. The World Bank (IDA) proposed a new loan, conditional on institutional reform, a privatization study and experimental privatization of revenue billing, collection and other activities. The unions countered with proposals to test the supposed virtues of privatisation, and finally the IDA, DWASA, government representatives and trade unions agreed to test one Revenue Zone under the private sector and another under an employees’ cooperative, for a trial period of one year.

The Employees Co-operative (EC) clearly out-performed both DWASA and the private contractors. In the EC zone, revenue increased substantially, and ‘unaccounted for water’ was reduced. The EC’s success was based on buying integrity by doubling the salaries paid by DWASA; and exploiting the experience and knowledge of the workforce through participative decision-making. Consumer satisfaction also went up. The privatised EPC failed because of lack of past experience, a top-heavy management and a failure to draw on grass roots knowledge. DWASA’s zones continued to fail because of bureaucracy, poor pay, attendant corruption and inefficiency.

The poor and slum dwellers also benefited from the EC, because the workers made normal household connections which DWASA rules normally prohibited. Under these rules, water could be supplied (at nominal cost) to very poor households, but only if they officially owned land in DWASA’s area – since the majority did not, they had to resort to buying water from private vendors at more than 10 times the normal price. The EC connected many of these households, and collected charges at the normal household rate, bringing higher revenue to DWASA and cheaper and more reliable water to the poor.<sup>140</sup>

This repeats what Henry Ford did in 1914, when he doubled autoworkers wages from \$2.50 per day to \$5. Turnover of staff and absenteeism fell, while labour productivity at Ford rose by an estimated 51 percent that year.<sup>140</sup>

## Box 4f

### Good government in the tropics Ceara state, workers and initiatives

In the 1980s the government of Ceará state in northwest Brazil introduced a series of reforms (including controlling the wages bill by cutting payments to non-existent 'ghost workers') and *"introduced some outstanding and innovative programmes in preventive health, public procurement from informal producers, ... a large emergency-creating public works programme"* and agricultural extension services.<sup>142</sup>

A book on the projects by Judith Tendler concluded that all the programmes *"showed signs of high performance and significant impacts. In preventative health, infant mortality declined and vaccination coverage increased dramatically. In agricultural extension, the output and productivity of client farmers increased significantly and measurably. The procurement programme did the same for its small-firm suppliers, in addition to causing significant spillovers in the form of local economic development. The programme of public works construction during the drought emergency created jobs more rapidly than usual, succeeded in dedicating an unusually high share of expenditures to labor as opposed to equipment and administration, and decentralised the distribution of jobs, projects and relief supplies."*<sup>143</sup>

Tendler identified four crosscutting explanations for better performance, running through all the cases.

Firstly, *"the workers in these programmes showed high dedication to their jobs"* – a factor which she suggests is ignored by 'mainstream' development advice.

Secondly, *"government itself fed the high dedication of these workers with repeated public demonstrations of admiration and respect for what they were doing. It built a sense of calling around these particular programmes and their workers. It publicised the programmes incessantly, even their minor successes. It gave prizes for good performance, with much pomp and ceremony... All this contributed to a new respect for these workers by the public – remarkable in a time of widespread contempt for government."* Again, this is contrasted with *"development advice where the public servant is presumed guilty of self-interest unless proven otherwise"*.<sup>144</sup>

Thirdly, workers carried out a larger and more varied set of tasks than normal, especially in developing closer connections and responsiveness to their clients, which created trust and respect between clients and public servants: contrasting with traditional development advice which restricts workers' discretion to the programme specification.

Finally, systems of public monitoring of work were developed so that the work done was responsive, and the workers themselves were constantly monitored by an informed and expectant public. Communities were actively encouraged to make demands on public authorities and their workforce, the government made sure that the public knew exactly what hours workers were expected to work. This was the other side of the constant publicity, in which the government urged communities to act as monitors: *"this programme is yours and it is you who will determine its success... make sure that those who are chosen abide by the rules ... if these rules are breached ... we want to hear about it"*.<sup>145</sup>

The cases also challenge simple notions of the virtues of 'decentralisation', especially through weakening the central state. The cases involved decentralisation of activity, but show a 'three-way dynamic' between central government, civil society and local government. In some respects, the state government actually reduced the discretion of local government by imposing standard criteria and taking over responsibility itself, for example over the selection of candidates for employment, or of projects to be funded. The state played a key role in inducing democratic and citizen activity, for example through publicity campaigns and even, in the drought relief programme, insisting on the creation of a new municipal council. The state governor who led the initiatives himself gained position with the support of a group of modernising business people.<sup>146</sup>

the key source of growth in employment from the mid-20<sup>th</sup> century onwards. This has been especially important for women, who make up a much higher proportion of the workforce in services such as health, education and social services. These sectors

have been a major source of employment in medical, paramedical, nursing, cleaning and catering jobs

Conversely, privatising these services can lead to casualisation of jobs and lower wages. A study from



British Columbia, showed that privatising health care support would sharply reduce wages for staff, 85% of whom are women. In a contract awarded to multinational company Compass in 2003, wage levels for health care housekeeping staff were reduced to 1984 levels. This reflected the experience with the systematic contracting-out of health-care and municipal services work in the UK under the Thatcher government, which targeted the low-paid and overwhelmingly female staff employed on cleaning, catering and laundry tasks.<sup>147</sup> Some sectors have also played a major role in national labour markets as a training and development agency. In some countries, the railway system not only employed a significant proportion of the workforce, it was also responsible for a large proportion of apprenticeships and training in many occupations, including maintenance, welding and similar engineering and construction skills.<sup>148</sup> The same has been true in white-collar occupations. The UK civil service, for example, was the major source of trained computer programmers for the whole country from the 1960s onwards and remains the biggest employer of qualified scientists.

Public services are also most likely to operate affirmative action policies, that is to deliberately give preference to candidates disadvantaged by gender or by race. This has been of great importance in the USA, where in July 2003 the Supreme Court upheld the principle that a university could, under certain criteria, discriminate in favour of Americans of African origin. The ruling was supported by, amongst others, Colin Powell and Norman Schwarzkopf, as the senior ranks of the USA armed forces demonstrate the success of affirmative action. It also demonstrated the importance of positive discrimination for women: one of the Supreme Court judges who supported that ruling declared that she would not have risen to that level without affirmative action.<sup>149</sup>

The public sector also frequently operates as a source of sheltered employment for physically and mentally handicapped workers. This role is socially valuable but reduces productivity of the workforce and so is likely to be threatened if a service is outsourced. When the first private refuse collection contractors

were used in the UK under the Thatcher government in 1981, a worker with learning difficulties was first used by the contractor on promotional leaflets, but quietly dismissed after a few months.<sup>150</sup>

#### 4.4 The future of public services

The role of public services is likely to become a greater part of global society and the global economy. There are three reasons for this:

- Firstly, the inevitable growth of public services in developing countries where they are currently inadequately provided. As these countries grow and their expectations grow, the proportion of their wealth devoted to public services will increase as it has in the past in developed countries.
- Secondly, there are new demands for public services. These include new needs for healthcare, including dealing with AIDS and caring for ageing populations. Public authorities at national and international level are pursuing policies to extend education to everyone, to build the ‘knowledge society’ or the ‘knowledge economy’ of the future.
- Thirdly, globalisation will require continuing extension of the international role of the public sector to support and regulate and contribute to the process.

The changing needs can be illustrated by looking at the role of public services in developing the internet and responding to the needs of information technology, and at the various developments in international public services.

##### NEW REMITS:

##### THE INTERNET AND INFORMATION TECHNOLOGY

The core element of the world’s information network, the Internet, was the creation of public authorities’ defence and university computer systems in the USA, which created networks as deliberate acts of publicly funded policies. It grew from four host computers in 1989 to over 2,000 in the 1990s, during which period private sector use was permitted for *“open research and education...use for other purposes is not permitted”* and was then opened for private use from 1990 onwards.<sup>151</sup>

Public authorities have a central role in the development of Information and Computing Technology (ICT) capacity and in the use of ICT in public services themselves. This involves both direct provision of services, notably education in schools and universities, and public Internet connections in libraries, post offices, schools and elsewhere; procurement and development decisions on acquiring and developing hardware and software; planning functions, for example in managing networks and standards, and the use of Internet in making services and information easily available to the public, known as 'e-government'.

These services are being developed by governments in all countries.<sup>152</sup> Malaysia is one example of a common pattern (see box 4g).

#### MILLENNIUM DEVELOPMENT GOALS AND HUMAN RIGHTS

The 'Millennium Development Goals' (MDGs) are targets agreed by the UN in the year 2000. Virtually all the MDGs explicitly depend on government action through public services. The achievement of universal primary education, the reduction in child mortality, the improvement of maternal health and the combating of HIV/AIDS and other diseases all depend on the extension of public health and education services. The eradication of poverty and hunger – the first goal – also requires not just economic growth but public mechanisms for redistribution: *"growth alone will not*

*bring about improvements in education and health outcomes. Nor will it redress the social and political imbalances that trap people in poverty. To achieve the Millennium Development Goals, poor people must be empowered to take steps to improve their lives, and governments must assist them by ensuring that they can obtain the services they need."* Environmental sustainability includes the target of extending access to clean water supply. Global partnership for development *"requires investment in energy and transport systems, in human skill and knowledge."*<sup>155</sup>

Recognition of international human rights is also extending across public services. In November 2002, the United Nations Committee on Economic, Social and Cultural Rights declared access to water to be a fundamental right, and that water is a social and cultural good and not only an economic commodity. The 145 nations that have ratified the International Covenant on Economic, Social and Cultural Rights are now bound by the agreement to promote access to safe water *"equitably and without discrimination"*.<sup>156</sup> The United Nations Commission on Human Rights (UNCHR) has released a report that urged WTO member nations to consider the human rights implications of liberalising trade in services, especially health, education and water.<sup>157</sup>

#### INTERNATIONAL PUBLIC SECTOR AND GLOBAL PUBLIC GOODS

A global public sector already exists in the shape of the various great international institutions of the

#### Box 4g

#### Malaysian development of ICT and e-government

The Malaysian government has set up a national ICT committee, which is working to develop capacity for the country. Programmes are divided into five main headings, involving a wide range of public agencies. These include developing programmes for education, training and capacity building, support for e-business, financing a "Universal Service Obligation" to ensure the extension of networks into poorer and rural areas and the use of the internet for "e-government" services. A pilot project is being run in Subang Jaya to transform the municipality into a smart interactive community centre.<sup>153</sup>

Malaysia has also helped Afghanistan with positive advice on how to develop IT in a country with little resources or infrastructure. The key message was *"to seriously consider OSS [Open Source Software - non-commercial free systems such as Linux] as the initial outlay for this software is a fraction of the cost of licensed software. Also, the global OSS community is large, which means technical support will be more accessible. India, which is close by, is a vocal proponent of OSS. Another advantage is that programmers can be trained quickly from an early age using OSS and the technical support network that is available through the Internet. This will have a great impact on education."*<sup>154</sup>



United Nations (UN), the World Health Organisation (WHO), the World Bank (and the regional development banks such as the Asian Development Bank) and the World Trade Organisation (WTO). Like national states, these institutions may prioritise private interests over public concerns, but they are undeniably public sector bodies created by collective political initiatives and financed from taxation. They have specific public service remits: the WHO in health, UN agencies such as UNESCO in education, and the World Bank in respect of economic development (its practice, however, may fail to deliver its remit.)

One general approach to international public goods was advanced by the UN in 1999 through the idea of 'global public goods' which need to be delivered and financed through international public sector mechanisms.<sup>158</sup> Environmental issues are one category. The clean air legislation of individual countries is now supplemented by international conventions on atmospheric pollution, such as the Montreal and Kyoto protocols on the reduction in emissions of CFCs and CO<sub>2</sub>. International regulation of fishing is the central mechanism for conserving fishery stocks.

Health issues are another category. Co-ordinated efforts to control infectious diseases through vaccination resulted in the global eradication of smallpox in the 1990s; international action is central to efforts to control AIDS and HIV, including the subjecting of economic issues such as the manufacture and sale of drugs to international decisions based on welfare and public interest. The World Health Organisation (WHO) has a key role in monitoring such diseases, as shown during the recent outbreaks of severe acute respiratory syndrome (SARS).

Knowledge and communications are another category where there is increasing need and scope for international action. Access to the Internet is becoming essential for education and thus for development: "*the efficient production and equitable use of global knowledge require collective action*"<sup>159</sup>. Patents on knowledge have to be international to be effective, and now subject to agreements through the

TRIPS mechanism of the WTO. This highlights the importance of developing an international public service approach to these issues. The WTO discussions treat intellectual property rights solely as a question of trade liberalisation or restrictions, and neglect the public interest in ensuring widespread use of beneficial inventions such as drugs, the respect and encouragement of non-patented inventions and the developmental needs of countries other than those with corporate patents and legal support systems to match.

There are an increasing number of suggestions for developing global systems of public finance and taxation to support global services. This would have the advantage of a much greater tax base for more effective redistribution, a challenge articulated by a South African government official who asked: "*What is the Global Public Finance equivalent of ending apartheid?*" The best known suggestion is the proposal of the Nobel Prize laureate James Tobin for a tax on international financial transactions; other suggestions include the use of a surcharge on international air travel, using part of the fees paid to the World Intellectual Property Organisation (WIPO) to support neglected research on tropical diseases and agriculture or basic education for all.<sup>160</sup>

#### **MUTUAL SUPPORT: PUBLIC-PUBLIC PARTNERSHIPS (PUPs) AND OTHER ACTIONS**

Other forms of international cooperation and action are developing. They include the general notion of public-public partnerships (PUPs) whereby existing, experienced public service agencies partner others to help them build capacity, on the basis of mutual support, not for profit.

The outstanding example of this is the case of the support provided for municipal water and sanitation companies in the former communist states around the Baltic Sea: Estonia, Latvia, Lithuania and Poland. The support itself came in the form of capacity building through twinning arrangements, financial aid and development bank loans.

The Helsinki Commission (HELCOM), an international collaboration aimed at cleaning up the pollution in the Baltic Sea, played an important

role. It included EU countries and development banks as well as the transition states. A key part of its activities was a Baltic Sea Joint Comprehensive Environmental Action Programme (JCP), which identified problem 'hot spots' needing wastewater treatment in all the river basins draining into the Baltic, and channelled technical and financial resources to deal with these as common issues. The PUPs formed part of this: for example, in Lithuania, there were projects to develop wastewater plants at Kaunas, funded by the EBRD, and advised and assisted by public sector bodies from Finland (the Finnish Environment Institute) and twinning arrangements with Stockholm Water. Similar twinning arrangements were made between other Swedish municipal companies and water authorities in Estonia, Latvia and Lithuania. A review in 1998 concluded that this approach had worked well.<sup>161</sup>

## 5. Conclusions

The main conclusion of this booklet is that public services are of central importance for social and economic development and that they are based on political choices which in turn depend on active citizen participation.

Attempting to discourage the role of politics, or treating these sectors as actual or potential markets, weakens the social and national cohesion brought

by public services. A number of other points should be made:

### *CHOICES AND REFORMS*

Countries and their elected governments must be able to make decisions on the form and shape of public services. Problems need to be addressed locally and publicly. Democratic mechanisms have to be the key instrument for curbing incompetent or disastrous policies, rather than policies imposed by bankers' conditionalities or regional and global trade rules.

### *SOCIAL SOLIDARITY, CITIZENSHIP AND TAP*

Priority needs to be assigned to the universal, mutual solidarity function of public services – not their potential as a market. This necessarily involves a redistributive taxation policy. The principles of transparency, accountability and participation (TAP) deserve widespread adoption and implementation, through participatory models of political control. Political activity is a positive and necessary element in ensuring quality public services

### *GLOBAL SOLIDARITY*

International provision and support become more important in the future of public services. The development of more solidarity mechanisms like PUPs, collaborative international public service policies and the possibility of global public financing mechanisms need to be explored.



## Notes

- <sup>1</sup> W. Hardy Wickwar, *The Public Services*, (London: Cobden-Sandersen, 1938)
- <sup>2</sup> Wickwar, p.66
- <sup>3</sup> The role of the Post Office research laboratories at Dollis Hill, London, played a key role in the code-breaking activities at Bletchley Park, which was one of the origins of the first computers. Andrew Hodges, *Alan Turing: The Enigma*, (London: Random House, 1938)
- <sup>4</sup> Harry Eckstein, *The English Health Service: its origins, structure and achievements*, (Harvard University Press, 1959)
- <sup>5</sup> Erik Reinert, "Increasing poverty in a globalised world: Marshall Plans and Morgenthau plans as mechanisms of polarisation of world incomes", in *Rethinking Development Economics*, ed. by Chang (Anthem Press, 2003), p.451
- <sup>6</sup> For more information on social dialogue in the EU see <[http://www.europarl.eu.int/factsheets/4\\_8\\_6\\_en.htm](http://www.europarl.eu.int/factsheets/4_8_6_en.htm)>
- <sup>7</sup> Conflicts arose over this process. For example, when Egypt nationalised the Suez Canal in 1956, it was attacked by Britain, France and Israel. Although the military attack failed, pressure on Egypt was maintained and the World Bank acted as a mediator in getting Egypt to agree, in 1958, to pay compensation to the previous owners, Compagnie de Suez. (Using that compensation, the company invested in diverse sectors, and became the present-day Suez group, a water, energy and waste multinational. Among other concessions, it was awarded the contract to run water services in the West Bank and Gaza in 1998 - by the World Bank) See *This Week in World Bank History*, April 28 – May 4, <<http://lnweb18.worldbank.org/HRS/yournet.nsf/WB+History+050402?OpenPage>>
- <sup>8</sup> Santosh Mehrotra and Stephen W. Jarrett, "Improving basic health service delivery in low-income countries: 'voice' to the poor", in *Social Science & Medicine*, vol. 54, issue 11 (June 2002), pp.1685-1690
- <sup>9</sup> Santosh Mehrotra and R. Jolly, *Development with a human face: Experiences in social achievement and economic growth*, (Oxford: Clarendon Press, 1997)
- <sup>10</sup> Amartya Sen, *Development as Freedom*, (Oxford University Press, 1999), pp.45-48
- <sup>11</sup> Education International, "Education for all – is commitment enough?", in *Education International Report*, no.1 (2003) <<http://www.ei-ie.org>>
- <sup>12</sup> Klaus Deininger World Bank "Does cost of schooling affect enrolment by the poor? Universal primary education in Uganda.", in *Economics of Education Review*, vol. 22, issue 22 (June 2003), pp.291-305
- <sup>13</sup> Chilowa et al, *User Perspectives On Social Services In Malawi*, (2002), <<http://www.ids.ac.uk/ids/pvtyl/Social-Policy/CP13.pdf>>
- <sup>14</sup> Mikko Kautto, "Two of a kind? Economic crisis, policy responses and well-being during the 1990's in Sweden and Finland: A balance sheet for welfare of the 1990's", in *Statens Offentliga Utredningar*, (Stockholm: Fritzes, 2000), <[http://social.regeringen.se/propositionerm/sou/pdf/sou2000\\_83e.pdf](http://social.regeringen.se/propositionerm/sou/pdf/sou2000_83e.pdf)>
- <sup>15</sup> Kautto
- <sup>16</sup> Farrukh Iqbal, *Evolution and Salient Characteristics of the Japanese Local Government System*, (World Bank Institute, 2001), <<http://www.worldbank.org/wbi/publications/wbi37179.pdf>>
- <sup>17</sup> WRI, *Power politics: Equity and environment in electricity reform*, ed. by Navroz K. Dubash, (August 2002), <[http://pdf.wri.org/powerpolitics\\_execsumm.pdf](http://pdf.wri.org/powerpolitics_execsumm.pdf)>
- <sup>18</sup> Santosh Mehrotra and Stephen W. Jarrett, pp.1685-1690
- <sup>19</sup> Janine Brodie, "Citizenship and solidarity: Reflections on the Canadian way", in *Citizenship Studies*, vol. vi, no.4, (2002), pp.377-394
- <sup>20</sup> According to a World Bank official's presentation at the 3<sup>rd</sup> World Water Forum, (Kyoto, Japan: March 2003)

- <sup>21</sup> For example, see <<http://www.nadir.org/nadir/initiativ/agp/free/colombia/txt/2003/0318Watchword.htm>>, <[http://www.unison.org.uk/international/pages\\_view.asp?did=128](http://www.unison.org.uk/international/pages_view.asp?did=128)> and <[http://www.nadir.org/nadir/initiativ/agp/free/colombia/txt/2003/0418Colombia\\_Solidarity.htm#en04](http://www.nadir.org/nadir/initiativ/agp/free/colombia/txt/2003/0418Colombia_Solidarity.htm#en04)>
- <sup>22</sup> "Exploring youth and community relations in Cali, Colombia", in *Environment and Urbanization*, vol. xiv, no.2, (1 October, 2002), p.149-156(8)
- <sup>23</sup> The electorate, however, was originally restricted to male property-owners and was only gradually extended to all adults in 1930.
- <sup>24</sup> Robin Denselow, "Sound politics", in *The Guardian*, (3 July, 2003), <<http://www.guardian.co.uk/arts/features/story/0,11710,989857,00.html>>
- <sup>25</sup> Joseph Stiglitz, *Globalisation and its discontents*, (W.W. Norton & Co., 2002)
- <sup>26</sup> CIA Field Listing Military expenditures - percent of GDP (1 August, 2003), <<http://www.odci.gov/cia/publications/factbook/fields/2034.html>>
- <sup>27</sup> In the EU Consolidated Treaty Art 296: "any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes". <[http://europa.eu.int/eur-lex/en/treaties/dat/ec\\_cons\\_treaty\\_en.pdf](http://europa.eu.int/eur-lex/en/treaties/dat/ec_cons_treaty_en.pdf)> In the GATS Article XIV bis: Security Exceptions: "Nothing in this Agreement shall be construed...to prevent any Member from taking any action which it considers necessary for the protection of its essential security interests: (i) relating to the supply of services as carried out directly or indirectly for the purpose of provisioning a military establishment; (ii) relating to fissionable and fusionable materials or the materials from which they are derived; (iii) taken in time of war or other emergency in international relations" <[http://www.wto.org/english/docs\\_e/legal\\_e/26-gats\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/26-gats_01_e.htm)>
- <sup>28</sup> Stephen Golub, "Legal empowerment - A rights-based strategy for improving governance and alleviating poverty", in *ID21*, issue 43, (September 2002), <<http://www.id21.org/insights/insights43/insights-iss43-art01.html>>; and Asian Development Bank, *Law and Policy Reform at the Asian Development Bank 2001: Legal Empowerment: Advancing Good Governance and Poverty Reduction*, (2001), <[http://www.adb.org/Documents/Others/Law\\_ADB/lpr\\_2001.asp?p=lawdevt#contents](http://www.adb.org/Documents/Others/Law_ADB/lpr_2001.asp?p=lawdevt#contents)>
- <sup>29</sup> 'Non-exclusive' and 'non-rivalrous' goods: the only goods generally agreed to be 'purely' public goods are defence and services such as lighthouses. Social services like education and health are 'merit' goods, which people decide to organise as a public service on the grounds that that result will be better overall for society. Joseph Stiglitz, *Economics of the Public Sector*, 3<sup>rd</sup> edition, (Norton, 2000)
- <sup>30</sup> Adam Smith, *Wealth of Nations*, vol i, book ii, (1976), p.27
- <sup>31</sup> Hiromitsu Ishi, *Trends in the Allocation of Public Expenditure in the Light of HRD*, (AdB, 1995); Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, (Anthem Press, 2002) pp.47-48, p.45
- <sup>32</sup> Ha-Joon Chang, *Globalisation, Economic Development and the Role of the State*, (Zed Books, 2003)
- <sup>33</sup> R.J. Barro, "Government spending in a simple model of endogenous growth", *Journal of Political Economy*, vol.98, (1990), pp.S103-S125
- <sup>34</sup> Chris Tsoukis and Nigel J. Miller, "Public services and endogenous growth", *Journal of Policy Modeling*, vol.25, issue 3, (April 2003), pp.297-307
- <sup>35</sup> Nigel J. Miller and Chris Tsoukis, "On the optimality of public capital for long-run economic growth: Evidence from panel data", in *Applied Economics*, vol. 33, issue 9, (2001)
- <sup>36</sup> Antonio Acconcia, "On growth and infrastructure provision", in *Research in Economics*, vol. 54, issue 2, (2000) pp.215-234 <<http://www.sciencedirect.com/science/journal/10909443>>
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- <sup>63</sup> The result in San Francisco was a narrow defeat for remunicipalisation.
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- <sup>87</sup> H. Northrup et al, *Negro Employment in Basic Industry*, (University of Pennsylvania, 1970)
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- <sup>153</sup> <<http://www.nitc.org.my/index.shtml>>
- <sup>154</sup> <[http://www.nitc.org.my/oss\\_insight.shtml](http://www.nitc.org.my/oss_insight.shtml)>
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## PSIRU

Public Services International Research Unit (PSIRU) was set up in 1998 to carry out empirical research into privatisation, public services, and globalisation. It is based in the University of Greenwich, London, UK. PSIRU's research is based on the maintenance of an extensive database of information on the economic, political, financial, social and technical experience with privatisations of public services worldwide. The core work is funded by Public Services International (PSI), the global confederation of public service trade unions.

The principal focus of PSIRU's work is on water, energy, waste management and healthcare, but it also addresses the general questions of the role and structure of public services, both in the EU and in developing countries, the role of multinational companies in globalisation, and the role of the international financial institutions, especially the World Bank. The work of the PSIRU touches on a number of issues, including: corruption, public enterprise, multinationals' labour relations policies, public-private partnerships, political and economic effects of long-term private financing or PFI, pension funds and corporate governance, use of internet and databases for sharing information internationally, social network analysis.

The core work of the PSIRU centres around the following functions:

1. Maintaining a database on multinational companies involved in privatisation of public sector activities. This includes monitoring of takeover and merger activities, financial and political developments, and developments in the sectors, covering issues such as concentration of ownership, performance, pricing, financing, employment, political relations, and corruption.
2. Producing and publishing commissioned and other reports, based on the empirical data collected by PSIRU. These include surveys of developments by region and/or sector eg water in Latin America or Africa, venture capital in healthcare worldwide, electricity regulation in the UK, energy privatisation in central and eastern Europe, corruption and procurement, EU policy initiatives on public services, critiques of World bank policies, ownership of the waste management industry, reports on specific companies eg Enron. A full list of reports can be accessed at [www.psiru.org](http://www.psiru.org).
3. Maintaining a website at [www.psiru.org](http://www.psiru.org) which allows online access to the database including information on companies, recent news, and PSIRU reports and publications.
4. Specific major projects.

PSIRU is the leading institute in a major 3-year research project, Watertime, funded by the European Commission. It also runs a major project on corruption, Unicorn, which is funded by the Wallace Global Foundation.

For further information about PSIRU please email [psiru@psiru.org](mailto:psiru@psiru.org)

## About Public Services International

Public Services International is a global federation of unions representing 20 million workers involved in the delivery of public services in 150 countries around the world.

PSI is an active participant in debates and campaigns about building quality public services; tackling the need for a social agenda in globalisation; defending and promoting workers rights; trade union capacity building and promoting equity and diversity.

PSI has made a long-term commitment to pro-actively campaigning for quality public services. In doing so, it draws on the history of successes and acknowledges the need to tackle failures through genuine and positive reform. PSI and unions around the world look forward to building partnerships and campaigns with all those who share the view that quality public services are essential in providing opportunity and justice to communities and people around the world.

To learn more about PSI's campaigns, and how you can make a difference, please visit [www.world-psi.org](http://www.world-psi.org).



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