

"Public" provision, contractors and the market

The Labour Research Department (LRD) has recently put out a pamphlet *Public or Private: The case against privatisation* (1982). One of the core sections of the report is devoted to the contracting out of public services, relying chiefly on the example of refuse collection. It opens with a historical perspective.

"The mortality and sickness statistics show that our current level of health owes more to the advances made in hygiene, nutrition, housing and other social factors during the nineteenth century than to modern scientific medicine. One key factor in this improvement was the development of municipal water supplies, sewerage, refuse collection and disposal (p18)".

The population boom began in 1750, it is probably the best indication of the level of health of society. Occurring as it does either through a decline in mortality (for all ages) or an increase in fertility or a combination of both. It is clear levels of health were rising well before any significant municipal activity. This activity only began as a result of the 'Condition of England' debate in the 1840s.

The first acts to be passed put private water and gas companies under municipal control. The system of public health was then put firmly under the state's control in successive acts. This meant there was little call or opportunity for private initiative and thus there was little to compare what was done by the state with what could have been done by the market, either for profit or otherwise. It would be invalid to draw the conclusion that municipal provision was either the best or only possible method.

Contractors and councils in the 1950s

The Public Health Act of 1936 clearly lays down the responsibility of local authorities to

ensure that household waste be removed (paid for out of the rates/local property taxes) and that trade waste also be removed on request, subject to a reasonable charge.

"Until the 1950s these refuse collections were carried out by the council's direct workforce or, under council supervision, by private contractors. But, according to *Municipal Engineering* (1 Dec, 1981): '.... when contractors ruled the roost in the 1950s they made such a thorough mess of the job that local authorities had to take the service over as quickly as practicable to avoid falling foul of the law i.e. the Public Health Acts under which cleansing service still operate' (P18)".

The statement they quote is from an article by Rudy Singh discussing the recent trend towards using private contractors. It is a little sad that the LRD does not use any more of the article, as the reporter goes on to say that "one has to admit that at Southend, for example, the contractors are making both a cheaper and better job of cleaning the town than the council's own direct labour works." Singh ends by saying that now council managers have been given more autonomy in running their departments and with contractors getting some concessions and bidding for others "valid comparisons on costs and performance will soon be available. And the best will win."

But what of the 1950s? As far as this author can discover there is little evidence for the claim that councils were forced to switch to direct labour. Few authorities used contractors for refuse collection, and only one report of such a switch could be found in the *Local Government Chronicle* for the 1950s and 1960s. There were in fact two reports, one of the changeover and one of its consequences.

"Wandsworth Refuse Collection: From Monday of this week Wandsworth Metropolitan Borough Council are undertaking the collection of house and trade refuse within the borough with their own labour, instead of using the service of a contractor. The council has purchased some 50 new vehicles, engaged nearly 200 staff

and undertaken capital expenditure approaching a quarter of a million pounds. Despite this cost, however, they consider, after careful investigation of the methods used both in the British Isles and abroad, that it will be a great advantage in every way to take on the direct responsibility" (Local Government Chronicle, 6 June, 1959, p737).

Two years later there was the further report: "Refuse Collection at Wandsworth: A particularly interesting point is made by the Government Auditor in his report on the audit of the accounts for the Metropolitan Borough of Wandsworth for the year ended 31st March 1960. He points out that the council's arrangements with a private contractor ... terminated on 31st May 1959, when the present scheme of undertaking the work ... was introduced. Many of the employees previously working for the contractor have been taken into the employment of the council and certain concessions allowed them have continued. Of these concessions, the most valuable to the employees is the right to collect and sell salvage and to make use of the council's equipment and facilities for this purpose. It is understood that the proceeds of sale may amount to some £20,000 in a year or the equivalent of some £2.10s per man per week. The Government Auditor goes on to say: 'Very real difficulties are known to have arisen in the administration of the refuse collection service; it is desirable that the question of these concessions should be reviewed from time to time and that the value of any indirect earnings of the employees arising from their employment should be taken into account whenever their conditions of service are under consideration' " (LGC, 27 July 1961, p1029). So, not only were the council in trouble, but the workers were going to have to pay for the mess.

The LRD pamphlet goes on to state that a "government committee of enquiry, appointed in 1963 by Sir Alec Douglas-Hume, which looked into refuse collection and storage came to the firm conclusion that in the interests of efficiency and public health, 'Local authorities should not employ contractors to collect household refuse.' (*Refuse Storage and Collection*, DoE, 1967)".

Apart from the question of whether government reports are an authority on how best to run the government, the LRD are disingenuous in giving the impression that the report had seriously considered the use of contractors. It had not. Half a page discussion in a report of over one hundred pages does not seem a lot. Although there is no evidence given in the report against private arrangements there are a few assertions representing the received view.

"Private contracting would prevent direct action on complaints ... Tidiness would be sacrificed for speed". These two assertions can be dealt with in a private system. As in the market, where many contracts are made, clauses can always be drawn up whereby unsatisfactory completion of a particular job will invoke penalties. Tidiness being sacrificed for whatever reason can be easily covered in such clauses. The threat of an immediate cash penalty is probably the best way to ensure direct action on complaints.

"Direct control ensures correct vehicles are used and that a proper maintenance takes place ... and it provides good working conditions for the men". Poor working conditions and poor machines will not help to provide an efficient service. Private companies are under pressure to make a profit, to make a profit they need to provide an efficient service. Efficiency is judged on whether revenues are higher than costs. The cost of using capital, i.e. the machines and the workplace, is its opportunity cost. That is the return or interest that capital could earn if transferred to its next best valued employment. Companies thus have an incentive to ensure that capital is being used as effectively as possible. This is done by making it contribute as much as is practicable towards the earning of a return to justify its continued employment in its current activity. There is therefore a direct and automatic incentive for the proper maintenance of vehicles and for the provision of good working conditions.

Current Activity

The bulk of the LRD section on refuse collection examines the specific reasons why some councils have gone over to contractors, and why several others (mostly Tory) have

considered a switch - but later rejected it. They have done some research of their own but have also used a report commissioned by Margaret Thatcher, *Service Provision and Pricing in Local Government* (HMSO, 1981). According to the LRD "(t)his report was supposed to prove that private industry was more efficient and cheaper than direct labour. It did no such thing! In fact it found numerous examples where the public sector was cheaper and more efficient (p 19)".

The LRD do not seem to have read the report too closely. The report is based on the evidence gathered by obtaining interviews and submissions from the executives of twenty-six local authorities with each providing information for three or four case studies. The report then grouped these studies under various activities, to provide it with a cross section of the methods used by different local authorities to provide the same service. It was "not a performance audit, but was to bring out issues such as budgeting, costing, pricing and service delivery".

Indeed one of its chief criticisms of the local authorities was their inability to produce either for themselves or anyone else, realistic figures of their costs to enable an evaluation to be made. So even if the report had wanted to show the superiority of private industry "the significant lack of accurate information about administrative cost ... makes appraisal of alternatives difficult ... Time and again, the case studies illustrates incorrect and inaccurate assessment of full cost". Apart from not including full allowance for administrative costs authorities often fail to assess their capital on a current cost basis (i.e. they do not take account of inflation as it raises the amount of money they will need to replace old equipment). Failure to include these hidden overheads and failure to reform unwieldy bonus schemes lead to little take-up of innovations. But it repeats that until information becomes available and until effective audits can take place "it is very difficult to judge value for money".

The LRD uncritically lists the various reasons which Tory councils give for not switching to private contractors. There was "the danger of a private company going bankrupt or increasing its prices (p25)". That

there will be more than one private company for the authority to turn toward, seems to have escaped them. As does the fact that at present there is no recourse for the householder with their local authority, there is only ever one of them to 'choose' from. The householder could move to another area with a more satisfactory local authority. However, the costliness of this in proportion to the benefits would most frequently mean that it would not take place. This fact brings out the major benefit of having as much provided by the market as possible to the consumer. When the state is the provider of many goods and services, then dissatisfaction with the provision of any one service is difficult to resolve. In a market it is a very simple thing, the consumer just changes to a more satisfactory supplier without having to emigrate or take over the government.

Local Authorities have "a wealth of knowledge and experience of the existing labour force (p25)". Apparently they do not know them well enough. In virtually every case where the LRD lists the council as having rejected contractors, the threat of bringing them in posed during the consideration of the offer brought to light many savings hitherto unrecognised and, therefore, unimplemented.

There was always "the ability of the authority to make its own savings by improving the organisation of the service, equipment, etc. (p25)". Without the constant and automatic pressure of the market, a constant watch on the organisation and a search for possible innovations, this is unlikely to be kept up by the Local Authority.

Contractors vs the Market

So far I have not drawn a distinction between the use of contractors and the total abdication of responsibility for refuse collection by local authorities and a consequent reliance on private initiative. Most of the arguments against using local authority direct labour services come with equal force from either opposing systems. But there are drawbacks to contracting that make it an undesirable option. The LRD is very ready to whinge and whine at the wage packets of a handful of

managers and directors of private cleaning companies as compared to those of their labourers. The more relevant comparison of labourers in private employment and in state employment tends to show that the latter have better fringe benefits (pensions, sick pay etc.) while the private workers get better wage packets.

The more fundamental problem of using contractors for fulfilling tasks set by the state is the danger of collusion by groups of businessmen and corruption between businessmen and the local authority. This is completely ignored by the LRD. It is the principal difficulty, yet the LRD seem to almost consciously turn a blind eye to it, rather than cast aspersions on the integrity of the local authorities. It would seem that statist of the right and the left stick together when their common domain is threatened. It must be said that many advocates of privatisation via contracting also tend to brush over this issue. See *Economy and Local Government* edited by E. Butler and M. Pirlé and published by the Adam Smith Institute.

For the same reasons that local authorities inevitably find it more difficult to become efficient, the lack of any automatic pressure on them to obtain value for money will also tend to make them prey to businessmen on the lookout for easy profits. To be sure, the council's own labourers and management often exploit this weakness, but there is little reason to expect non-council individuals to be any more restrained. Collusion works when a ring of suppliers can be established to restrict the range of choice of the consumer and thus artificially raise prices. Collusion can occur in the free market, but most often collapses under the pressure of outside competition and the pressure within the ring to break ranks by undercutting the other members and so to make higher profits. When states are the members of the cartel the unscrupulous opportunism takes a little longer to break down, as with the OPEC cartel.

When the state is the customer this sort of thing can go on undetected for longer because the state is not as constantly on the lookout for value for money as are people in the market place. It will not bear the cost of

the collusion as it can pass it on to the ratepayers.

A more common danger is the construction of more or less cosy arrangements between the contractor and the council's staff and politicians who handle the selection of the firms. Often collusion is combined with corruption, with the establishment of 'approved' lists of firms allowed to tender for contracts. Appointment to the list would occasionally involve bribery, and once on, it would involve collusion. Once a contractor is established he will get to know the power structure within the town hall, and will then get to know who to 'look after'.

This may not happen very often but the danger is always there. A way to reduce the danger of opportunistic individuals exploiting the inherent vulnerability of the state machine is for the state to get out of the service altogether. Completely private refuse collection and disposal could easily become as completely unremarkable as private food distribution. Dissatisfied citizens will treat the fact that it is the state-provided dustman who litters their garden path as only one influence amongst many on their voting behaviour. This is the reason the state-provided services remain so unresponsive to consumer demand