

# The Public Nature of Public Services

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## 1. Introduction

Public services have undergone profound changes in the past three decades. Apart from the sale of public enterprises to private investors, service provision has been altered through the abolishment of public monopolies, the introduction of competitive tendering and private-public partnerships, as well as the establishment of cost centres, the shift towards performance-based funding and other developments. Greater public sector involvement and increasingly market-based forms of service delivery have subsequently blurred the distinction between public and private services. This paper attempts to bring some clarity into the current debate by exploring the public nature of public services. The paper starts with a summary of the rationale and evolution of public services in Europe. The following section, then, describes the process of commodification and proposes a map to show the connection between the different developments that are usually associated with privatization and liberalization. The next part discusses the concept of commodification and argues that the public nature of services ends when use values are subjugated to exchange values. The following paragraphs then describe how commodification and the subjugation of use value to exchange value have altered the provision of public services. The paper ends with a discussion of democratization as alternative to commodification.

## 2. The rational and evolution of public services

Public services are a contested concept and as such open to different interpretations. According to orthodox economic theory, public provision of goods and services is acceptable when they have certain qualities which hinder the proper functioning of markets (Altvater, 2004). For the provision of public services two conditions are particular important: First, the existence of positive externalities, impacting on third-parties who are not directly involved in the market transaction. Here the classical case is health care, which through the curtailment of infectious diseases not only benefited those who seek treatment, but society at large (ibid. 52-53). Second, the existence of so-called natural monopolies, which makes it impossible or undesirable to have more than one provider for a particular service (Baumol, 1977). Here the classical case is the network industries such as electricity, gas and water supply. Up to the 1980s, it was widely believed that in these cases it is preferable that the government or not for profit organizations should provide these services rather than private, profit-seeking companies (Clifton, Comín and Díaz Fuentes 2003, p. 23).

In the real world the extent of the public sector was not so much the result of theoretical considerations than of social conflicts, political pressures and pragmatic solutions to pressing problems. The expansion of public utilities (water, gas, electricity) in the rapidly growing European cities in the late 19<sup>th</sup> century was, for example, driven by the need to provide services to poor households and to prevent the spread of contagious diseases. Private water suppliers had previously focused on the connection of factories and wealthy neighbourhoods.

These costumers could pay high enough fees that granted a decent return on the private investments (Millward, 2005, p. 44). As the prospect of returns on investments was considerably lower for the connection of poor neighbourhoods, it was often the local authorities who had to step in and build the communal infrastructures that were necessary to provide the poor with acceptable living conditions.

In Britain this was part of what has been described as municipal socialism (Sheldrake, 1989). As such it was also a correction or an alternative to the prevailing market economy. After the Second World War and after the traumatic experience of the Great Depression, the pressure to tame markets and provide equal access to essential services became even greater (Millward 2005, p. 172). As a result, governments took over network industries such as gas and electricity. In some countries they also nationalized key companies in the mining, petroleum, production and banking sectors. In the United Kingdom, where about a fifth of GDP was produced by the public sector in the post war decades, nationalization also included the creation of the National Health Service, integrating hundreds of public and voluntary hospitals and providing free health care for all citizens across the country (Leys, 2001).

In Europe the growth of public services went hand in hand with the expansion of the welfare state. The British sociologist T. H. Marshall (1950) has argued that in modern democracies, citizens have not only civil and political but also social rights, such as the right to basic economic welfare and education. In this conception, access to public services became an essential feature of what has been described as ‘social citizenship’. In France and parts of Southern Europe, the provision of public services was not so much perceived as an individual right of citizens, then as collective responsibility of the state to provide for its citizens in what in French is described as *service public*. As Birgit Mahnkopf (2008, pp. 72-73) notes, “[u]ntil the 1980s, there remained a vital cross-party and even cross-country consensus in the European Union that certain goods and services ought to be excluded from the functioning of the market ... Public services were perceived as essential for creating and strengthening social cohesion and thus were strongly related to social justice, even if their economic efficiency proved to be lower than under market condition.”

Welfare-state theorists such as Gøsta Esping-Andersen (1991) emphasized the decommodifying effects of modern welfare states, reducing inequality caused by a purely market-based distribution of social wealth. However, he also showed that different welfare state conceptions have different consequences for equality. While conservative welfare states tend to reproduce inequality by making social benefits dependent on previous contributions, and liberal means-testing social policies are limited to alleviate the situation of the poor, the social democratic welfare regime is “committed to equalize living conditions across the citizenry” (Esping-Andersen and Myles, 2011, p. 646). They do so by combining the payment of universal cash benefits that cover more than minimum needs with the public provision of social services, which in other systems are provided by unpaid female family members or by fees charging private agencies. As a result, the social democratic welfare states of Northern Europe are not only leading in terms public service expenditure and female employment rates, but also display one of the lowest levels of inequality.

Esping-Andersen’s typology focuses on social policy and social services. If we take health care, Britain would belong to the same category as Sweden as both display a Beveridge-style health care system. Here funding is based on tax income rather contributions to social security funds and the provision of inpatient care is – until the recent changes – almost exclusively provided by public institutions. In contrast most continental European countries have adopted a variation of the Bismarck welfare regime, in which so-called third-sector organizations play an important role in providing health care (Hermann 2009, p. 126). In the legal sense third-sector organizations are private institutions because they are run by private bodies, in many

cases church-related charities. At the same time they are not strictly private because their purpose is the enhancement of common welfare rather than private profits.

In a few sectors and countries, public service providers were even in the past owned by private for profit companies. The electricity sector in Belgium has for many decades been dominated by one private company with a near monopoly in energy generation (Verhoest and Sys 2006). However, at the same time tight regulations including investment plans and price controls made sure that these companies would not accumulate profits at the cost of customers and the larger public (ibid).<sup>1</sup> To account for the variety of service providers – including public, third sector and private for profit organizations – the European Commission uses the term services of general (economic) interest rather than public services. However, the European Commission also uses the highly artificial term, hardly known outside the EU headquarters in Brussels, because it has a highly conflicting relationship to public services: on the one hand it emphasizes the role of public services as a “common value”, “fundamental right” and “pillar of the European Social Model”; on the other it pushes for commodification and the erosion of the public nature of service provision in Europe (Hermann and Hofbauer 2007).

### **3. The commodification of public services**

Since the 1980s public services have undergone major changes in Europe. Perhaps the most radical transformation took place in Britain where since the early 1980s a large number (but not all) of public services providers have been divested, starting with British Telecom and British Rail to the privatization of the national electricity and gas industry to regional water suppliers. Sweden, too, introduced major changes in the provision of public services during the 1980s through the abolishment of post and transport monopolies (Hermann and Verhoest 2012, p. 12). The transformation of public services in the last 30 years is widely subsumed under the label of privatization, but in reality the sale of public assets to private entities is only one of many changes that have profoundly altered the nature of public services. David McDonald and Greg Ruiters (2007, p. 11-13) distinguish between privatization, corporatization and commercialization processes. While privatization means greater public sector involvement – reaching from state divestment to public-private partnerships – corporatization and commercialization refers to the introduction of market mechanisms – e.g. cost recovery, competitive tendering and ringfenced decision-making – into service provision. As such corporatization and commercialization often pave the way for privatization. However, the authors also note an underlying processes of commodification, since “[o]nly when public services are treated as a commodity can they be effectively commercialized and, eventually, privatized” (ibid 13).

In my view the argument goes the other way round: it is precisely through the introduction of markets and private ownership that public services are commodified. Without markets and profit interests, public services are public goods rather than private commodities. The various changes that promote commodification can be grouped along two dimensions: One dimension captures the abolishment of public monopolies and shift towards competitive markets; the other accounts for the transfer from public to private ownership structures. The two aspects are also reflected in mainstream economic literature which holds two contesting views on the rationale of privatization: A neoclassical view that emphasizes the role of competition in forcing public service providers to improve efficiency and a neo-Austrian perspective that stresses the role of private ownership in effectively responding to market needs (Sawyer 2009,

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<sup>1</sup> Similar to the traditional American model of public service provision.

pp. 61-9).<sup>2</sup> In the first approach the priority lies in eliminating monopolies while ownership questions are of secondary importance; the second approach argues for the elimination of public ownership and even accepts the creation of private monopolies, assuming that privately owned providers will always act competitively (ibid).

In the past public service provision was usually based on monopolies, meaning that there was only one supplier that offered the respective service in a geographically defined area. There was only one telephone, electricity and water supplier to connect with if one moved into a new region or city. As monopoly providers these organizations were not affected by competition even though they charged money for their services (Hermann 2011, pp. 11-12). As mentioned before, neoclassical theory promises better services for lower costs when service providers are subjected to market forces. In the European context the abolishment of public monopolies took place in three main forms, depending on the nature of the service (ibid). In services without exclusive infrastructures, including post services, monopolies are simply abandoned and market opened to several competing providers. In services that depend on exclusive infrastructures such as electricity networks, network maintenance is separated from the provision of the respective services with the effect that several competing suppliers can use the same infrastructures. As a result households can choose between two and more providers (since 2004 all households in Europe should be able to select a preferred gas and electricity supplier). In sectors where the separation is not possible – in water supply, for example, different suppliers cannot use the same pipes because water has different qualities – competition takes the form of providers are competing for exclusive yet temporary contracts for service provision. Competitive tendering can also be found in services where competition for customers undermines the very functioning of the service. Local public transport, for example, depends on the cooperation and adjustment of different service providers. As shown by the British example outside London, busses that compete for passengers leave passengers stranded that have to travel outside the peak periods.

Competitive tendering has been fueled by another form of marketisation: The disintegration of services and the contracting out of components to external providers (Hermann 2001, p. 12). Typically the external contractor is a private company, but services can also be outsourced to voluntary organizations and independent subsidiaries. In fact formerly integrated municipal services are now conglomerates of formally independent undertakings. Vienna Stadtwerke Holding AG, for example, encompasses more than 25 independent subsidiaries, most of them set up as private limited liability companies. Contractors may further outsource services, resulting in a myriad of contracting relationships. Even if the contracts are not tendered, they can present a form of marketisation: Insofar as contractors can make profits and losses, operators experience similar market pressures as if they compete for a contract. Hence management contracts that stipulate that a service provider has to supply a specific service for a prefixed price can also be seen as a form of marketisation even if they are concluded between a municipality and its own transport operator (as demanded by EU regulation).

Outsourcing has been complemented by decentralization, provider-purchaser splits and the creation of internal cost centers. As the affected units are forced to act as independent businesses with separate balance sheets and distinctive financial interests, the result is an internal marketisation – although units that fail in commercial terms may not be closed immediately because the service they deliver is too important to be terminated (rather they are sold to a private company which thinks that it can make a profit out of it). The British National Health Service is a prime example of how a formerly highly integrated public

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<sup>2</sup> While the neoclassical approach informed EU liberalization policies, the UK largely followed the neo-Austrian advise.

service has been split up and reconfigured in consecutive reforms with the objective to stimulate internal competition and, in the longer perspective, outsource services to private healthcare companies (Pollock 2006; Leys and Player 2011). Insofar as the goal is to substitute market relations for hierarchical control and cooperative forms of organization even new public management can be seen as a form of marketisation. The promise of choice played a crucial role in promoting public service markets. Yet while users usually welcome the possibility to choose between different suppliers, they are much more skeptical about the merits of private ownership.

Public service providers had different legal forms in the past (Hermann 2011, p. 12). Initially, suppliers were either part of the government and operated as local, regional or national government departments or agencies or they were public corporations with a specific legal status (*établissement public* in France).<sup>3</sup> While operators have used separate accounts or produced distinctive balance sheets, their financial interest was limited to break even at the end of the day. Very few if any providers were expected to produce operating surpluses. This is even true for the few publicly owned service operators that were early on set up as public limited companies.<sup>4</sup> However, while public and private limited companies were an exception in public service provision, they have meanwhile become the rule. In a number of countries even communal hospitals are run as PLCs. The most important difference between public companies and publicly owned PLCs is that the latter can go bankrupt independently from a state insolvency. Formal privatization, hence, has considerably increased the pressure to reach a balanced budget. For neo-Austrian economists this was not enough. For them public ownership is always associated with a conflict of interest between managerial tasks and the task to win the next elections. For them the only solution is a full retreat of the state from the provision of public services.

While some EU member states still fully own their former state enterprises, the transformation into joint stock and public limited companies was typically followed by a sale of public holdings. Britain stands out because it is the only country in Western Europe which not only transformed the legal status of its public service providers but at the same time sold entire service sectors to private investors – even at the risk of creating private monopolies. Central and Eastern European countries followed a similar path, but here the transformation of public services was part of a larger transition from a planned to a market economy (Lorant, 2009). In most European countries the story is somewhat different. Here privatization processes took place gradually, lasting for several years. The process typically starts with private investors acquiring minority share in the service provider through direct sales or initial public offerings (Hermann and Verhoest, 2012, p. 8). Even though the government continues to control the corporation, the admission of private shareholders immediately alters the purpose of the service: it is no longer enough to avoid losses; the private shareholders expect the company to make a profit. Pressures to generate satisfying returns on investments further accelerate when private shareholders reach a majority, while the state's stake is reduced to a minority position, even if it is linked to some special voting rights. The transformation is completed when all public shares have been sold and the provider is solely responsible to its private shareholders – some of which may be international hedge funds and/or private equity investors (Huffschnid, 2009).

Apart from selling public assets to private investors there are also more indirect forms of privatization: Insofar as staff and infrastructures are outsourced to private contractors – such as, for example, when an IT department of a local municipality is outsourced to an IT

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<sup>3</sup> An example for the first category are post and telecommunication operators and for the second electricity companies.

<sup>4</sup> Such companies could, for example, be found in the German electricity sector.

multinational – contracting out can also be a form of privatization. And while public-private partnerships have been promoted as a somewhat neutral or third-way approach to public service provision – they are neither public nor private – experiences have shown that private companies can be extremely innovative when it comes to maximizing profits at the cost of their public partners (Shaoul, 2009). A special form of private public partnership is what in Britain is called a private finance initiative. In these arrangements, the private partner, typically a corporation specifically set up for this purpose and commonly owned by several companies with expertise in construction, maintenance, IT etc., is responsible for the funding, construction and the maintenance of a public project such as the building of a new hospital. The public entity, which runs the service pays the private partner a yearly fee in up to 30 years long contracts. However, the infrastructures continue to be owned by the private partners, which may sell their stakes in schools, hospitals and prisons on secondary PPP markets (Whitfield 2010, pp. 220-30).

#### **4. Use Value and Exchange Value**

Drawing on earlier writings in the history of political economy, Adam Smith (1982, pp.131-2) popularized the differentiation between “value in use” and “value in exchange.” Smith made this distinction after struggling with the fact that water is much more useful to human beings than diamonds, but diamonds achieve much higher prices than water. He solved the apparent paradox by arguing that water has an enormous use value but hardly any exchange value, while diamonds have only a limited use value but a vast exchange value (ibid). While Smith’s explanation has subsequently been rejected by neoclassical economists, who abandoned the notion of value in favour of the concept of (marginal) utility, the distinction between use value and exchange value has continued to play a critical role in the work of Karl Marx and later generations of Marxist economists. Marx emphasized that the nature of commodities is always two-fold: they have use values as well as exchange values (Marx 1967, p. 47). The use-values of a commodity resembles its utility in the sense that it satisfies particular human wants; exchange-values, in contrast, reflect the quantities of other goods a particular good can obtain when it is exchanged on a market. As Marx (ibid. pp. 37-8) points out “[a]s use-values, commodities are, above-all, of different qualities, as exchange values they are merely different quantities.” Use values can therefore only be assessed qualitatively, while exchange values can be expressed quantitatively, usually in units of money. As a commodity, hence, every good and service must have a price (Leys 2001, p. 84).

In subsistence economies production primarily served the satisfaction of personal needs. Only abundant goods were bartered and later sold on local markets. Even where community members specialized in the provision of certain services these were developed for the satisfaction of personal needs and initially exchanged for other goods or services. Without money, the universal equivalent of exchange value, barter still presented a “direct exchange of use values” (Fine 2002, p. 29). In Marx (1970, p. 50) words, in subsistence societies “[e]xchange value does not acquire an independent form, but is still directly tied to use value.” As a result, “[u]se value, not exchange value is the whole purpose of production”(ibid). In capitalist societies, in contrast, goods and services are produced for ever-expanding and ultimate global markets (Harvey 1999, p. 7.) In such societies maximization of exchange values becomes the main objective of social production, whereas the creation of use values is only the means to achieve this goal. The orientation on profits rather than social needs has consequences for the nature and supply of the respective goods and services and especially for the way they are produced. Marx, at several occasions, notes the tension between use values and exchange values. At some point he argues that although exchange value becomes the predominant aspect of production in capitalist societies, “use does not come to a halt . . . although of course it obtains its direction thereby”(Marx 1973, p.

267). At another occasion he points out that a commodity acquires exchange value through “the alienation of its use value” (Marx 1970, p. 51).

Marx did not explore what the focus on exchange value means for the nature of goods and services produced in capitalist societies; he did, however, describe two processes that were essential in establishing the maximization of exchange value as the ultimate goal in the emerging capitalist societies: the conversion of common land into privately owned land (the so-called primitive accumulation) and the transformation of independent producers into a class of wage labourers dependent on the sale of their labour power (the creation of the working class). Karl Polanyi (1957) took the issue further and provided a detailed account of the historical processes that led to the establishment of markets for labour, land and money. Writing after the Great Depression, Polanyi concluded that humanity must be protected from the disastrous effects of self-regulated markets. The restriction of market forces has subsequently been described as process of de-commodification. Esping-Andersen (1990, p. 47) has defined de-commodification as “emancipation from market dependency.” Reversibly commodification can be understood a process of marketisation. However, the establishment of markets is only one side of the coin; the other is the creation of private property. Only the existence of both competition and private profit-maximizing interests unleashes the dynamics of capitalist accumulation and the associated subjugation of use values to exchange values.

Public services are an anomaly in capitalist societies. In the purest form a provider that delivers free services for citizens creates use values but no exchange values – accordingly the output is a public good rather than a private commodity. However, in many cases service provision does not exist in pure form and users pay a price for services such as the provision of electricity and gas. The critical question, then, is if the prices are market prices, reflecting competitive pressures and private profit interests. As long as the prices are controlled and/or subsidized, as widely practiced in the postwar decades, the respective services have exchange values, but exchange values do not direct use values; or as Robert Albritton (2007, p. 27) puts it, they do not “manages use-value in accord with purely quantitative price and profit signals“. While commodification is a continuous process with different degrees of intensity, the public nature of public services ends precisely where exchange values come to direct use values, or where use values are subjugated to exchange values. From this point on the main purpose of service provision is no longer the satisfaction of service users; the main purpose is the creation of profits for the owners of the service operator. As described below the marginalization of use values in favour of exchange values has important consequences for the nature and provision of public services.

## **5. Consequences**

Confronted with competition and the need to increase profits, former state enterprises have started to expand their businesses and invest in other, perhaps, more profitable sectors and countries. Electricity companies have expanded into gas provision and waste management, whereas postal companies have transformed themselves into major logistics suppliers (Hermann 2011, p. 18). Deutsche Post World Net, for example, has evolved from the national German post operator to one of worldwide leading logistics company with subsidiaries in more than a hundred countries. Mail delivery, as a result, is only one of several incomes streams and because of falling revenues letter post is becoming increasingly marginalized in Deutsche Post’s business strategy. After a wave of mergers and acquisitions within Europe, European energy, water and waste multinationals are expanding to other continents, including several countries in South America. Even public universities have left national boundaries and set up overseas campuses in order to access additional income streams. Middlesex University from north London now offers courses in Dubai (McGettigan 2013, p. 123).

Apart from investing in new business and countries, operators increasingly focus service provision on particular lucrative customers, service areas or service aspects. Particularly lucrative customers are either large or wealthy (Hermann 2011, pp. 18-19). Post companies, for example, have shifted their attention away from private households to mail-order retailers, banks and insurances, mailing out monthly statements to thousands of customers and making up for the bulk of the business (Hermann 2011, p. 259). As a former manager of Austrian Post noted, individual customers who send letters are important for politicians, but they are negligible for the company since make up for less than 10 per cent of the revenues (ibid). The focus is mirrored in new price policies, granting substantial discounts for corporate clients, while general post tariffs have increased considerably since liberalisation and privatization (ibid. 269). In the electricity sector, too, large customers, including major industrial corporations, can negotiate individual price rebates while households are charged according to standard tariffs. While post and electricity providers favour large customers, private hospitals focus on patients with private insurances that cover additional expenses. The focus on certain groups of customers goes hand in hand with a neglect of others. The spread of private hospitals in Central and Eastern Europe, for example, is closely linked to a deterioration of the public health care system. In a similar way private universities flourish where public schools are underfunded and overcrowded. And shortly after the establishment of its overseas campus in Dubai, Middlesex University has closed down its philosophy programme at home.

The changes in the focus of services are closely linked to changes in the scope of service provision. Former post monopolists are closing down rural post office, while the new post competitors do not even bother to deliver mail outside the populated urban centres (Hermann 2011, pp. 60-3.). Transport providers, too, focus on urban centres or the connection between major cities while abandoning rural routes. Providers may continue to provide unprofitable services, but they will demand government subsidies for the services – whereas previously they used the revenues from the more profitable services to cross-subsidize loss-making activities. Sometimes services are terminated; more often, however, they are reduced or downgraded to a lower standard. This is the case, for example, when post offices are replaced by post partners, offering a fraction of the services available at a regular post office, or when a train line is replaced by a bus service running only two or three times a day.

Contrary to the promise of greater choice, commodification is frequently linked to standardization as cost pressures induce operators to exploit economies of scale. Universities, for example, increasingly offer standardized courses in modularized programmes, some of them as online-classes, to be taught by exchangeable teachers. In the hospital sector, too, medical procedures are increasingly standardized in order to meet the cost targets set by case-based funding schemes (the hospital receives pre-fixed funding for certain treatments regardless of how long individual treatments last). Since there is less and less room to deal with individual needs, standardization is often linked to a deterioration of service quality. Students no longer receive the individual attention that is needed to nurture specific talents and promote the desire for knowledge; all that is expected is that they pass an average educational standard. In the hospital sector the introduction of case-based funding and the standardization of procedures has led to a substantial fall in the length of hospital admissions. However it has also increased the risk that patients are released too early which can cause further complications. About a quarter of physicians interviewed in a German hospital stated that rapid releases of patients are a real problem (Hermann 2009, p. 131).

Standardization is typically linked to a greater division of work and a substitution of less skilled for more skilled labour. The British National Health Service, for example, has shifted responsibility from doctors to nurses and from regular nurses to assistant nurses in attempt to establish a supposedly more efficient 'skill mix' (Leys 2001, pp. 90-3). Universities, employ seasonal lecturers teaching courses that were previously taught by full professors (Kimber

2003). They not only earn less, but also cope with higher teaching loads, leaving them less time for research. Research is then carried out by specifically designated research professors. In the post sector, experienced post(wo)men, some of which had special apprenticeship training, have been replaced by cheaper assistant mail deliverers who need GPS devices to find the delivery addresses (Hermann 2011, p. 264). Furthermore, in some sectors the need to constantly measure and report output has increased administrative work carried out in addition to the already existing tasks. As a result, hospital nurses complain about the lack of time they can actually spend with patients (Hermann and Flecker 2012, p. 198).

Deskilling is part of broader transformation of public sector work. In the postwar decades public sector employment and working conditions were determined by a specific public sector labour relations regime, rather than by competition or profit interests (Hermann and Atzmüller 2008). This regime was characterised by stable, uniform and standardized employment relations and by non-competitive working conditions. In contrast the recent changes have led to an increase in atypical forms of employment such as part-time and marginal part-time, temporary and agency work, as well as self-employment (Flecker and Hermann 2011, pp. 530-2). Casualization of employment relations was complemented by a reduction of wages, flexibilization of work hours and intensification of work (ibid.). The changes are linked to growing fragmentation of the public sector workforce. Such fragmentations have emerged between those working for a former monopolist or a new competitor, between 'old' and 'new' staff and between those employed by the main company, an independent subsidiary or by a private partner (ibid). Job cuts and deteriorating employment and working conditions usually have a negative impact on services. Especially where service delivery involves intensive interaction as, for example, in hospital care, growing exhaustion and frustration among staff members is felt by service users and, hence, threatens service quality (ibid).

Advocates of privatization, liberalization and marketization have argued that private ownership and competition will result in higher efficiency and better service quality. With respect to efficiency they may actually be right if one accepts their definition of efficiency. A common approach to efficiency is the comparison of inputs and outputs (Sawyer 2009; Van Dooren et al. 2006). The objective is to create the greatest possible outputs with the smallest possible inputs. Usually, a reduction of inputs and expansion of outputs results in higher profits. In principle there is nothing wrong with deploying limited resources in a way as to assure the best possible outcomes. The problem is that in the standard efficiency model inputs and outputs are measured in money equivalents. Measured in monetary terms, inputs and outputs primarily reflect exchange values with the effect that the maximization of exchange values automatically translates into higher efficiency. Measures such as the closure of rural post offices, the substitution of nurses for doctors and the outsourcing of services to private contractors reduce costs and therefore improve productivity, but they do so at the cost of service quality (Hermann and Flecker 2012, p. 201).

In sum, commodification has profound consequences for the nature and provision of public services. With commodification the goal of public service provision is no longer to provide the best possible services for all service users; the goal is to provide use values that match exchange values, or in more practical terms, to adjust the quality of services to the purchasing power of customers. Occasionally advocates of liberalization and privatization are clear about the deeper motives. Milton Friedman, for example, proposes an elimination of the mandatory licensing of physicians with the argument that patients should be able to choose sub-optimal health care (Friedman 1962, p. 153). This is a highly provocative proposition because in health care first-class can mean life and second-class death. In many other public services commodification has similar effects, but with less life threatening consequences. Overall,

commodification threatens the egalitarian principles on which public services and welfare states were built upon and further accelerates inequality (Wahl 2011).

## **6. Alternatives**

When public services are fully commodified, money or purchasing power decides what services are offered at what quality to what consumers. Only those needs are recognized as worth being satisfied that guarantee sufficiently high returns to private investors. Governments may attempt to interfere in corporate decision-making processes by external regulation and financial incentives to mitigate some of the worst consequences of commodification, but in the end the decisions are made by private businesses based on profit expectations. In other words, commodification implies a weakening of democratic accountability in favor of partisan and mostly corporate interests. With the expansion of markets and private ownership service users are no longer perceived as citizens with (social) rights, including the right to access public services; they are perceived as consumers with, and, perhaps, more often without, a personal budget to spend (Mahnkopf 2008, pp. 76-7).

This is not to say that democratic participation was well developed in the postwar decades. In some countries and sectors there were advisory councils with user and social partner representatives that in some cases operated as consumer-protection organizations and sometimes as advisory boards, discussing price policy and other issues. In general, however, participation was limited to voting for different parties in parliamentary elections, which may have made different promises with regard to the reform of public services. As a result, service user at best had an indirect influence on the scope and quality of service provision. It is only recently that citizens in several European countries became more involved in public sector decision-making processes through a series of municipal and national referendums against the privatization of water, healthcare and other services (Hermann, Kubisa and Schulten 2012, pp. 157-8).

The lack of influence of service users was matched by a lack of influence of workers in the production of services, even though public sector unions had a strong influence in the determination of working conditions. Like most private companies in the postwar decades, public service providers were organized in a strictly hierarchical and bureaucratic manner with several layers of management and detailed guidelines about what workers have to do and what not, leaving little room for innovation and flexible responses to new or specific needs. The dependence on a superior's consent and the threat of being disciplined for disobeying one of the countless regulations, encouraged workers to focus on the fulfillment of rules rather than of needs. The introduction of flatter hierarchies and growing autonomy in day-to-day decision making processes, which has accompanied commodification processes, were therefore welcomed by workers, even if they led to an intensification of work (Hermann and Flecker 2012, p. 199).

The resulting dissatisfaction of workers and users was greatly accelerated by the governments' growing reluctance to provide the necessary resources for the maintenance, led alone modernization, of public services. The shortcomings of the postwar system of service delivery together with the growing critique on 'extensive' bureaucratic organization, paved the way for the neoliberal reform, even though the critics, many of them from the left of the political spectrum, initially had something else in mind than the introduction of markets and private ownership. However, with commodification average users have even less influence on the provision of public services as voters in representative elections. As consumers they can choose between two and more services, but if all services are unsatisfying – not an unrealistic situation given the oligopolistic market structures and the far-reaching cost-saving strategies –

they even lack the possibility of articulating their disappointment by voting out the current government.

While the maximization of exchange value requires the weakening of democratic accountability, the development of use values demands for the opposite – the creation of new and more radical forms of democratic participation. A general election every four or five years is clearly not sufficient. What is needed is the development of new institutions and mechanisms that allow service users to persistently and collectively articulate their needs, and given the limitation of resources, perhaps also their preferences. In other words the maximization of use value demands for more participative democracy based on collective decision-making processes. As Alex Demirović (2007, p. 282) notes “[i]n principal capitalism solves the problem of qualitative aspects of work and consumption by excluding them and taking them into account only when they can be transformed into [exchange] value. If qualitative aspects and individual preferences are considered, there is no other possibility than discussions, consensus and conflict.” This is not to say that the establishment of democratic institutions and participation processes is without problems. In fact there are many problems and challenges that need to be tackled – including the question if decisions are based on consent or majority vote, and if based on majority vote, what mechanisms need to be installed to make sure that minority views or interests are not marginalized (ibid). A more democratic organization of public services must allow for diversity and differences – in contrast to the promised but unfulfilled diversity provided by a commodified system. But these challenges are not unsolvable. Participatory budgeting, invented in Porto Alegre, Brazil, but meanwhile practiced in many cities in Europe and around the world, is a good starting point for thinking about new forms of democratic participation and accountability.

Growing user involvement should be complemented by greater, and most importantly, real worker participation in managerial decision-making processes. There are vast experiences with self- and co-management from cooperative enterprises and from the voluntary sectors, or what in some countries is called the social economy that can be used to reform the existing structures. A highly motivated workforce is key for the maximization of use values. Hillary Wainwright shows how public service workers have prevented the outsourcing of IT services at a local government in Northern England by commonly developing a better and cheaper ‘in-house’ solution (Wainwright 2009, pp. 287-321). Furthermore, working for the public sector is not only more attractive because of less stress and more employment security – which in large parts is not longer true because of commodification and casualization – but also because workers feel that they produce something useful that benefits society. Investigating two cases where IT staff has been outsourced from local governments in Britain, Simone Dahlmann (2008, p. 157) found that the majority of interviewees would have preferred continuing working for the public sector, in spite of the higher salaries and the advanced career prospects offered by their new employer. One IT professional even considered retraining as health care worker to move back to the public system, where she would no longer have to “fill ‘shareholder pockets’” (ibid.).

Of course the practice of a more democratic, participative and ultimately more accountable form of public service provision needs time and resources, especially for information, communication, decision making processes, and in particular for learning from past mistakes. However, there are also substantial savings to be made from avoiding the costs caused by commodification.<sup>5</sup> What is even more important: The maximization of use values demands

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<sup>5</sup> Including, among others, costs for profit-oriented prices and fees, subsidies, the disintegration of services, enforcement of regulations, observance of contract fulfillment, legal fees, higher interest payments for private credits, coverage of private sector failures, fraud and corruption.

for a new understanding of efficiency. The goal is no longer to maximize output, but to maximize outcome. For healthcare, for example, the objective is not to increase the number of medical interventions, but to improve the overall health situation of the population. For the latter it may very well pay off to have a long and comprehensive discussion about how the healthcare system needs to be reformed and how other spheres of social life need to be adapted to achieve this goal.

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