

David Cameron is wrong: public services are nothing like a business

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David Cameron is apparently going to announce a new shake-up of government services today. In the process it is [reported by the Guardian](#) that he will say that government is not unlike a business.

They add that he will stress that he is not seeking to turn Whitehall into a business, but will claim that:

“What energises many markets are new insurgent companies, who break monopolies and bring in new ways of doing things. We can apply this thinking to government.

“So many of our country’s efforts to extend opportunity have been undermined by a tolerance of state failure. Children in care and prisons being two standout areas. Reform — be it breaking state monopolies, bringing in new providers or allowing new ways of doing things — can cut the costs of these failures both economically and socially and help advance the progressive causes of spreading opportunity and enhancing social mobility that we should all care about.”

It is very hard to know where to start with claims like these that are so wide of the mark that it is very hard to believe that a person charged with responsibility for public services has made them.

First, let's be clear why the government is not like a business. The explanation is easy to supply. The difference is that in business the prospect of failure, whilst uncomfortable, is embraced and even provided for as a matter of fact. The reason why so many businesses operate as limited companies is that their owners recognise that the activities that they plan might fail and that they wish for the opportunity to walk away from them in that case and leave the social consequences to others whilst mitigating their own downside risk.

Although it is counter-intuitive, we have found that society has benefitted overall from this approach, but it has done so for three reasons. The first of those is that we assume if a private sector supplier fails either what it provided was not needed, or could be

supplied by someone else more efficiently. Second, because of these facts the social significance of failure is not too high (unless the failed entity is a bank when we now know it is enormous). And third, given adequate disclosure of risk it is assumed that those dealing with private sector entities at risk of failure can afford the consequence of it happening (which is not always true, but is a compromise that has broadly worked).

None of these facts hold true in the case of public services. The possibility of failure cannot be comprehended in those services. To even consider adopting that mentality is wrong. It was wrong when train operators walked away from their franchises and hospital contracts. It will be wrong in every other circumstance where it might arise and the alternative option of state supply has been removed by the abandonment of appropriate skills to provide the services within the state sector.

The reason why that possibility of failure cannot be embraced is because those who need many state services are wholly dependent upon them. And there is no alternative supplier. You do not remove a natural state monopoly that exists precisely because the market cannot and will not supply a service by pretending there is a market when there is none. What you do instead is supply public services of the highest possible standard at lowest possible cost to ensure effectiveness for as many people as possible whilst always asking the question about why the service faces such demand.

If, then, and for example, the prison service is not succeeding because of the excess demand on it the real question is not how innovation in supplying more prisons is required but why we have so many prisoners when it is known that prison is not an effective punishment or deterrent in a great many cases. Privatisation, that perversely commits the government to supplying a continual stream of prisoners for the private sector to manage, is not an answer in that case.

And let's just deal with the supposed business innovation case. Building a prison is no light-hearted gesture. Few businesses, let alone the supposedly innovative SME sector, can come close to securing the capital needed to build a prison and none could do so without long-term contracts for the continuing supply of prisoners at prices guaranteed to supply a profit that the financiers of such schemes would accept as a condition of backing them. There is no process of innovation or enterprise in such a process. This is instead an exercise in building real estate and extracting a rent from it by ensuring the supply of a continuous and guaranteed income stream from the most reliable customer anyone rent seeker can find, which is the government itself.

This is the reality of much (not all, but much) private sector involvement in the supply of state services. Large companies (not small ones) build infrastructure which the government must then service whether or not it may continue to be beneficial to the state to use that structure. And in the process those companies make pretty much the most guaranteed and lowest risk rate of return they can get. This is the basis of the rise of the very few, and rather monopolistic looking, government outsourcing companies in all of which there have been continuing problems of deteriorating service quality and

outright failure on occasion.

I am a big fan of the private sector, and have run real businesses and offer no apology for doing so. But to pretend that business risk and public sector service are related and that the chance of failure from the type of innovation David Cameron is supposedly applauding (and which is in the sector he is considering largely a figment of dogmatic imagination) is low or non-existent is absurd.

To put it another way, the chance that David Cameron is anything close to getting his logic right on this issue is remote in the extreme. And we all might pay the cost of that.