PRIVATISATION AND SOCIAL POLICY
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Privatisation and Social Policy
Mark Drakeford
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I am very pleased to provide the preface for Mark Drakeford's *Privatisation and Social Policy*. He has produced a work that is both stimulating and challenging while being accessible to the intelligent lay reader. As other authors know, this is no mean feat. The book itself draws on and develops themes that have represented a significant part of the author's work over the last decade. Indeed, I think that it is true to say that Drakeford's work over the last ten years embodies some of the most interesting social policy literature both on how the socially excluded experience social exclusion and how social policies contribute to their exclusion. This volume picks up these and other themes and concentrates on the de-nationalisation or privatisation of the welfare state. This process is carefully analysed in relation to each of the welfare state services in the latter part of the book but is prefaced by a theoretical and analytical discussion of where privatisation comes from, what it means and what its effects are and are likely to be. Together, the discussion and the analysis provide salutary lessons for policy-makers and practitioners alike and contribute to make a textbook of the highest quality. But this is not just a textbook. Through the use of his own and other writers' research, Drakeford takes the debate forward. He traces the origins of the privatisation of social policy to the social policies, and more importantly, the economic and political principles of neo-liberal Conservatism. But he also considers how such policies form part of a sort of Blairite 'Third Way'.

The author's project is addressed with both a dispassionate eye and a passionate (or compassionate) heart. And the book is the better for the marriage of the two. This is a book on the welfare state, written by someone who can rightly be regarded an academic expert. It is also a book about social policy written by an author who ardently believes in the capacity of social policy to ameliorate social ills and knows its capacity, also, to contribute to their exacerbation. It is to be recommended to all who wish to understand the social policy of the late Twentieth Century.

Michael Sullivan
Swansea
June 1999
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<td>Assisted Places Scheme</td>
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<td>ASBO</td>
<td>Anti-Social Behaviour Order</td>
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<td>AST</td>
<td>Advanced Skills Teacher</td>
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<td>BPU</td>
<td>Budget Payment Unit</td>
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<tr>
<td>CBI</td>
<td>Confederation of British Industries</td>
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<td>CCT</td>
<td>Compulsory Competitive Tendering</td>
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<td>CSR</td>
<td>Comprehensive Spending Review</td>
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<tr>
<td>CTC</td>
<td>City Technology College</td>
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<td>DoE</td>
<td>Department of the Environment</td>
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<td>DES</td>
<td>Department of Education and Science</td>
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<td>DETR</td>
<td>Department of the Environment, Transport and the Regions</td>
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<tr>
<td>DfE/WO</td>
<td>Department for Education (Welsh Office)</td>
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<td>DFEE</td>
<td>Department of Education and Employment</td>
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<td>DoH</td>
<td>Department of Health</td>
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<tr>
<td>DHA</td>
<td>District Health Authority</td>
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<td>DHSS</td>
<td>Department of Health and Social Security</td>
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<tr>
<td>DSS</td>
<td>Department of Social Security</td>
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<td>EAZ</td>
<td>Education Action Zone</td>
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<td>ERCF</td>
<td>Estates Renewal Challenge Fund</td>
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<td>GM</td>
<td>Grant Maintained</td>
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<td>GP</td>
<td>General Practitioner</td>
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<td>GPCG</td>
<td>General Practitioner Commissioning Group</td>
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<tr>
<td>GPFH</td>
<td>General Practitioner Fundholder</td>
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<tr>
<td>HAT</td>
<td>Housing Action Trust</td>
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<td>HSSSSAA</td>
<td>Health and Social Services and Social Security Adjudications Act</td>
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<tr>
<td>JRF</td>
<td>Joseph Rowntree Foundation</td>
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<td>JSA</td>
<td>Job Seekers Allowance</td>
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<td>LEA</td>
<td>Local Education Authority</td>
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<td>LSVT</td>
<td>Large Scale Voluntary Transfer</td>
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<td>MIRAS</td>
<td>Mortgage Interest Tax Relief</td>
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<td>NCB</td>
<td>National Children’s Bureau</td>
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<td>NHS</td>
<td>National Health Service</td>
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<td>The Office for Standards in Education</td>
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<td>Office of Fair Trading</td>
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<td>Abbreviation</td>
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<td>PCG</td>
<td>Primary Care Group</td>
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<td>Private Finance Initiative</td>
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<td>PSBR</td>
<td>Public Sector Borrowing Requirement</td>
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<td>REC</td>
<td>Regional Electricity Company</td>
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<td>RTB</td>
<td>Right to Buy</td>
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<td>SCAA</td>
<td>Schools Curriculum Assessment Authority</td>
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<td>State Earnings Related Pension Scheme</td>
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<td>SEU</td>
<td>Social Exclusion Unit</td>
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<tr>
<td>SSD</td>
<td>Social Services Department</td>
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<td>STG</td>
<td>Special Transitional Grant</td>
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ACKNOWLEDGEMENTS

This book is the product of an idea which has been a personal preoccupation ever since becoming involved in the investigation of the social consequences of the privatised utilities in Wales. I’m especially grateful, therefore, to those colleagues in the anti-poverty movement here who have provided so much of the impetus to bring these findings and ideas to a wider audience. While working at Swansea – where this work began – I was particularly encouraged by Mike Sullivan to think more widely about the impact of privatisation upon social welfare services. He has remained willing, ever since, to be a sounding-board for work-in-progress and I want to record my continuing appreciation of that help and the Preface which he has now contributed to this volume.

The main debt which I owe, in bringing the project to publication lies unambiguously with Jo Campling from whose advice and thoughtfulness. I have been the grateful beneficiary. This book would not have happened without it – or, indeed, the consistent helpfulness of Verina Pettigrew and other staff at Longman.

Families bear the worst brunt of the pressures which preparing manuscripts entails. I’ve been more than lucky to have the active help of my father, John, and my wife, Clare, in bringing this book to publication.

Errors of fact, infelicities of expression, peculiarities of interpretation, perversities of conclusion – all these, of course, remain entirely my own responsibility.

Mark Drakeford
Cardiff
June 1999
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PART ONE
Chapter 1

INTRODUCTION

This is a book concerned with one of the great debates of contemporary social policy, and one which is older than the discipline itself. Defining the boundary between public and private responsibility was a part of Plato’s debates about the nature of state and citizenship. It framed the Elizabethan resolution of parish provision for the poor and determined the founding instrument of the modern welfare state, the Poor Law Amendment Act of 1834. Even in periods when the balance between those responsibilities assumed by the state and those undertaken by individuals has appeared stable and decided, an undercurrent of dissent, disagreement and ambition for alternative arrangements lies closer to the surface than casual enquiry might suggest.

For almost two centuries, however, these changing balances have taken place within an overall pattern in which the collective organisations of societies and states have taken an increasing responsibility for the welfare of individuals. The achievement of a ‘welfare state’ – even where marked by reluctance rather than enthusiasm, and by self-interest rather than altruism – provides a deep current over which particular ebbs and flows of public and private provision have taken place. For a text concerned with privatisation this deep pattern is particularly important. It gives rise to the immediate question of whether the ambition of ‘rolling back the state’, which has characterised British social policy during the last quarter of the twentieth century, is another temporary disturbance upon the face of the ocean, or whether it amounts, really, to a sea-change in welfare thinking and organisation.

Within our own time, certainty regarding these basic issues of social policy has been largely overtaken, both by debate about the particular issue of public and private provision and by the general post-modernist emphasis upon uncertainty and risk. Among the political parties it has become common ground that change in the provision of welfare, its costs, the services it provides, the rights and obligations which it confers upon individual citizens and so on is inevitable. Here are two views, one expressed by the deputy leader of his Party, the other by the leader of his – ‘There is no escaping the need for structural reforms of the social security system’ and ‘We have reached the limits of the public’s willingness simply to fund an unreformed welfare state through ever higher taxes and spending.’ The first expresses the view of Peter Lilley, the second that of Tony Blair. The characterisation of welfare as a problem unites both views.
The solution to that problem, of course, is a matter of contention and contradiction. Part of the purpose of this book will be to place present-day debates in the context of longer-term concerns, attempting to connect these dilemmas to the discussions from which they have sprung.

It will also be a purpose, however, to suggest a particular understanding of those currents which appear to be running most strongly in contemporary welfare and to consider their impact upon those by whom social welfare services are required. Even if disputing the dividing line between private and public provision turns out, on examination, to be a continuous thread in this area of policy, that continuity should not obscure the very real differences which boundary changes create for individuals and whole classes of individuals. Nor should the time-honoured nature of these debates prevent us from remaining alert to the possibility that even continuous spectrums could have paradigm shifts within them, in which the balance might shift – even temporarily – between significantly different elements.

For students of social policy, these questions lie at the core of their discipline. The ambition of this text is to provide some of the information and argument which allows debate around that core to be conducted. While I make no claim to neutrality in drawing conclusions in this ideologically contested terrain, my aim has been to remain as explicit as possible about my own interpretation, thus allowing readers to reach quite different conclusions, where these appear to them to be more convincing.

1.1 Structure of the book

The structure of the text may be summarised as follows. Part One places contemporary controversies concerning privatisation and marketisation in the longer-term context of such debates within social welfare. Chapter 2 aims to set out the case for increasing the scope of private provision and market organisation in terms which would be recognisable to those who espouse such views. Chapter 3 discusses the practical application of privatisation and marketisation policies in an area where promoters of such polices have made greatest claims – the privatised utilities. This chapter explores the social policy consequences of initiatives which were advanced primarily on industrial and economic grounds. A set of issues emerge as relevant to social policy services more widely and these are considered in the subject-by-subject chapters which make up Part Two of the book. This section deals with the period of Conservative government between 1979 and 1997, when such policies occupied an unambiguous place on the agenda of administration. Part Three turns to the emerging record of the New Labour government, elected in May 1997. The application of private and public solutions to social policy problems by the Blair administration will be recorded and assessed. The final part – Part Four – provides a series of
key documents, setting out the ideological framework within which privatisation and marketisation policies are derived and disputed and setting out the claims made for and against such policies in their application to social welfare services.

In as complex an area as privatisation and marketisation of social welfare services, it will not be possible to provide equal attention to all the possible techniques, approaches and claims made for them in the case of each policy area. Instead, the plan adopted in this book has been to provide a particular emphasis within each service chapter, illustrating and exploring the application of particular techniques and evaluating the outcomes. Of course, this does not preclude each chapter considering other relevant applications; nor does it prevent an aspect which has received concentrated consideration in one area from appearing again in another. It does provide a means, however, by which the most important elements in the application of privatisation in social welfare can receive the attention required.

It is in the nature of the social policy issues considered in this book that individual chapters must deal with the application of macro-level policies created by governments at the meso-level of particular services. The impact of privatisation and marketisation, however, is not simply felt at a service level. Users of particular forms of social policy provision are directly affected by the changes outlined. As Papadakis and Taylor-Gooby (1987: 32) put it, ‘reduction in state involvement in any service to meet need involves the expansion of the private sector, because people are compelled to meet their needs privately, if they can’. Each chapter, therefore, also includes an investigation of change at an individual level, providing most attention to the impact of privatisation upon those most in need of services. Moran (1998: 30) suggests that, ‘market ideology simultaneously holds out prospects of empowerment and of subordination’. The case made by privatisers and marketeers concentrates heavily upon the former, and this book will provide a series of examples where empowerment has taken place – patients able to buy access to medical care; parents able to obtain a school place of choice; and so on. However, the sharpest test of a policy has to be among the hardest cases and it will be in this area, which Moran characterises as subordination, that each chapter will deal at its conclusion.

This introductory chapter aims to trace some of the boundary shifts which have taken place in the five core social policy areas with which this text is primarily concerned. Individual chapters will later consider the impact of privatisation and marketisation upon these services from 1979 onwards. Here I aim to present the balance between private and public provision in housing, education, social security, social services and health at the end of the 1970s, providing the context within which later changes can be understood. The end of this chapter will return to the more general question of what is meant by the term ‘privatisation’ in this book, leading into an account of its modern policy development and its application.
Chapter 4, dealing with housing policy, places particular emphasis upon the privatisation of property in social welfare, tracing the direct transfer of material goods and assets – primarily council housing – from the public to the private spheres. While state acceptance of responsibility for housing has never, as in the case of education or health, been undertaken on a universal basis, the flow of policy during the first eighty years of this century was almost always in that direction. Immediately after the First World War the pressure to provide homes for returning heroes resulted in government subsidy to private house builders in order to encourage production. Government thus used its financial power to buy services – in this case house building – provided by others. In this way, the system represented an early example of the provider/purchaser division which was to be a central technique of the 1980s free marketeers. Nor, as Hendry (1998: 15) notes, were these the first attempts at such a policy. Unsuccessful attempts to provide local authorities with financial assistance to build working-class homes had been introduced in Parliament in 1912, 1913 and again in 1914. While the Addison Act of 1919 established the effectiveness of government subsidy in stimulating private production of housing, it also allowed for the direct provision of housing by local government where the need for this could be demonstrated. While only 75,900 local authority houses were built under the Addison arrangements, as opposed to 362,000 by the private sector (Hendry 1998: 18), the principle of direct state provision had been established. The Wheatley Act of the 1924 Labour government led to the construction of half a million local authority dwellings in less than a decade. Thereafter, while the scale of subsidy and construction varied at different periods, the fact of state intervention and provision had been achieved, albeit within a market in which most people would remain housed within the private sectors of renting and house purchase.

For the greater part of the twentieth century, involvement of the state in housing policy rested essentially upon twin foundations. On the one hand, housing was, as Linneman and Megbolugbe (1994: 641) suggest, ‘always regarded as a “merit” good. The provision of a decent home for every family was generally considered part of the basic responsibility of government.’ The case for assuming such a responsibility drew on the intrinsic importance of decent accommodation – the fact that, as Balchin and Rhoden (1998: xvii) put it, ‘apart from nourishment, shelter is humankind’s most essential material need’. Less altruistically, state interest also rested upon the ‘externalities’ of housing – that is to say, the way in which the consequences of failure to provide decent housing might impact upon those indirectly, as well as directly, affected through, for example, the spread of disease. Direct involvement of government in achieving such an end, however, was relatively constrained. Smith et al. (1996: 288) set this in the context of other social policy areas: ‘Unlike education or health service provision there has never been a commitment on the part of any government, of whatever political persuasion, to support a near universal housing
service designed to meet the needs of all households.’ Rather, state intervention was confined to a redistribution of housing resources towards poorer citizens, bringing decent and affordable accommodation within the reach of those who would otherwise be unable to obtain access to it. Regulation of the private rented market and direct provision of council housing have been the primary means through which this outcome has been sought. While local authority housing, as a proportion of the total housing stock, reached its peak in 1978 (Hills 1991), Forrest (1993: 40) argues that, in most localities, ‘it was the private sector which was the dominant provider either through mortgaged owner-occupation or private renting’. The importance of the private sector, moreover, was common currency between the political parties by the end of the 1970s. Williams (1992: 161), for example, notes that the Housing Review undertaken by the Labour government between 1975 and 1977,

‘asserted the importance of home ownership and proposed no changes to MIRAS . . . In 1978 the Labour government introduced its new Housing Bill. This included . . . measures to extend home ownership and improve the allocation of council housing . . . much of this was taken up by the Conservatives when they returned to power in 1979 and introduced their own Housing Bill.’

It is in response to such evidence that Malpass (1998: 186) concludes that, ‘the changes imposed in the 1980s and those planned in the 1990s are rooted in trends that were well established before 1979’.

At the same time, the impetus for privatisation and marketisation from 1979 onwards was, in many ways, driven by financial as well as ideological considerations. The welfare state of the post-war period was, in many ways, a local state. Of the great services considered in this book, three – education, housing, social services – remained the province of local councils, while two – the health service and social security – were organised on a national basis. The growth in local government spending on welfare services fuelled this concern. Butcher (1995: 92–3) shows that local authority expenditure, as a proportion of total public spending, had risen from about one-quarter at the end of the 1940s to nearly one-third by 1976.

Within that picture, spending on education, housing and the personal social services had risen from 24 per cent of local government spending in 1945 to nearly 62 per cent in 1976. The arrival of the oil crisis and the consequent economic recession of the mid-1970s brought that era of expansion to an end. The Conservative Party analysis of the economic crisis of the mid and late 1970s was one which identified public spending as a cause of national difficulty, rather than a solution to problems of the state. It thus prepared the ground for privatisation as a key part of the general attack on the scope of state activity. It was against this general background, therefore, that the 1979 Conservative Government entered office with a more developed approach in relation to housing than in almost all other social policy areas. It intended to privatise property in the hands of the state, through the sale of local authority houses to
council tenants. In doing so, however, it was operating within a field in which pluralism and the co-existence of public and private had long been characteristic.

**Social security**

Chapter 5, devoted to social security, will look in detail at the phenomenon known as ‘privatising from within’ (Young 1986: 243), in which private sector techniques – or ‘new public management’ doctrines – are applied to public sector services. Market-testing and the creation of government agencies will form the focus of re-delineating the boundary between public and private provision. The relief or prevention of poverty through income maintenance policies is one of the most fundamental parts of the contract between the citizen and the state. Chapter 5 considers the changing balance of rights and responsibilities within that relationship inherent in the application of privatisation and marketisation to social security policy.

The particular concerns of Chapter 5 thus have to be understood in the wider context of the development of British social security policy. The distinction between responsibilities to be accepted by the state, and those to be undertaken by the individual, has been more sharply felt in relation to the provision of income than in any other social policy area considered in this text. A minimal system, consistent with the prevention of social unrest, has been a recurring theme here, together with a consistent preoccupation to make the lives of those dependent upon a state-provided income no more comfortable than those of the least well off in employment. This latter principle of ‘less-eligibility’ found its most powerful expression in the Poor Law Amendment Act of 1834 which set the framework for more than a century of social security provision. At least partly as a result of the hardship caused by that Act, the nineteenth century witnessed the development of a large-scale ‘self-help’ sector, made up of trades unions, friendly societies, building societies and others through which, as Hill (1990: 17) suggests, individual self-help could be supported and sustained by collective effort.

In so far as the state intruded upon private provision during the nineteenth century, this effort consisted of attempts to regulate and formalise, rather than supplant, the voluntary and commercial sectors. Even this limited activity, however, proved controversial. Doran (1994) has traced the opposition of the late eighteenth-century ‘Box Clubs’ to requirements that their system of voluntary contributions and benefits to members might be overseen by professional actuaries. The Clubs were alert to suggestions, made in Parliament at the end of the Napoleonic Wars, that the burden of poor relief upon parishes might be reduced by making membership of friendly societies compulsory. Doran (1994: 139) quotes a contribution recorded in *Hansard* of 1819, that:

‘Many persons thought this mode of providing the wants of the poor so desirable, that its operation ought not to be left to the voluntary acts of individuals, but that the poor should be compelled to resort to it.’ (*Hansard*, vol. 39: 1819: 1160–1)
Despite these objections, however, the trend towards greater formality within self-help organisations continued, providing the respectable working class with a form of insurance against both the dangers of unemployment and ill-health and against the necessity of relying upon the deterrent assistance afforded by the state. Increased casualisation of employment, however, and a growing electorate combined to provide the first major shift in favour of a state-provided social security system. The Old Age Pensions Act of 1908 and the ill-health and unemployment benefits of the 1911 National Insurance Act established the framework of the system which remained in place throughout the inter-war period. By the time of the 1942 Beveridge Report, the social security system remained a complex mixture of public and private provision. Within the state system, an insurance-based scheme provided for most people on low and middle incomes in relation to sickness, unemployment and old age. This system was accompanied by a much despised means-tested scheme for those beyond the scope of insurance and backed up by the threat of the workhouse for those unwilling or unable to bring themselves within the scope of outdoor relief. For those in better paid employment, or wishing to secure themselves against additional hazards, the voluntary and commercial insurance markets continued to provide a private route to social security. To quote just one example, it has been estimated that, by 1938, there were more than 100 million insurance policies intended to provide help with funeral payments current in Britain (Calvert 1978: 248). These policies were held with friendly societies and commercial insurance companies. They provided minimal coverage, but sufficient to ‘avoid a pauper’s funeral’ (Fraser 1984: 165). In fact, as Brown (1995: 16) suggests, prior to national insurance, these policies continued to represent ‘the buoyant part of the market’ as far as the companies were concerned. State ‘interference’ in provision had long been resisted by them, as part of the continuing controversy concerning the boundary between individual and collective responsibility.

The communal sacrifices of wartime conditions, however, provided a decisive twist to the debate between public and private provision. The power of the state to wage war could be harnessed in peacetime to wage war upon Beveridge’s Five Giants: Want, Disease, Ignorance, Squalor and Idleness. It is not part of the purpose of this text to provide a detailed account of the achievements and limitations of the Beveridge settlement. In terms of the shifting boundary between private and public responsibility, however, the report, and the legislative programme which followed, placed its emphasis firmly upon the role of the state to organise and provide a system of National Insurance, in which all citizens would be protected from want, as of right, from the cradle to the grave [document 1] this, and all other documents, can be found in Chapter 11. The system, as characterised by Webb et al. (1976: 7) was to be ‘comprehensive and universal, professional and impartial’. To pursue the example provided above in relation to funeral expenses, Beveridge suggested replacing the complicated, overlapping and inadequate benefits available through private insurance with a universal Death Grant. It was to be set at £20 for each adult, a sum which was ‘reasonable to meet the necessary expenses of a decent funeral’ (Beveridge 1942: 159).
If £20 would be insufficient, wrote Beveridge (1942: 159), 'there would be no difficulty in providing a larger grant'. The power of the state to provide for individual need was unchangeable.

Yet, within a very short period the first signs of challenge were beginning to become apparent. Within the complex history of income maintenance in Britain in the period from 1945 to 1979 a small number of trends need to be identified if the position to which the privatising policies of the 1980s and 1990s were applied is to be properly understood. Firstly, the system of universal contributions and benefits, as envisaged by Beveridge, did not succeed in replacing the means-tested element within social security, as he had envisaged. Universal benefits were never set at a sufficiently high level to provide for even basic needs and, as a result, and despite successive attempts in 1955, 1966 and 1974–76 to re-establish the universal basis of the scheme, means-testing grew inexorably. By the time of the first Thatcher administration, the outgoing Labour government had explicitly accepted the role which means-testing would play in the future development of social security. The 1978 nil-cost Orme Review of supplementary benefits was designed to fit that part of the system for 'its new mass role'. At the same time, at an administrative level, increasingly stringent tests of eligibility policed access to such benefits more and more tightly. The Orme Report was available for incoming Conservative Ministers and helped shape their early social security reforms, as Chapter 5 demonstrates.

At the same time, the preoccupation with the public welfare system of income maintenance was challenged by Titmuss's famous 1955 analysis of the social division of welfare, in which he drew attention to the enduring importance of fiscal and occupational contributions to social security (in Titmuss 1958). The inadequacy of national insurance-based pensions, for example, meant that, from the outset, the state system was unable to provide a universal pension in old age which would be sufficient to support a reasonable lifestyle. In the years between 1945 and 1979, a dual system developed in which the relatively well-off made private provision while the poorest were obliged to draw upon means-tested benefits, as well as the basic pension, in order to meet everyday needs. Fawcett (1995: 153) traces the change in private occupational pension coverage which grew from 13 per cent in 1936 to 33 per cent in 1955 and had come to cover approximately half the workforce by 1979. This growth was positively promoted by Conservative administrations throughout this whole period, using the tax system – Titmuss's fiscal welfare – to encourage private provision in social security.

By 1979, therefore, the universal, rights-based, adequate system of state-provided social security was already significantly in retreat. The shift from insurance-based to means-tested benefits carried within it a parallel shift from state to individual responsibility. More generally, the private provision of occupational welfare – private pensions, private health care, company cars, subsidised canteens and so on – had begun to create a more attractive alternative set of social security rights for those in employment. At the start of the 1980s the shifting balance between public and private provision was as open to amendment in this policy area as in any other.
Chapter 6, dealing with education policy, focuses upon the issues of competition and choice in social welfare, exploring these questions in relation to the creation of a market between schools in the public sector. The privatising and marketising policies of the last decades of this century have to be viewed against the increasing assumption of public responsibility for education which had been in progress for more than 150 years. The first grant made by the state in education took place in 1833 when £20,000 was provided to two national voluntary bodies, the National Society of the Church of England and the Nonconformist British and Foreign Bible Society. Once again, the state was the purchaser of services provided by others. This preference for private provision remained characteristic until the latter part of the century, although government funding of private institutions – on a per capita basis, combined with payment-by-results and an attendance element which pre-figured the formula-funding of school budgets at the end of the twentieth century – grew from 1833 onwards.

The Education Act of 1870 introduced the first direct state provision of education, with ‘Board schools’ set up in areas where voluntary and private sector provision had failed to meet demand for elementary education. Present-day free-market liberals have suggested that investigation of the ‘impressive collection of agencies outside the formal state education system, paid by parents, grandparents, employers, charities and other private sources’ makes it ‘clear’ that educational provision would have ‘continued and strengthened’ had the state not intervened in the 1870 Act (West 1996: 18). When local education authorities were established under the Education Act of 1902, these were charged with aiding or directly supplying education beyond the elementary stages. Hendry (1998: II) shows that, for the first time, the 1902 Act firmly established a ‘bias towards public provision’ of education, a bias which was further extended and consolidated during the inter-war period. Such was the extent of public responsibility in this field that the 1944 Education Act, while highly significant in an organisational sense, required little addition to the principle of a public responsibility for the funding and provision of a universal education service. In Hendry’s analysis (1998: 14), education exemplifies a general model in the move from private to public in social policy provision over this period. The pattern begins with the introduction of public subsidy into essentially private systems. The level of this subsidy increases in order to fill gaps in private provision. Thereafter, Hendry suggests, ‘once established the public sector with its great taxing powers gradually expands at the expense of private and not-for-profit sectors’. With the foundation of the welfare state, the service was effectively nationalised, provided on a universal and free-at-the-point-of-use basis. Public provision had become dominant, with private education relegated to a marginal and minority interest.

Despite the durability of this basic pattern of state responsibility, the education system which the incoming Thatcher government inherited in 1979 was one in which a number of the fundamental assumptions of the wartime Butler
Education Act of 1944 had already been strongly called into question. From within the Labour government of 1974, the Prime Minister, James Callaghan, had launched a 'Great Debate' in education, casting doubt upon the extent to which young people were equipped by it to meet the needs of industry and employment. His Ruskin speech also challenged the validity of 'child-centred' educational methods as set out in the 1943 White Paper which preceded the Butler Act. There it had been set out plainly that, 'The keynote of the new system will be that the child is the centre of education and that, so far as it is humanly possible, all children should receive the type of education to which they are best adapted.' Personal development, rather than vocational preparation, lay at the heart of the Act, and the individual child was placed at the centre of its operation. Taylor-Gooby (1993: 104) summarises the fundamental departures from those principles which the Ruskin speech embodied. It set up, he argues, 'responsiveness to the wishes of consumers and to the presumed needs of industry' as the 'touchstone by which schooling is to be judged ... Professional judgements are swept aside: the views of those outside the educational experts' consensus – politicians, employers, parents and voters – become paramount.'

While Prime Minister Callaghan hoped to bring about a change in the delivery of education at classroom level, he remained – as he wrote 15 years later (Callaghan 1992: 16), quoting R.H. Tawney, 'what a good parent would wish for their children, so the State must wish for all its children' – a firm believer in the role of the government in pursuing such outcomes. By 1979, however, this and other basic principles of the 1944 Act were also under significant scrutiny, emanating mainly from the embryonic 'New Right' of liberal marketeers within the Conservative Party. This group, primarily in a series of publications which came to be known as the Black Papers, pointed to the enduring failure of the 1944 system to advance the interests of the most disadvantaged pupils within the education system. An Act which, as Ranson (1990: 5) suggests, had organised and legitimised itself upon claims to justice and fairness, turned out, in the argument of the Black Paper authors, to have delivered neither. In particular, the comprehensive education system, with its emphasis upon social planning and communal rather than individual preference, was attacked for the damage which it was said to have caused to educational standards and for the attack which it represented upon individual freedom. The solutions to be applied were characteristic of the New Right thinkers. The general enthusiasms of the approach was summed up by Sir Keith Joseph, soon to be Minister of Education in the cabinet of his protégé, Mrs Thatcher, in this way:

'The blind, unplanned, uncoordinated wisdom of the market is overwhelmingly superior to the well-researched, rational, systematic, well-meaning, co-operative, science-based, forward-looking, statistically respectable plans of governments, bureaucracies and international organisations.' (Joseph and Sumption 1979: 57)

Within the field of education, specifically, the advantages to be derived were later summed up by one of the co-authors of several of the Black Papers, Caroline (Lady) Cox (1988), when suggesting that,
Introduction

'choice and accountability are key concepts of Conservative philosophy which underpin current educational policy. They can be the means of giving good schools the opportunity to become better; but more importantly, they can give greater power and influence to those parents and pupils who are the most vulnerable and for whom the present system is failing. Power to the people. Fairer and more democratic policies. These are our concerns.'

Thus, while education appears to be a field in which the move towards public funding of a public service had gained a firm ascendancy, the dispute between public and private remained more lively and open to question than might be apparent at first inspection. The privatisers and free-marketeers of the 1980s and 1990s were able to draw upon a tradition of dissent and alternative thinking which, as Chapter 6 illustrates, were capable of being translated into policy actions.

Social services

In considering the field of social services, Chapter 7 will devote attention to the contracting out of services which were previously provided directly by public authorities and the development of distinctive purchaser and provider roles and relationships. It will also deal closely with the question of user charges, considering the transference of responsibilities for paying for services from the public to the private sphere.

In common with all the great social welfare areas considered in this text, the personal social services had, since their inception, been subject to change in the balance between public and private responsibility in their development, funding and delivery. State intervention in the form of directly financed and provided social services, however, developed more slowly here than in any of the other policy areas. The nineteenth-century attitude towards those experiencing social problems such as poor housing, or personal difficulties such as mental illness, was that these were caused by personal inadequacy. As a result, one of the great tributary streams of modern social work – the Charity Organisation Society – was constantly preoccupied with the dangers of creating welfare dependency among its recipients. Octavia Hill, the founding genius of the Society, regarded the public provision of any ‘necessary of life’ to the poor as a ‘disastrous policy’ (Whelan 1998: 35). Towards the end of her life, as a member of the 1905 Royal Commission on the Poor Law, she submitted a memorandum of dissent to the Commission’s findings in which she objected to its recommendation of free medical treatment for the poor and the idea that government might have a role in providing employment during times of economic recession. The notion of social services as the preserve of voluntary effort, selectively directed towards those who might benefit from improvement of their moral, rather than physical, circumstances remained powerful throughout the inter-war period.

The creation of modern social services departments can be traced to the 1948 Beveridge Report titled, significantly, Voluntary Action. Adams (1996: 31) describes this as ‘the weakest of the three Beveridge Reports, but one which,
nevertheless, established the idea of state responsibility for personal social services, through local authority health and welfare departments. The National Assistance Act of 1948 placed an obligation upon local councils to set up children’s committees and to employ professional children’s officers. The ‘accepted way of thinking’ about the delivery of post-1945 services – that they ‘should be both financed and provided by an agency of the state’ (Glennerster 1992: 31) – thus manifested itself in the social services arena. While the state had progressively come to provide the funding to support voluntary effort in the social services, the post-war priority attached to issues of equity and accountability meant that the roles of funder and provider were merged into one. Social services departments, for example, would finance the residential care of older people and provide that care directly in council-run homes. Yet, even in the universalist atmosphere of the late 1940s, when it could be assumed that state effort would come to supplant voluntary and charitable provision, Adams (1996: 32) shows that a substantial and enduring role for private welfare was anticipated. It was the ‘general assumption’ that meals on wheels, for example, ‘should be provided through the voluntary sector’. Even mainstream services, such as social work with families ‘was provided largely on the assumption that self-help, voluntary effort and help within the family should be sufficient’ (Adams 1996: 37).

While the high-water mark of most social policy services had been achieved in the immediate post-war years, the personal social services achieved greatest prominence nearly a quarter of a century later. The term itself was first adopted in the Seebohm Report of 1968, which proposed the creation of unified social services departments within local authorities, providing comprehensive and accessible services for all by whom they might be required. Real expenditure on personal social services, which had remained unchanged during the 1950s, doubled between 1960 and 1968. Direct provision of such services by the state had come, to a greater extent than ever before, to substitute rather than supplement voluntary and charitable action. Yet, below that surface, a ‘mixed economy’ of private, voluntary and public provision continued to exist and develop. The traditional children’s charities, such as Barnardos or the National Children’s Homes, adapted their activities to the policies of the new age and survived as suppliers of services in their own right, or as providers of services to local authorities. Changing social needs gave rise to new forms of voluntary organisation, either in the shape of self-help movements or campaigning groups in areas such as disability or mental health. The dominant position achieved by the state in relation to health or education was thus never replicated in the social services.

Moreover, while health and education services were provided free to the user, charging remained an established part of local authority delivery of social services throughout the post-war period. Parker (1976), as quoted by Baldwin (1997: 91), provides a summary of the reasons commonly used to explain and justify this way of working. These include the symbolic value of charging as the expression of an ideological position, regardless of the economic value of any charges levied; the deterrent impact of charges in reducing costs to the taxpayer by reducing demand; the spreading of resources, by reducing the costs of the
service while maintaining supply; the reflection of shifting priorities between consumer groups or higher and lower priority services and the prevention of abuse which tying the use of services to a fee was thought to deliver.

In many cases, of course, a decision to charge for services will encompass a combination of these rationales. On the whole, however, as Judge and Matthews (1980: 2) point out, even those administrations opposed to charging in principle, have retained and extended charging when social policy objectives have been subordinated to economic ones. Revenue raising thus dominates the other rationales which have traditionally been offered in justification of charging.

The result of these policy and practice approaches meant that, by 1979, the use of non-state providers and direct charging for services, rendered the social services an area where the acceptance of responsibility by the state and the direct discharge of those responsibilities was less monolithic than in almost all other social policy areas. The marketisation reforms of the 1980s and 1990s, therefore, did not represent a wholly new way of organising such services. While the scale, scope and purpose of privatisation and liberalisation were quite different, the basic mixture of private as well as public effort had never been lost.

The National Health Service

Chapter 8, dealing with the health service, provides a particular concentration upon the development of an internal market and upon the privatisation of capital expenditure through the Private Finance Initiative.

The assumption by the state of universal responsibility for the health of its citizens is essentially a twentieth-century phenomenon. The 1834 Poor Law provided a residual and deterrent service for paupers, through state workhouses. The Victorian contribution in this field was to be found in the profoundly important improvements to collective public health measures of sanitation and safe water supplies. Individuals looking for health care were to make their own provision either directly or through the insurance systems of the trades unions and voluntary societies. The National Insurance Act of 1911 provided the first major alteration in the balance between private and public responsibilities in this area. It introduced compulsory insurance of those earning less than £160 per annum – but not their dependents – in return for guaranteed free access, through an approved society of the subscriber’s choice, to the services of a general practitioner and cash payments during periods of sickness. In the view of one contemporary neo-liberal of the privatising Right, it represented one of the ‘turning points in the suppression of spontaneous medical provision’ (Green 1996: 21). Hospital services were left outside the scope of the 1911 Act and remained, until 1946, the responsibility of the private and voluntary sectors. The effect of the Act at primary care level, however, was considerable. With successive extensions in the groups covered by the Act during the inter-war period, Webster (1988) suggests that by 1938, 43 per cent of the whole population were covered by the scheme.
Whiteside (1998: 205) suggests that the inter-war national insurance arrangements displayed many of the characteristics which were later to be claimed as benefits by the neo-liberals of half a century later: Firstly, it was driven by consumer choice; new labour market entrants decided which society to join. Choice was heavily influenced by efficient management; the profitable society offered members better benefits for the same contribution than its less successful competitors. Secondly, as societies competed for new members by providing additional benefits from profits, society rivalry and competition fostered the extension of medical care at no cost to the taxpayer. Despite these advantages, however, the approved society arrangements ended the inter-war period in substantial disrepute. In Whiteside's analysis, three main reasons emerge for this transformation. Firstly, societies were vulnerable to private sector collapse, especially in those areas where industrial depression made greatest demands upon their services. Secondly, private provision involved serious problems of inequity – 'The tendency for the market to provide the best care for those least in need... [led to] inverted selection [which] sprang directly from the incentive to good management based on values common to any commercial enterprise.' In other words, those most in need of health care found it most difficult to obtain insurance, and then received the lowest levels of benefit. By contrast, societies assiduously courted the custom of those who were least likely to require their benefits – young, healthy males in full-time employment. Thirdly, the system was condemned for its inefficiency. Competition between suppliers led to duplication of expensive resources, often concentrated in areas where they were least needed. Administratively, industrial assurance companies swallowed up 40 per cent of premium income in such costs. Whiteside (1998: 203) summarises the conclusions which were to emerge in the Beveridge Report in this way: 'rationalisation of central surveillance would promote fairness, cost-effectiveness and economies of scale. Competition between service providers caused duplication, waste and high administrative costs; eliminating these effects would secure greater efficiency and fair shares for all.'

The establishment of a universal, free-at-the-point-of-use health service, embodying these Beveridgean principles, took place under the 1946 National Health Service Act. This brought hospitals within the scope of public responsibility and extended the scope of primary health coverage to all citizens. The principles of the service are explored in more detail at the start of Chapter 8, but essentially rested upon free and equal access to a service which would provide comprehensive treatment on the basis of clinical need, rather than ability to pay. In Bevan's (1978: 109) words, the health service represented, 'a triumphant example of the superiority of collective action and public initiative applied to a segment of society where commercial principles are seen at their worst' [document 2].

Despite this emphatic assertion of public responsibility, however, the debates between private and public provision remained deeper rooted and more pervasive than might be apparent from the 50-year survival of the National Health Service (NHS) and its enduring place in public affection. From the outset, the principles upon which the NHS was founded were more swiftly under pressure,
and that pressure more persistently applied, than its supporters had envisaged. The earliest departure from the basic principle of *free at the point of use* came in the 1949 NHS Amendment Act which introduced charging for prescriptions. In April 1951 Bevan, Harold Wilson and John Freeman famously resigned from the Attlee government over charges for certain dental and ophthalmic services. Rationing, through the waiting list, or what Powell (1996: 33) calls 'the gap between what was medically possible and what was delivered', placed early stresses upon the principle of *comprehensiveness*. Variable levels of services by geography and the continuing gap between the health status of different occupational and social groups soon called into question the achievability, if not the desirability, of the principles of *equality of access* and *equity of outcome*.

In the years between 1946 and 1997, the Health Service was the subject of a series of official Committees of Inquiry, the first being the 1953 Committee of Inquiry, chaired by the Cambridge economist Claude Guillebaud. At the root of almost all these investigations was alarm at the escalating costs of the service and at the seemingly inexhaustible demand which faced the inevitably finite supply of service. While reports mostly defended the service against accusations of waste and inefficiency – the Guillebaud Report, for example, concluded, as Gladstone (1997: 2) suggests, 'that much of the alarm about the extravagance of the NHS had been misplaced' – the problem showed few signs of resolution. It was against this background that more fundamental critiques of a public health service and a series of alternative solutions, began slowly to emerge. A number of these solutions involved a renegotiation of the responsibilities between public and private spheres with which this book is concerned. Among the strategies to have been attempted before 1979, the more significant included both shifting costs from the collective to the individual and cost cutting through rationing of services.

As already suggested, the principle that cost should be borne by collective rather than individual means was swiftly under pressure in the newly created health service. The general notion that a greater proportion of costs should be recovered from private rather than public sources remained a subject of theoretical debate between the political parties – generally favoured by the Conservatives, generally deprecated by Labour – while in practice, under both parties, although at different paces, moving in this direction. Powell (1996: 33) summarised the situation in relation to prescription charges, the first major departure from the service as originally instituted, in this way: 'In the 1950s the Conservatives extended the charges. Prescription charges were removed by Labour in the 1960s, but quickly returned to become a permanent feature of the NHS landscape.' Revenue-raising strategies, from individual patients rather than taxpayers as a collectivity, continued to preoccupy governments, with recurring attention to the possibility of charging for elements of service such as amenity beds or 'private' rooms.

Attempts by government to cut costs by rationing were developed along two main lines before 1979. Waiting lists for treatment rationed services and thus cut the costs which satisfying that demand would have produced. Increasingly,
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too, more direct exclusion, by placing certain forms of treatment outside the boundaries of the NHS became a feature of the service. Sometimes there were new advances in medical science which could have provided treatments for hitherto intractable illness or chronic conditions. The heart transplant developments of the 1960s and 1970s, for example, provided one focus around which such discussions surfaced in a relatively public fashion. Other examples involved drawing the boundaries between health services and other ‘complementary’ forms of treatment more firmly so that osteopaths and chiropractors found themselves on one side of the line, while chiropodists and physiotherapists were on the other. The implication was clear. Cost containment within the public system could be achieved by rationing and restricting services within the NHS. Individuals wishing to obtain such treatments would be left to pay directly for the services used. Of course, in redefining the public/private interface in this way, the basic principle that medical need and not cost should determine service provision was placed under severe stress and, in the case of less-well-off individuals, broken. The continuing difficulties led, in 1976, to the setting up, by the Labour government of the latest Royal Commission on the NHS. As Pearson (1992: 217) suggests, its findings were to underpin, ‘the Thatcher government’s first proposals for NHS reform, in 1979’.

Thus, before the first Thatcher administration took office in 1979, the relationship between public and private provision in health care was already a matter of debate and dispute, both in terms of the scope of services provided and the responsibility for paying for services received. The privatisers and neo-liberals of the 1980s and 1990s were thus part of the longer continuum with which this chapter began and in which the case for diminishing public provision and increasing the scope for private initiative could be developed, not as an unfortunate necessity but as a positive good.

1.2 Using the terms ‘privatisation’ and ‘marketisation’

This chapter now ends by returning to a question posed at the outset: What is the term ‘privatisation’, as used in this book, intended to convey? It is as well to begin with some warnings. As Hartley (1990: 180) puts it, ‘the term privatisation has been the victim of varying definitions embracing deregulation, liberalisation, vouchers, charging for public services previously provided at zero price and the transfer of assets (sales) from the state to the private sector’. Donnison (1984: 107) suggests that the word itself should be ‘heavily escorted by inverted commas as a reminder that its meaning is at best uncertain and often tendentious’. Despite the contentious nature of the concept, however, the difficulty of the term lies not only in its tendency to be captured by rival ideological positions but also in the breadth of activities which it is used to describe and categorise. Butcher (1995: 108) refers to it as an ‘umbrella term’ and it is in that broad sense that it is used here, intended to convey a range of techniques through which private, rather than public, activity and responsibility can be
increased. It thus encompasses, among others, direct sale of public assets into private hands, the transfer of functions previously carried out directly by the state into the private sector and the withdrawal of the state from responsibilities previously undertaken, leaving such matters to be faced by individual citizens.

Within this latter category, in particular, a key question arises as to whether, as Ranade (1998: 5) asks, 'marketisation and privatisation are conceptually and analytically distinct phenomena'? For Ranade the issue can be resolved by suggesting that the strategies which are part of marketisation 'may lead, as a consequence, to increasing privatisation, if for example, more contracts are won by the private sector in tendering exercises'. While, therefore, 'marketisation and privatisation are not interchangeable concepts... in practice, one may lead to the other'. The argument presented in this book is rather different. Privatisation here does not simply refer to a shift of physical goods to the private sector. Nor does it rest at the transfer of responsibilities from public to private – for example, in 'outsourcing' non-clinical services in the NHS – or even in the changing boundary between the public and private purse in meeting the cost of services. Rather, it includes an alteration in the nature of decision making. The creation of markets, rather than single-source providers, results in a widening of those issues over which responsibility has to be exercised, and increases the potential for making different decisions within that wider territory. Within this framework 'choice' has been privatised – removed from the collective public domain, and made the responsibility of private individuals. In that sense, the two concepts are united by a common core: both are concerned with shifting the balance between the public and private spheres, the fundamental issue with which this book is engaged. It is to a more detailed investigation of these questions that Chapter 2 now turns.
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