

# **Out of business?**

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*The rise (and fall?) of public service marketisation*

For around 30 years, from the early 1980s to the early 2010s, the marketisation of public services was perhaps the most prominent and significant domestic policy trend in British politics.<sup>1</sup> It began with the Thatcher and Major governments' privatisations and tentative steps towards quasi-markets for health and education. It continued through New Labour's public service reforms. And it dominated the early legislation of the Coalition government.

Yet, in the past seven years or so, the marketisation agenda has dropped from view, fragmented, and in some cases gone into reverse. In this article, I describe the rise and fall of marketisation. I consider a few possible explanations as to why the apparently inexorable momentum of marketisation appears to have stalled. Ultimately, I suggest that for all its waning political salience, marketisation raises important questions for how progressives believe public services should be delivered.

## WHAT IS MARKETISATION?

Marketisation, as I am using the term here, has two elements, captured in each half of the pithy phrase 'choice and competition'. On the demand side, users of public services are permitted, assisted and encouraged to behave more like consumers in the marketplace: to shop around, to compare and to *choose*. On the supply side, providers of public services are liberated, facilitated or required to behave like firms in the marketplace: to innovate, to grow and to *compete*.

Proponents of marketisation believe it brings three types of benefits:<sup>2</sup>

- 1 Or, more accurately, English politics – the devolved administrations in Scotland and Wales have generally resisted marketisation in their education and health systems
- 2 Le Grand J (2007) *The Other Invisible Hand: Delivering public services through choice and competition*, Princeton University Press

- First, it is supposed to improve public services. Providers have stronger incentives to perform well, and the more efficient and responsive among them thrive, while less effective ones wither away.
- Second, it is supposed to improve the equity of the system. Disadvantaged families have more to gain from improvement. Meanwhile, the sharp-elbowed middle classes are prevented from queue jumping or gaming the system – for example, by moving to be near a better school.
- Third, marketisation is supposed to bring empowerment: newly minted consumers become sovereigns with greater control over their own lives, as opposed to pawns at the mercy of bureaucratic public sector monopolies.

### THE RISE OF MARKETISATION, 1979–2013

Marketisation typically means a greater role for private providers, expected to be better incentivised and culturally suited to behave competitively. In energy, rail and telecommunications, marketisation is closely associated with the privatisation of state-run services in the 1980s and 1990s. New Labour opened up the NHS to “any willing provider” and now around 8 per cent of publicly funded health spending goes to the private sector.<sup>3</sup> Labour also created academies – schools funded by the state but independently run – which now teach 75 per cent of state secondary students.<sup>4</sup>

Significantly, privatisation brought the break-up of monopolies. British Telecom (BT), British Gas and regional electricity companies were exposed to competitive retail markets. Where consumer choice was not deemed possible, competition was introduced through forms of tendering. Following the privatisation of British Rail in 1994, train-operating companies battle for government franchises to run particular routes. Local authorities competitively outsource a range of services. The ‘purchaser–provider’ split – introduced to the NHS by the Conservative government of the 1990s – created an internal market, where NHS trusts providing

3 The figure is 22 per cent if we include GPs, dentists, pharmacists and opticians, which are not NHS trusts or statutory bodies, but which are widely regarded as “being within the health service”. Buckingham H and Dayan M (2019) ‘Privatisation in the English NHS: fact or fiction?’, Nuffield Trust blog, 15 November 2019. <https://www.nuffieldtrust.org.uk/news-item/privatisation-in-the-english-nhs-fact-or-fiction>

4 Department for Education (2019) ‘Statistics: school and pupil numbers’. <https://www.gov.uk/government/collections/statistics-school-and-pupil-numbers>

healthcare sell their services to health authorities and GPs with cash budgets to spend on behalf of their patients.

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Choice was increasingly devolved to the users of public services themselves. The Education Reform Acts of 1981 and 1988 enshrined the parental right to choose a school for their child. Expanding patient choice was a central objective of the Labour government through the 2000s,<sup>5</sup> and was an important element of Andrew Lansley’s 2012 NHS reforms.<sup>6</sup> As a result, patients are supposed to be able to decide who does their elective procedure, which GP to register with, which mental health service to use and where to give birth.

An enduring difficulty for the marketisation agenda has been the failure of certain providers to compete and of certain consumers to use their choice effectively. The NHS internal market has been described as creating “monogamy rather than polygamy”, with commissioners tending to stick with their local NHS providers.<sup>7</sup> In response, the Lansley reforms prohibited commissioners from engaging in anti-competitive behaviour, and the role of the NHS regulator Monitor was expanded to include “promoting competition, where appropriate”.<sup>8</sup> Energy companies consolidated into a ‘big six’, and so the Coalition government took measures to encourage new entrants to the market.<sup>9</sup>

5 Department of Health and Social Care (2015) *Policy Paper: 2010 to 2015 government policy: Choice in health and social care*; Turner D and Powell T (2016) *NHS Commissioning before April 2013*, briefing paper number CBP 05607, House of Commons Library

6 Department of Health (2012) ‘Choice and competition – the Health and Social Care Act 2012’, factsheet.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/138269/C4.-Factsheet-Choice-and-competition-270412.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/138269/C4.-Factsheet-Choice-and-competition-270412.pdf)

7 Turner D and Powell T (2016) *NHS Commissioning before April 2013*, briefing paper number CBP 05607, House of Commons Library, p 21

8 Ham C, Baird B, Gregory S, Jabbal J and Alderwick H (2015) *The NHS under the Coalition Government: Part one: NHS reform*, The King’s Fund, p 48

9 Davey E (2014) ‘Coalition energy market reforms will bring cheaper power to the people’, *The Guardian*, 12 January 2014,

<https://www.theguardian.com/commentisfree/2014/jan/12/coalition-energy-market-reforms-cheaper-power>; Ofgem (2014) ‘Ofgem breaks down barriers so competition can work better for energy consumers’, press release, 26 February 2014, <https://www.ofgem.gov.uk/publications-and-updates/ofgem-breaks-down-barriers-so-competition-can-work-better-energy-consumers>

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A persistent concern for education policymakers through the 2000s was a perceived lack of engagement with the school choice process, particularly among disadvantaged parents.<sup>10</sup> The government responded with a range of measures to make choice easier. League tables have become ever-more refined to help parents compare schools. The application process has been standardised across local authorities. Free transport to school has been expanded to allow low-income households access to more schools. Labour even created a network of choice advisers to support parents.<sup>11</sup> Similar issues emerged in the energy market: the regulator Ofgem’s 2011 Retail Market Review found that 60 per cent of consumers had never switched provider, and that non-switchers were disproportionately likely to come from lower social grades.<sup>12</sup> To draw them to participate in the market, the Coalition government placed requirements on energy companies to simplify and reduce the number of tariffs they offer consumers.<sup>13</sup>

## DECLINE AND FRAGMENTATION: 2013 ONWARDS

For the first half of its term in government, the Coalition was as committed to marketisation as any of its predecessors. Among its first pieces of legislation was the Academies Act, paving the way for all schools to convert to academies. Soon after, it raised the cap on tuition fees in an effort to get universities to compete for students on price. The Lansley reforms were introduced in the Health and Social Care Act 2012. Energy Secretary Ed Davey worked closely with Ofgem to promote energy market competition.

Yet somewhere in the middle of the 2010–15 government, the marketisation agenda began to fragment and fall away. Its profile declined,

10 Stiehl B, Shipton L, Coldron J and Coldwell M (2008) *Choice Advice: An evaluation*, Department for Children, Schools and Families, p 7

11 Sims S (2012) *The Development of Quasi-markets in Secondary Education*, Institute for Government

12 Ofgem (2011) *The Retail Market Review: Findings and initial proposals*

13 BBC News (2012) ‘Ed Davey announces “four core tariff” plan’, BBC News website, 20 November 2012. <https://www.bbc.co.uk/news/uk-politics-20404659>

and ‘choice and competition’ lost its place on the centre stage of political debate. Moreover, in some policy areas, the onward push of marketisation faced serious challenge and lost ground for the first time in about 30 years.

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The replacement of Andrew Lansley as Health Secretary with Jeremy Hunt in 2012 signalled a clear shift in policy, with Hunt “rarely mentioning competition” and showing less interest in structural reforms.<sup>14</sup> The 2017 Conservative manifesto vowed “to review the operation of the [NHS] internal market, which can fail to act in the interests of patients and creates costly bureaucracy”.<sup>15</sup> Instead, it proposed “integration of care”, a central theme of the 2019 *NHS Long Term Plan*<sup>16</sup> – partnerships of hospitals, clinical commissioning groups, councils and charities, working together rather than competing with one another.<sup>17</sup>

The government’s approach to the energy market shifted, too. Whereas Coalition policy had valorised footloose switchers and encouraged consumers to join their ranks, Theresa May put herself on the side of those who failed to participate in the market, condemning an energy market that “punishes loyalty with higher prices”.<sup>18</sup> These non-switchers are supposed to be protected with a cap on their energy prices. That mirrored a shift in the opposition Labour party. Under Ed Miliband, Labour had proposed a price cap, but as a temporary measure en route to a more competitive market.<sup>19</sup> By 2017, Jeremy Corbyn’s Labour was calling for energy

14 Ham C, Baird B, Gregory S, Jabbal J and Alderwick H (2015) *The NHS under the Coalition Government: Part one: NHS reform*, The King’s Fund, p 5

15 Conservative and Unionist Party (2017) *Forward, Together: Our plan for a stronger Britain and a prosperous future*, p 67

16 NHS (2019) *The NHS Long Term Plan*. <https://www.longtermplan.nhs.uk/publication/nhs-long-term-plan/>

17 Trigg N (2019) ‘Are Andrew Lansley’s NHS reforms being binned?’, BBC News website, 11 January 2019.

<https://www.bbc.co.uk/news/health-46827981>

18 Milligan B (2017) ‘Theresa May revives plan to cap energy prices’, BBC News website, 4 October 2017.

<https://www.bbc.co.uk/news/business-41499483>

19 Flint C (2013) ‘Energy bills – we’ll freeze them’. <http://www.carolineflint.org/energybills>

companies to be nationalised in recognition of the fact that “people don’t have time to shop around”.<sup>20</sup>

Rail marketisation is also under threat. In the last couple of years, the East Coast Mainline and Northern Rail franchises have been taken into public hands,<sup>21</sup> and there are some suggestions South Western Railway may follow.<sup>22</sup> The government is currently reviewing the very franchise model,<sup>23</sup> although it is unlikely to go anywhere near as far as the Labour party and endorse an end to marketisation and a return to state-run monopoly.<sup>24</sup>

Local authorities have begun to turn away from marketisation, with ‘insourcing’ (bringing contracts back in-house to be delivered by the authority) on the rise.<sup>25</sup>

But marketisation is not on the retreat everywhere. There is little serious discussion of rolling back the privatisation of British Airways and BT (although Labour did propose the nationalisation of BT’s broadband network, Openreach<sup>26</sup>). Meanwhile, recent schools policy debate has been dominated by questions of funding rather than institutional reform.<sup>27</sup>

The only area where marketisation has *advanced*, rather than merely maintaining a holding pattern, is university education. As with school

20 Labour Party (2017) *For the Many Not the Few*, p 20

21 *The Economist* (2020) ‘Britain’s government renationalises Northern Rail’, *The Economist*, 1 February 2020.

<https://www.economist.com/britain/2020/02/01/britains-government-renationalises-northern-rail>

22 Powley T (2020) ‘South Western Railway under threat of renationalisation’, *Financial Times*, 7 January 2020.

<https://www.ft.com/content/713e4ef6-3193-11ea-9703-eea0cae3f0de>

23 Butcher L (2019) ‘The Williams Review: the future of rail?’, House of Commons Library insight, 25 October 2019.

<https://commonslibrary.parliament.uk/insights/the-williams-review-the-future-of-rail/>

24 Reuters (2019) ‘Factbox: nationalisation in the UK – Labour’s plans for companies’, Reuters website, 21 November 2019.

<https://uk.reuters.com/article/uk-britain-election-labour-companies-fac/factbox-nationalisation-in-the-uk-labours-plans-for-companies-idUKKBN1XV1AL>

25 Baines M (2019) *Rebuilding Capacity: The case for insourcing public contracts*, Association for Public Service Excellence

26 Sweny M and Collinson P (2019) ‘How feasible is Labour’s free broadband plan and part-nationalisation of BT?’, *The Guardian*, 15 November 2019.

<https://www.theguardian.com/money/2019/nov/15/how-feasible-is-labour-free-broadband-plan-and-part-nationalisation-of-bt>

27 Andrews J, Hunt E, Mills B and Bunting F (2019) *General Election 2019: An analysis of manifesto plans for education*, Education Policy Institute

league tables, the government has sought to facilitate comparison of universities through standardised metrics,<sup>28</sup> such as the Teaching Excellence Framework<sup>29</sup> and published earnings data.<sup>30</sup> The Office for Students, established in 2018 to regulate higher education, exists to “promote competition and choice for students”.<sup>31</sup>

## WHAT HAS CHANGED?

What happened in the 2010s to check the progress of marketisation? To some extent, marketisation was overtaken by events. Certainly, since 2016, political will and attention have been displaced by Brexit. High-profile outsourcing failures, such as the collapse of Carillion,<sup>32</sup> the botched privatisation of probation services<sup>33</sup> and G4S pulling out of its security contract for the London 2012 Olympics<sup>34</sup> have also undermined support for marketisation.

Perhaps more significant, though, have been shifts in ideology and personnel at the top of government. David Cameron lacked as clear a governing philosophy than Thatcher, Blair or even Major. As a result, the continuation of marketisation policies in the early Coalition years was primarily due to the energy and initiative of specific ministers – Lansley for health, Gove for schools, Davey for energy – sometimes even without Cameron’s full awareness.<sup>35</sup> The May and Johnson

28 Office for Students, ‘Discover Uni and Unistats’, Office for Students website.

<https://www.officeforstudents.org.uk/advice-and-guidance/student-information-and-data/discover-uni-and-unistats/>

29 Adams R (2016) ‘English universities to be ranked gold, silver and bronze’, *The Guardian*, 29 September 2016.

<https://www.theguardian.com/education/2016/sep/29/english-universities-ranked-gold-silver-and-bronze>

30 Fazackerley A (2020) ‘Alarm at Ofsted-style plan to rank universities by graduate earnings’, *The Guardian*, 11 February 2020.

<https://www.theguardian.com/education/2020/feb/11/alarm-at-ofsted-style-plan-to-rank-universities-by-graduate-earnings>

31 Office for Students, ‘What we will do’, Office for Students website.

<https://www.officeforstudents.org.uk/about/our-strategy/what-we-will-do/>

32 Public Administration and Constitutional Affairs Committee (2018) *After Carillion: Public sector outsourcing and contracting: Seventh report of session 2017–19*, House of Commons Library

33 Sasse T (2019) ‘Probation outsourcing is a case study in failure’, Institute for Government blog, 16 May 2019. <https://www.instituteforgovernment.org.uk/blog/probation-outsourcing-case-study-failure>

34 BBC News (2012) ‘G4S Olympic failure prompts ministers to “think again” over outsourcing’, BBC News website, 14 August 2012.

<https://www.bbc.co.uk/news/uk-19251772>

35 Kirkup J (2019) ‘The man who wasn’t there’, *The Critic*, November.

<https://thecritic.co.uk/issues/november-2019/the-man-who-wasnt-there/>



administrations, in part responding to a more full-throatedly anti-market Labour party, have been more open to rejecting marketisation when politically expedient.

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### DOES THIS MATTER?

It would take an entire book to wade through all the evidence on whether marketisation has been effective in each of the different domains in which it has been tried. In one line: although experiences vary, as does the quality of existing studies, gains in efficiency and quality have often been modest and less likely to accrue to disadvantaged groups.<sup>36</sup>

Proponents of marketisation will argue that this is because reform has not gone far enough. The majority of clinical commissioning groups still limit the number of providers they work with, rather than contracting with “any qualified provider”.<sup>37</sup> Less than 40 per cent of patients are offered a choice of provider when referred for an outpatient procedure.<sup>38</sup> School allocation depends as much on where you live as which school you choose.<sup>39</sup> Schools remain relatively insulated from market pressure because ‘failing’ schools

36 Allen R (2007) ‘Allocating pupils to their nearest secondary school: the consequences for social and ability stratification’, *Urban Studies* 44(4): 751–770; Allen R and Burgess S (2010) *The Future of Competition and Accountability in Education*, 2020 Public Services Trust at the RSA; Jilke S (2014) ‘Choice and equality: are vulnerable citizens worse off after liberalization reforms?’, *Public Administration* 93(1): 68–85; Morse A (2016) *Personalised Commissioning in Adult Social Care*, National Audit Office; Parker D (2004) ‘The UK’s privatisation experiment: the passage of time permits a sober assessment’, working paper 1126, CESifo; Sasse T, Guerin B, Nickson S, O’Brien M, Pope T and Davies N (2019) *Government Outsourcing: What has worked and what needs reform?*, Institute for Government; The Health Foundation (2011) *Evidence Scan: Competition in Healthcare*

37 Williams D (2014) ‘CCG interest in “any qualified provider” scheme dwindles’, *HSJ*, 11 September 2014.  
<https://www.hsj.co.uk/commissioning/exclusive-ccg-interest-in-any-qualified-provider-scheme-dwindles/5074585.article>

38 Renaud-Komiya N (2014) ‘Minority of patients are offered choice of provider, say Monitor and NHS England’, *HSJ*, 7 August 2014.  
<https://www.hsj.co.uk/news/acute-care/minority-of-patients-are-offered-choice-of-provider-say-monitor-and-nhs-england/5073668.article>

39 Burgess S, Greaves E and Vignoles A (2020) *School Places: A fair choice?*, The Sutton Trust

rarely close, and it is difficult to get permission to open new ones.<sup>40</sup> There is still little head-to-head competition between train companies covering the same lines.<sup>41</sup> Smart meters and easier switching might encourage consumers to engage more with the energy market.<sup>42</sup> But with their underlying theoretical model facing ever-greater scepticism, proponents will need to remake their argument sector by sector to demonstrate that the case for marketisation has stronger underpinnings than just dogmatic faith in textbook microeconomics. They will also need to adjust to life on the defensive, identifying and rectifying potential future Carillions that could further discredit marketisation.

Opponents of marketisation may be scenting blood, with the opportunity to bring utilities back into public hands and to create a more collaborative, less competitive, health and education system. The challenge for them is to come up with different responses to the fundamental questions that marketisation raises and tries to answer. How can the government best incentivise providers of public services and manage their performance? How can it best improve the experience of public service users, empowering those who want to be involved without burdening those who do not? How can it minimise inequalities in the standards of services people receive?

Indeed, there is an argument to say that there may be better ways to address these ultimate questions than to relitigate old debates over marketisation. Prior to the 2019 general election, expert groups such as the Education Policy Institute<sup>43</sup> and The King's Fund<sup>44</sup> advised parties to avoid being distracted by sweeping structural reforms and to focus on more modest, but better-evidenced, improvements. Given that, in many areas, marketisation appears to have brought neither major benefits nor

40 Sahlgren GH (2013) *Incentivising Excellence: School choice and education quality*, Centre for Market Reform of Education

41 *The Economist* (2019) 'How rising rail fares and falling punctuality undermine confidence', *The Economist*, 15 August 2019.

<https://www.economist.com/britain/2019/08/15/how-rising-rail-fares-and-falling-punctuality-undermine-confidence>

42 *Financial Times* (2017) 'Britain's energy market is faulty but not broken', *Financial Times*, 24 April 2017.

<https://www.ft.com/content/474d0ea4-28de-11e7-bc4b-5528796fe35c>

43 Andrews J, Hunt E, Mills B and Bunting F (2019) *General Election 2019: An analysis of manifesto plans for education*, Education Policy Institute, p 55

44 Murray R (2019) 'Politicians should avoid the temptation of another NHS top-down re-organisation', The King's Fund blog, 14 October 2019.

<https://www.kingsfund.org.uk/blog/2019/10/politicians-nhs-reorganisation>

substantial harm, it may well turn out to be that further institutional tinkering is a waste of time, energy and political capital.

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Markets are now embedded in our public services, but for the first time in a generation, the political project of marketisation is at a crossroads. In some areas, we might want to complete the job. In others, we might want to turn back the clock. We might decide that radical reform is not worth the bother, and that we should focus on alternative strategies for improvement. The disintegration of marketisation’s hegemony should free us to make these judgements on a case-by-case basis, using the best available evidence as to whether markets have increased or diminished quality, efficiency, equity and empowerment. Whichever way we go, we should do it consciously and deliberately.

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