

# How Labour can fix our broken public services

*Labour calls it a “change election”. But how much difference might a Labour government make? In this [five part series](#), Gwyn Bevan, Patrick Diamond, Kate Bayliss, Stewart Lansley, and Abby Innes, set out an agenda that could take the country in a fundamentally different direction.*

*In this third instalment, **Gwyn Bevan** and **Abby Innes** argue that besides more funding, the way Labour can improve the country’s broken public services is by improving their governance. Instead of treating public services with a market logic that isn’t suitable to them, the next government should focus of offering the right incentives and rewards for improved performance.*

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**ELECTION**  
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The recent [Report](#) by the Institute for Government and the Chartered Institute of Public Finance and Accountancy declared that nine public services have “for years been creaking (and) are now crumbling”; and “Government is stuck in a public service performance doom loop”. These services include: general practice, hospitals, adult social care, children’s social care, schools, police, criminal courts, prisons and neighbourhood services (libraries, planning, bus subsidies, road maintenance, homelessness, public health, and waste collection, disposal and recycling).

IPSOS surveys for the [Financial Times](#) showed the lowest-rated of all public services, with 82 per cent dissatisfied, was road maintenance — a consequence of frustration over continuing failures to fix [potholes](#). For other services, the surveys showed dramatic falls in satisfaction, between 2021 and 2024: of 50 per cent for GPs; 40 per cent for hospitals;

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and 20 per cent or more, for police, nursery schools and train companies. The public service performance doom loop also encompasses:

- The scandalous failures of privatisations of [water and sewage](#), [railways](#) and the [energy market](#);
- Failures of public sector outsourcing, including the excessive extraction of profits and the socialisation of losses, as in the collapse of [Carillion](#);
- The [crisis of a lack of affordable homes](#) from the decline of social housing as a public service;
- [Universities](#) facing a material risk of closure; and
- [Bankrupt](#) councils required to make further draconian cuts to services after years of austerity.

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## **Thatcher's legacy of tax cuts and marketplace governance**

The doom loop is caused by two problematic legacies of Thatcherite governments. First, inadequacies in funding. Patrick Diamond has outlined how to reform [taxes](#) to help ease funding pressures. Second, failures of governance from the “machine” reasoning of the New Public Management (NPM). Patrick Dunleavy, Helen Margetts, Simon Bastow and Jane Tinkler describe the way NPM changed the [governance](#) of public services with: the disaggregation (of public hierarchies into more firm-like units), competition between

public and private providers and abandoning trust in public service professionalism for the incentive systems of private management.

NPM has proved exceptionally poor at accommodating the inescapable complexities and changing needs of public services in our evolving economy. Governments have persisted in trying to marketize services with characteristics that are known to cause markets to fail (e.g. lack of competition and incomplete contracts), not just through [privatisation and outsourcing](#), but by systems in which money follows the pupil or patient in [education](#) and the [NHS](#).

[Julian Le Grand](#) explains the justification for NPM was the realisation that it was wrong to govern public services by assuming that all public servants were altruistic “knights”. Public choice theory replaced that simplistic assumption by its antithesis: [Vincent and Elinor Ostrom](#) encapsulated its basic assumption as “Each individual (public servant) is likely to adopt a “dog-in-the-manger” strategy by pursuing his own advantage and disregarding the consequences of his action upon others”. The idea that we should govern all public servants as if they are “knaves” can be traced back to [David Hume](#). The attraction of [market mechanisms](#) for public services is that they generate commensurate gains and losses for good and poor performance by “knights” and “knaves”. In the [Moral Economy](#), however, Samuel Bowles explains how these mechanisms crowd out, rather than reinforce, the altruism of those who choose to work in our public services. Strategies drawn from public choice theory have, over time, tended to produce exactly the dysfunctional behaviours the theory assumed, and have proved quite incapable of managing their consequences.

## **Reforming public services through the right incentives**

We need two quite different systems of governance of public services for “knights” and “knaves”, as in Adam Oliver’s [reciprocal altruism](#). *Negative reciprocity* sanctions “knaves” for unacceptably poor performance. *Positive reciprocity* fosters the intrinsic motivation of “knights” to deliver excellent services. [Identity economics](#), developed by George Akerlof and Rachel Kranton, explains the incentives of these systems are from individuals relating their utility to their sense of identity. Hence the power of inflicting reputational damage on those who deliver poor services by “naming and shaming”; and the importance of the ultimate sanction of the sack for those who frankly can’t be bothered to preserve the identity of what it ought to mean to be a teacher, social worker, nurse or

doctor.

An example is England's crude, but effective, regime of annual [star ratings](#) (2000 to 2005): those working in hospital trusts who failed to meet waiting-time targets suffered the reputational damage of being "named and shamed" as failing (zero-rated) and "targets and terror" (six of the twelve chief executives of the trusts that were zero-rated in 2001 were sacked). This followed the failure of the Blair government to deliver its manifesto promise of cutting NHS waiting lists by increasing NHS funding with a system of perverse incentives: hospital trusts that failed were allocated extra funding. The [Auditor General for Wales](#) criticised the government in Wales for continuing to reward failure to hit targets; and pointed out that, in England, in 2004, only 37 patients were waiting more than 17 weeks before being admitted; but in Wales, in 2005, over 7,000 patients were waiting more than 18 months.

The problem of any governance system that generates high-powered incentives to deliver targets is, however, that, over time this can produce perverse outcomes from gaming by producers who try to hit those targets at the expense of other important actions.

[Research](#) in health care in the USA, the UK, Italy and Zambia has shown how systems designed to inflict reputational damage on poor performance drove improvements by annual public reporting that ranked performance that was easy for the public to understand. School league tables of examination are another example. The reason why the government in Wales decided not to impose a regime like star rating on its NHS was that it had decided to stop "naming and shaming" by publishing school league tables in 2001. Figure 1 shows the percentages of schoolchildren achieving five good grades (from A to C) in England and Wales before, and after, 2001. [Researchers](#) found that:

- for every year that Wales did not publish a league table, a pupil in Wales would lose two GCSE grades compared with a similar pupil in England,
- if Wales had wanted to match its schools' performance to those in England, they estimated that its class sizes would need to be 30 per cent smaller, and

- the consequences of removing pressure on teachers to perform was that those who suffered most were children from poor families going to poorly performing schools.

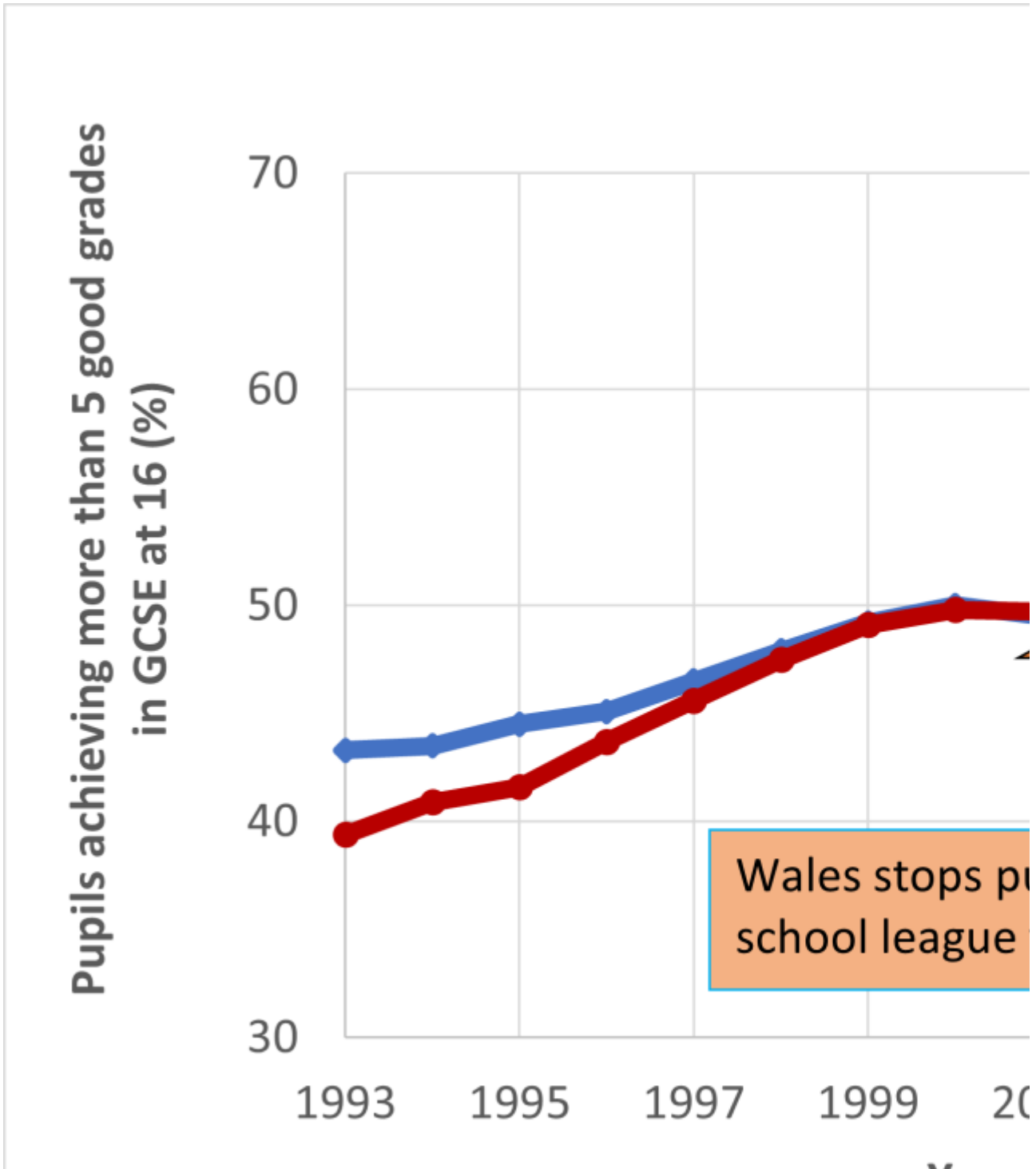




Figure 1: Percentages of schoolchildren achieving five good grades (from A to C) in England and Wales 1993 to 2007. Source: [Office for National Statistics \(2009\)](#)

A new government must tackle our crumbling public services, but while more funding is essential, this will only be effective with systems of governance that embrace the complexity of these services rather than assume that complexity away.

## Avoiding unintended consequences of setting targets

The problem of any governance system that generates high-powered incentives to deliver targets is, however, that, over time this can produce perverse outcomes from gaming by producers who try to hit those targets at the expense of other important actions. Examples include [Soviet-style](#) enterprise-planning pathologies, the tragic outcomes at [Mid-Staffordshire NHS Foundation Trust](#), and “[teaching to the test](#)”. Hence the challenge for any such target-based system of governance is designing an effective inspection regime to counter such gaming.

Systems of negative reciprocity need to be organised at the National level. Devolution has shown that it has been much easier for the government in England to implement such systems because of its substantial [relational distance](#) from its producers, Systems of positive reciprocity need to be organised at a regional level, to enable collegial learning on how to deliver high performance, e.g.:

- [London challenge](#) in the English school system, and
- Italy’s [Inter Regional Performance Evaluation System](#) in health care, which uses a dartboard to display performance, and so avoids the crude, single ranking of complex organisations that mask internal variations (as in star rating and

OFSTED's assessments of schools).

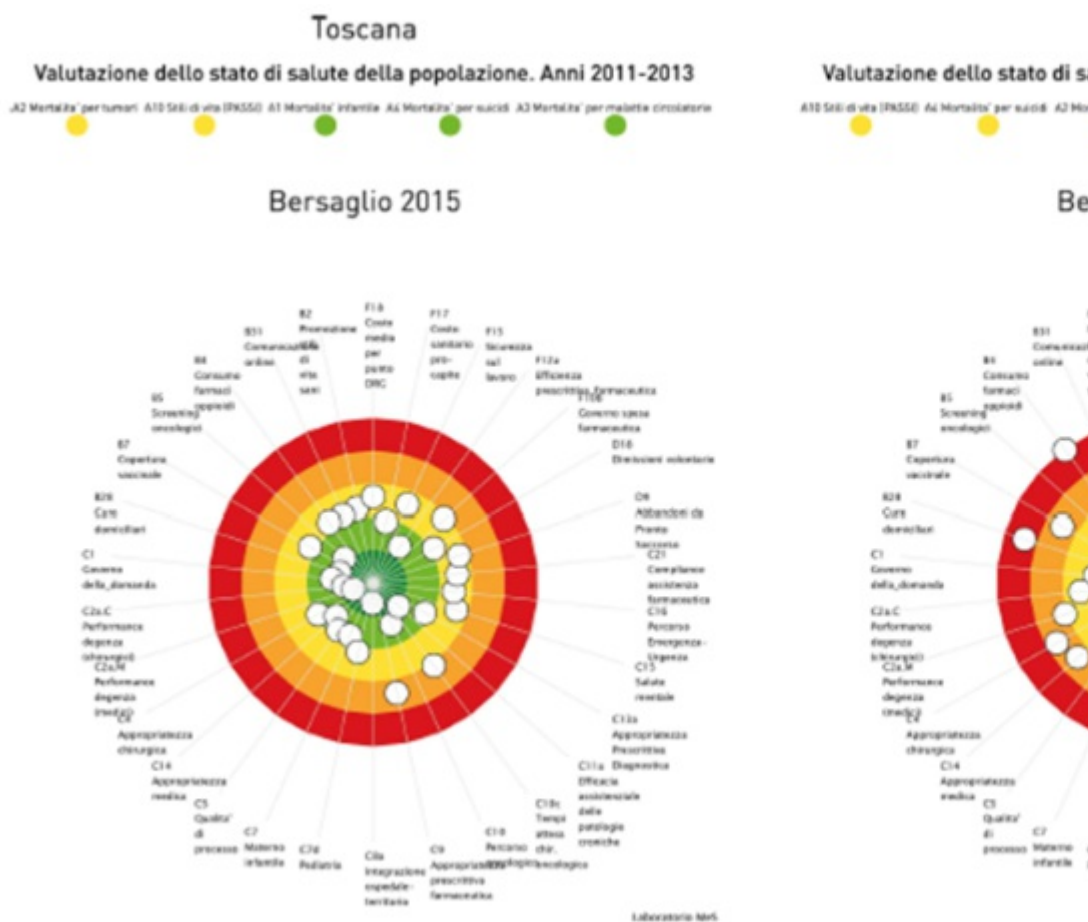


Figure 2: The Tuscan dashboards displaying Performance for Regions of Tuscany and Marche (2015). Source: Reputations count: why benchmarking performance is improving health care across the world.

Reciprocal altruism can be applied where markets have failed and where markets don't make sense, for example the police. But for reciprocal altruism to work in the UK, it requires new constitutional arrangements.

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*All articles posted on this blog give the views of the author(s), and not the position of LSE British Politics and Policy, nor of the London School of Economics and Political Science.*

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