

## SEPTEMBER 2013 MONTHLY BLOG/ 33

### CONTRACTING OUT SERVICES IS KILLING REPRESENTATIVE DEMOCRACY

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‘Contracting out’ is a policy mantra especially of financial/services capitalism (as opposed to industrial capitalism or landowner capitalism), which has been gaining greater support year by year. As an ideal, it was succinctly formulated by Nicholas Ridley (1929-93), who held various ministerial posts under Margaret Thatcher government. Theoretically, he hated government expenditure of all kinds: ‘I was against all but the most minimal use of the taxpayer’s purse’.<sup>1</sup>

For Ridley – himself from a titled family with business interests in ship-owning – the ideal form of local democracy would be one in which the Councillors met no more than once yearly. At the annual meeting, they should set the rate and agree the fees for contracting out municipal services. Then they could all go home. His was an extreme version of what is known in political theory as a preference for the minimal ‘night-watchman state’.<sup>2</sup>

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<sup>1</sup> Patrick Cosgrave, ‘Obituary: Lord Ridley of Liddesdale’, *Independent*, 6 March 1993.

<sup>2</sup> Another term for this minimal-government philosophy is ‘Minarchism’ or limited government libertarianism, often associated with free-marketry. Minarchism should be distinguished from anarchism or no-government, which has different ideological roots.



**C17 print of night-watchman and dog.**  
Keeping the streets safe and clean was one of the first services provided by town councils.

No mention from Ridley of Town Hall debates as providing a sounding-board for local opinion. No mention of community identity and pride in collective institutions. No mention of a proper scope for in-house services. No mention of elected control of key tasks, including regulatory and quasi-judicial functions. No mention even of scrutinising the contracted-out services. No mention therefore of accountability.

Above all, no mention from Ridley of what Edmund Burke called the ‘little platoons’<sup>3</sup> (‘local platoons’ would have been better, as their sizes are variable) that bridge between private individuals and the central state. Hence no mention of representative democracy at a local level. This was aristocratic disdain worthy of Marie Antoinette before the French Revolution. Moreover, without representative politics at all levels of society, then popular democracy will, when provoked, burst through into direct action. Often, though not invariably, in an uncoordinated and violent manner.

France, in fact, provides an excellent historical example of the eventual follies of contracting out. The absolute monarchs before 1789 presided over a

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<sup>3</sup> ‘To be attached to the subdivision, to love the little platoon we belong to in society, is the first principle (the germ as it were) of public affections. It is the first link in the series by which we proceed towards a love to our country and to mankind’: E. Burke, *Reflections upon the Revolution in France* (1790), ed. C.C. O’Brien (Harmondsworth, 1969), p. 135.

weak central bureaucracy. As a result, one of the key functions of the state, the collection of taxes, was ‘farmed out’, in the jargon of the eighteenth century. The *Ferme Générale* undertook the humdrum tasks of administration, absorbing the risks of fluctuating returns, while assuring the monarchy of a regular income. And, to be sure, this system survived for many years. Nonetheless, the French monarchy faced chronic financial problems by the later eighteenth century. And the great political problem was that all the tax profits went to the Tax Farmers, while popular hatred at high payments and harsh collection methods remained directed at the kings.<sup>4</sup>

In twenty-first century Britain, something of the same situation is developing. The state still has to provide basic services; and remains the guarantor of last resort, if and when private service firms fail. Thus the faults of the system are still the government’s faults, while the profits go to private companies. The other long-term costs are borne by the general public, left to face cut-to-the-bone services, provided by poorly-paid and demoralised casual labour. No-one is popular, in such a system. But the secretive and unaccountable world of the private providers, sheltered by commercial ‘secrecy’, saves them for a while from the wrath to come.

One notorious example is known to everyone. It occurred in July 2012, just before the start of the Olympic Games. The private firm G4S promised but failed to deliver security. The contract was worth £284 million. Two weeks before the opening ceremony, the same role was transferred to the publicly-funded army. It did the task well, to tremendous applause. G4S forfeited £88 million for its failure on this part of the contract.<sup>5</sup> Yet, despite this ‘humiliating shambles’ in the words of its chief executive, who resigned just over six months

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<sup>4</sup> E.N. White, ‘From Privatised to Government-Administered Tax-Collection: Tax Farming in Eighteenth-Century France’, *Economic History Review*, 57 (2004), pp. 636-63.

<sup>5</sup> Reported in *Event*, 14 Feb. 2013.

later with a huge payoff,<sup>6</sup> the firm remains a major player in the world of security services.



So G4S today advertises itself as ‘the world’s leading international security solutions group, which specialises in secure outsourcing in countries and sectors where security and safety risks are considered a strategic threat’.<sup>7</sup> No mention of regular overview and scrutiny, because there is none. It’s another of those businesses which are considered (wrongly, in practice) as ‘too big to fail’. The point of scrutiny comes only after an embarrassing failure or at the renewal of the contract, when nervous governments, having invested their prestige and money in privatisation programmes, don’t care or dare to rethink their strategy. In August 2013, G4S is being investigated by the Ministry of Justice for alleged over-charging on electronic ‘tagging’ schemes for offenders.<sup>8</sup> Yet, alas, this costly imbroglio is unlikely to halt the firm’s commercial advance for long.

Overall, there is a huge shadow world of out-sourced businesses. They include firms like Serco, Capita, Interserve, Sodexo, and the Compass Group.

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<sup>6</sup> *Daily Mail*, 21 May 2013, from Mail-online: [www.dailymail.co.uk](http://www.dailymail.co.uk), viewed 9 Aug. 2013.

<sup>7</sup> See ‘Who we are’ in website [www.g4s.com](http://www.g4s.com).

<sup>8</sup> *Daily Telegraph*, 6 August 2013, from Telegraph-online: [www.telegraph.co.uk](http://www.telegraph.co.uk), viewed on 9 Aug. 2013.

As the journalist John Harris comments: ‘their names seem anonymously stylised, in keeping with the sense that they seemed both omni-present, and barely known’.<sup>9</sup> Their non-executive directors often serve on the board of more than one firm at a time, linking them in an emergent international contractocracy. Collectively, they constitute a powerful vested interest.

Where will it end? The current system is killing representative democracy. Elected ministers and councillors find themselves in charge of dwindling bureaucracies. So much the better, cry some. But *quis custodiet?* The current system is not properly accountable. It is especially dangerous when private firms are taking over the regulatory functions, which need the guarantee of impartiality. (More on that point in a later BLOG). Successful states need efficient bureaucracies, that are meritocratic, impartial, non-corrupt, flexible, and answerable regularly (and not just at contract-awarding intervals) to political scrutiny. The boundaries between what should be state-provided and what should be commercially-provided are always open to political debate. But, given that the state often funds and ultimately guarantees many functions, its interest in what is going on in its name cannot be abrogated.

The outcome will not be the same as the French Revolution, because history does not repeat itself exactly. Indeed, the trend nowadays is towards contracting-out rather than the reverse. Yet nothing is fixed in stone. Wearing my long-term hat, I prophecy that eventually many of the profit-motive ‘Service Farmers’ will have to go, rejected by democratic citizens, just as the ‘Tax Farmers’ went before them.

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<sup>9</sup> John Harris on Serco, ‘The Biggest Company you’ve never heard of’, *Guardian*, 30 July 2013: supplement, pp. 6-9.