



UNISON + Ver.di working together



The Future of Public Services in Europe

A discussion document written and researched by Catherine Needham of Catalyst and Alasdair Murray of the Centre for European Reform



Contents

Foreword	1
Introduction	2
Progressive public services: a common set of values?	2
Current debates on the funding and provision of public services	4
Germany and the UK: key contrasts	4
Public services: common challenges	4
Demographics and technology	4
Cost-containment	6
Risk-transfer	7
The EU as a threat to public services?	7
Issues and challenges for public service unions	9
Public services in 2020	10
Residual public services	11
Expansive public services	12
Achieving progressive public services	13
Alliances for public service improvement	13
International alliances in support of public services	14
Campaigning for progressive public services	14
Conclusion	15
Glossary	16

Foreword

Public services are the defining measure of a social Europe and are at the top of the political agenda in every European country. As governments of differing political complexions increasingly agree on programmes of liberalisation and marketisation and the need to review the public domain, so trade unions are increasingly becoming the advocates for a different vision of society, the voices for the users and producers of these services.

It is therefore fitting that the occasion of the first joint seminar between UNISON and ver.di should be devoted to looking at the future of public services. This seminar is the first in a series and represents a tangible example of the co-operation that UNISON and ver.di are developing and demonstrates that in the 21st century, trade unionism does not stop at borders.

We have deliberately avoided examining our differences. We have refrained from analysing our pasts. Instead, we are boldly examining our options for the future. We are setting out to define the public service principles that underpin our vision of a future, fair society.

This paper explores the most vital public service issues and looks ahead to see where different policy directions will take us. Its purpose is to stimulate a discussion of how trade unions can best respond to these challenges and to identify our common ground as the basis for a developing a strategy to champion public services.



Dave Prentis
General Secretary, UNISON



Frank Bsirske
General Secretary, ver.di

Introduction

Across Europe there is a rising sense of crisis over the ability of governments to adequately fund and provide public services. Governments fear that demographic and technological changes will make it increasingly difficult to guarantee universal services over the next two decades. In particular, an ageing population could demand ever more expensive services at the very same time as the tax base is shrinking. Many governments assume that electorates are becoming less willing to support pay for new services: taxation in many European countries could already have reached saturation point.

Governments are also finding that European Union budgetary and competition rules are increasingly constraining the way in which they provide services. The EU has recently begun discussions on a services directive which could further open up many public services - including healthcare - to cross-border competition. At the same time, the EU is pushing for an extension of the World Trade Organisation's General Agreement on Trade in Services (GATS) to cover a wider range of sectors, including some traditionally in the public domain. Meanwhile, the International Monetary Fund continues to demand European members cut back welfare provision to balance their budgets and attract greater foreign investment.

In the support they provide for shared values of equality and solidarity, public services can be seen to lie at the heart of the European "social model". Their future is thus of particular concern to public service trade unions - not only in providing employment to their current and future members but also in upholding the principles and advancing the kind of society that trade unions have traditionally stood for. How public-service trade unions respond to and intervene in the development of public services in Europe is then of vital importance.

This paper explores the current debate and seeks to outline some ideas on how the debate on public services might evolve over the next decade, with a particular view to stimulating productive thought and discussion as to how public service trade unions can best respond to these challenges.

Progressive public services: a common set of values?

The debate on the future of public services is normally limited to exploring how they are funded, for example through taxation or user chargers etc, and on whether the government or private sector should provide them. Yet such a narrow discussion misses the key question of what public services are for:

If the debate on the future of public services is not to be reduced to one of cost and efficiency alone, it is vital that greater emphasis is placed on the values which drive their delivery. The provision and funding of public services varies widely across Europe. However, European countries aspire to some common values in their provision in a manner which differs from elsewhere, most notably in America.

All EU governments advocate values such as universal access, equality, efficiency and accountability in the provision of public services. The European Union is specifically committed to supporting such basic principles as solidarity, equity and universality in, for instance, the provision of health care (Barcelona Council 2002). It is these values, rather than the specific structure of the welfare state, which are at the heart of the elusive "European social model".

Most European countries do not place as much emphasis as the US on economic growth per se as a determinant of quality of life or happiness. They are less willing to judge everything by market criteria because they care more about social justice, the environment, customs and traditions, the vitality of community life and many other non-economic determinants. The provision of public services is one of the main mechanisms to support the pursuit of such non-market goals.

Thus public services need to be understood in the broadest sense: as expressions of collective purpose, governed by shared principles such as equality of access and social solidarity and oriented toward a common good. Any meaningful debate about the future of public services must consider these issues as well as describing the funding and ownership of specific services.

Not all services require high levels of public funding and ownership, even if they are important to people's lives: food provision and banking, for example, are left to the private sector in most countries. However, services that are state-owned and tax-funded are most likely to enhance equality and solidarity. For example, services that are provided to all on the basis of general taxation tend to increase equality. They spread the costs across the

whole population and place the greatest distance between the funding and receipts of services - the former is achieved through progressive taxation whilst the latter involves no monetary transaction or inquiry into users' financial circumstances. Thus neither the ability to pay nor the stigma of means-testing impede access to services for citizens.

Universal and publicly funded services also help foster a sense of solidarity because access is the basis of a common citizenship. For example, in the UK the universal contributory insurance advocated by the 1942 Beveridge Report provided the foundations for a welfare system of "benefits paid not on the basis of the means-test and proof of need but as an automatic right of citizenship".¹ In Germany, the principle of solidarity supported the development of the post-war welfare state based on a commitment to equality of living standards.

Such "progressive" public services offer more than the provision of a safety-net for the poor or a response to market failure. They express society's collective goals, support a common public realm, and confer value on individuals as citizens. Public services do not stand outside society but form an integral part of it.

Moreover, progressive public services are not parasitical on, or peripheral to, markets; rather, they create and contribute economic value (through educating the labour force, for example). However, the purposes of such services should not be defined solely in economic terms, since their core goals include fairness, inclusiveness and solidarity.

Recent evidence suggests that the majority of citizens in most European countries support progressive public services. For example, in Germany surveys consistently show that citizens back the principles of publicly funded services. In particular, more than 95 per cent of the population agree the state should provide healthcare and adequate living standards for the elderly. The recent Wanless report into the UK's National Health Service (NHS) found that 90 per cent of respondents want health services free at the point of use.² Meanwhile, 60 per cent of the UK population support an increase in taxation and spending on health, education and social benefits.

However, this progressive and "European" conception of public services is coming under increasing assault from those who place greater emphasis on US-style growth - including international organisations such as the IMF and WTO. In particular, the debate within the UK is focused on ensuring that public services are a mechanism to deliver greater economic efficiency, rather than support other ambitions such as social justice or the support of community life. Implicit in this approach is a belief that if the provision of services becomes an obstacle to growth, it should be curtailed. However, recent strong US economic growth has come at the high price of rapidly rising inequality, high crime and declining social solidarity. Such a model is not only undesirable, it is likely to prove unsustainable over the medium term. Unions and left-of-centre politicians need to do much more to explicitly articulate a broader vision of the values which should guide the provision of public services in the future.

¹ Harris, J. (1996) "Contract" and "Citizenship", in Marquand, D. and Seldon, A. (eds) *The Ideas that Shaped Post-War Britain* (London: Fontana) p. 122

² Wanless, D. (2002a) *Securing Our Future Health: Taking a Long-Term View: Final Report* (London: Department of Health)

Current debates on the funding and provision of public services

The way in which governments fund and provide public services varies greatly across Europe. Even attempts to identify "clusters" of countries with welfare states which function in a similar manner (Nordic, Anglo-Saxon, Franco-German, Mediterranean) inevitably highlight differences as much as common factors. This section considers public provision in two illustrative EU countries.

Germany and the UK: key contrasts

- Germany is a federal state whereas the UK is a centralised state with only very recent experience of devolution.
- German public services are funded primarily through social insurance, allowing inter-temporal redistribution within the life cycle (while we work we pay for services we use when too young, too old or otherwise unable to work), whereas in the UK most public services are funded through general taxation, emphasising interpersonal transfers (the rich and well-paid pay for services used by the poor and low-paid). For example, 69 per cent of German public health care funding comes from social insurance and 6 per cent from general taxation. In the UK, only 10 per cent comes from social insurance and 74 per cent from general taxation.
- In Germany trade unions are part of a formal network of cooperation with employers and the state whereas the UK has had a history of adversarial relationships between business and trade unions.

Recent political and economic patterns have underlined the distinctive trajectories of the two countries:

- Reunification has profoundly changed Germany's economic and social profile, raising doubts about the viability of the welfare state and creating a fault-line in German politics between the old and new Länder.
- In the UK, the state has struggled to recover its legitimacy following the attacks of the Thatcher years.

Economically, the UK has succeeded in bucking the post-war trend and has outperformed Germany in the last five years. UK growth reached 3.75 per cent in 2004, compared to less than 1 per cent in Germany. At 4.6 per cent, UK unemployment stands at less than half of that in Germany.

Public services: common challenges

The challenges facing these two countries - and the rest of Europe - in relation to public service reform are surprisingly similar, despite the many differences in funding and provision. All EU governments must face up to ageing populations, escalating health care costs, a looming pensions crisis, increased demands on education in a “knowledge” economy, changing family structures, declining union membership and a seemingly diminishing fiscal base.

Demographics and technology

Over the next few decades Europe will experience a major demographic shift as the “baby boomer” generation reaches retirement age. The proportion of the retired to working age population in all European countries will increase substantially. For example, by 2020 one in three of the UK population will be over 60 compared to around one in four now. Other European countries will experience an even more dramatic shift over the next few decades due to declining birth rates and rapidly rising life expectancy. On current trends, there will be two pensioners for every three workers in Italy. Many East European countries could suffer a large loss in population. In the same period, the population of Estonia is predicted to halve to just 660,000 by 2050.

The underlying reasons for such demographic changes - an increase in living standards and greater choices over family structure - are a reason for celebration. However, most analysts tend to frame such changes in “Malthusian” terms of a “demographic time bomb” which could harm the European economy and undermine the ability of European governments to provide adequate public services.

Most analysts make two key assumptions about demographic changes. First, all things being equal, the decline in the size of the working population will result in lower economic growth (and consequently a lower tax take). For example, the European Commission estimates that ageing could reduce trend growth in the EU from around 2 per cent currently to just 1.25 per cent by 2050. Some commentators also worry about the impact of an ageing society on productivity levels. For example, David Willetts, the Conservative welfare spokesman, has argued that the rate of innovation within the European economy is likely to slow as society ages. Others fear that consumer spending may slow dramatically as the over-50s have historically tended to consume less.

Second, while European governments may have less money to spend on public services, the demand for many services - especially health and long-

term care - is likely to increase as the population ages. The Organisation for Economic Co-operation and Development (OECD) calculates that health costs rose on average by one percentage point between 1990 and 2001. This trend is likely to accelerate as a growing older population demand ever more sophisticated services. At the same time, changes in family structures are likely to increase the pressure on other services such as housing. For example, the UK government is forecasting a substantial rise in demand for all forms of housing, including social provision, due to the growing number of single-person households. High prices are also impelling more people to seek state help. Governments may be tempted to cut back on education spending due to the decline in the school-age population. However, such a response would be extremely short-sighted: a highly educated workforce will become even more important as the number of workers shrinks in the future.

Most commentators have thus concluded that such demographic realities mean European governments will have to cut back on the provision of public services, increase user charges and increase the role of the private sector. A declining workforce is likely to lead to a lower economic growth that will mean less tax revenues, limiting the ability of governments to fund services. There is no doubt that all European governments will need to conduct radical reform of public services over the next two decades. However, it is worth questioning whether the debate should be framed in such negative terms.

For a start, many of the assumptions that underlie such pessimistic predictions are contestable. For example, it was long assumed that rising life expectancy would also lead to an inexorable rise in health costs - because old people place greater demands on the health system. However, recent research has shown that earlier predictions of unsustainable rises have been exaggerated. Some two-thirds of the cost of healthcare occurs in the final year of life - whether that is when a person is 70 or 90. People are living longer because they are healthier and fitter than before, not because expensive medical care is prolonging their lives.

Similarly, many of the assumptions about the economic behaviour of older workers and the retired are based on straightforward extrapolations from the past. But it is far from certain that the wealthy and consumerist baby boom generation will behave like their more cautious parents in retirement. Moreover, changing working patterns - such as better skills and increased flexibility - should help mitigate against a decline in productivity caused by ageing.

Policy-makers also need to conduct a more tempered debate about immigration. The notion that immigration can ‘solve’ the demographic challenge is not widely rejected. Immigration is a palliative rather than a cure for population ageing. Research shows that fertility rates among immigrants quickly declines to that of the wider population. On the other hand, selective immigration might help ease labour market bottlenecks. The UK is one of several European countries considering introducing a ‘points’ system designed to cherry pick the most highly skilled immigrants. Yet the UK is

likely to continue to need lower paid immigrants to provide the “oil” for its growing service-based economy. Governments urgently need to revisit the issue of how to permit both skilled and unskilled migration without provoking social unrest.

Rather than focusing solely on the negative cost implications of demographic changes, there is a need to consider first more carefully what kind of services an ageing population will require. This is particularly important when looking at the potential for new technologies to improve the quality of services. Information technologies have the potential to help governments deliver much more efficient and flexible services. For example, IT could help increase the range of health treatments that can be provided at home - especially for the very old - allowing people to remain independent (and freeing up vital hospital beds) for longer.

However, there is a danger that large sections of the population could be excluded from such services - not so much because of the lack of availability of technology but because of an inability to access more complex services. For example, a recent report by the UK telecommunications company BT suggested that as much as 40 per cent of the population could struggle to use basic “e-government” services in ten year’s time. Governments will need to think carefully whether adequate training is available before rushing to shut down traditional delivery mechanisms for public services.

Cost-containment

Governments are increasingly making control of public-service costs a priority. In the UK, the Blair government has emphasised enhanced efficiency while increasing investment. The Gershon efficiency review and the proliferation of public-service targets are evidence of the government’s attempt to strengthen cost-control and reduce professional autonomy. Meanwhile, German governments from both sides of the political spectrum have focused on reducing overall spending on public services, in part to ensure the budget deficit meets EU rules on budget deficits (the stability and growth pact).

Governments are particularly concerned with trying to keep a lid on the rising cost of healthcare. Germany pays more for its healthcare than any other country except the US - 10.7 per cent of GDP in 2001 compared to 7.6 per cent in the UK. The cost of Germany’s healthcare system has risen by half in the last 10 years. Upward pressure on costs in Germany has come in large part from the fragmentation of its insurance schemes; there remain 280 sickness funds despite much consolidation in recent years. Cost control in the UK is easier, given the unified NHS structure funded through general taxation. The government has both the incentive and the capacity to control costs as it collects and distributes tax revenues and faces electoral penalties if taxes are too high. Administration and transaction costs are minimised, as there is little need for invoicing and billing (although integration

is under threat from efforts to create market relationships between NHS providers). Social insurance schemes, in contrast, have little incentive to minimise costs as insurance providers can increase individual contributions whilst being insulated from voter hostility. Multiple sickness funds, as in Germany, push up administration and transaction costs, as health care providers must invoice the insurance companies for each patient treated.

Competition is being introduced into the German system to help drive down costs. Sickness funds are able to contract individually with providers, rather than collectively. Greater “co-payment” (that is, individual user-charges that supplement collective funding) is being proposed in the UK and is already on the agenda for German health reformers. Both countries are introducing a payment-by-results system in which money will follow the patient, penalising unpopular hospitals with the threat of closure.

Beyond healthcare, governments in Germany and the UK have sought to contain many other welfare costs:

- In the UK part of this has involved a budgetary sleight of hand, moving from benefit transfers to tax credits, which count as negative taxation rather than expenditure.
- Central to the SPD’s austerity measures has been “Agenda 2010”, a wide-ranging series of structural reforms including cuts in unemployment benefits for those out of work for more than 18 months.
- In both Germany and the UK universal benefits are being eroded in favour of means-tested state assistance, for example in social care and disability payments.

Risk-transfer

Alongside these efforts to contain costs, governments have also sought to shift the risk for public-services provision away from the state to private sector or individuals. Schröder and Blair gave a commitment to enhancing the role of the market and reducing the scope of the state in their 1999 paper, “The Way Forward for Europe’s Social Democrats”. Private financing of public services is designed to reduce risks and costs through harnessing the efficiency incentives of private-sector operatives.

The UK government hopes that public private partnerships (PPPs) will provide £7 billion a year of investment, although in practice the use of PPPs only postpones state expenditure and increases transaction and borrowing costs. Private companies in the UK now build and run core public services such as social housing, long-term care for the elderly and prisons. While the PPP market is not as well developed in Germany, it is expanding as the state argues that it cannot afford public investment. German authorities have employed PPPs for school buildings and security facilities, with the construction industry estimating that the schools market alone is worth 9 billion over the next five years. The German government has made clear that it has no principled objection to greater private-sector involvement in public

services. In the GATS negotiations, German ministers indicated that they see parts of its education sector - including higher education and distance learning- as potentially marketable services. In both the UK and Germany, PPPs have not proven an unqualified success. Governments have had to offer highly favourable terms to private companies as an incentive to participate in PPP projects, resulting in much of the risk often remaining with the state. Similarly, central and local governments have had to bail out some poor performers. London Underground's 30-year contract with private companies for track and station improvements, for example, was found to be offering a virtually risk-free deal to companies, some of whom were netting profits of £2m a week despite poor performance. In February 2005, the head of London Underground criticised contractors for failing to spend enough on plant and equipment, an aversion to risk and a failure to deliver.

European governments have also sought to transfer more of the risk of welfare provision to individuals. For example, both Germany and the UK have recently introduced tuition fees for higher education. The rhetoric of choice, which is central to Blair's agenda in the UK and becoming more salient in German public-service reforms (such as the freedom to change sickness funds), can be seen as risk-transfer disguised as empowerment. The responsibility for choosing hospitals and schools are transferred to the individual, a choice that many are likely to perceive as taking a risk in conditions of great uncertainty.

The EU as a threat to public services?

This conflicting debate about the funding and provision of public services is also increasingly played out within the EU, as well as at a national level. Officially, the EU is neutral about how public services are funded and whether the private or public sector should provide them. However, unions and left-of-centre politicians are increasingly concerned that certain EU rules conflict with public sector values and are forcing an agenda of liberalisation and the steady erosion of public-sector provision on individual member-states.

For example, critics of the EU's rules cite the eurozone's budget deficit rules - the infamous stability and growth pact - which are supposed to impose limits on government borrowing requirements. Some unions fear that this will starve the public sector of much needed investment. Moreover, the rules could encourage governments to look to alternative sources of funding, such as public private partnerships (PPP), as a way of keeping the debts off the balance sheet.

Above all public sector unions and many left-of-centre politicians have become increasingly critical of the EU's state aid and competition rules. They argue that the commission's tough stance on subsidies, coupled with the EU's pledge to increase competition in formerly state-owned industries such as electricity and gas, is threatening to undermine the ability of member-states to provide comprehensive public services. Moreover, the EU

is now in the process of devising a new services directive (the so-called "Bolkestein Directive", named after the commissioner who drafted it), which will seek to create a single market in all services, including some provided by governments. The European Federation of Public Services Unions (EPSU) has criticised the proposed directive as failing to offer a "balanced" approach and championing "the ideology of competition" at the expense of other concerns.

A series of recent Court of Justice rulings seem to call into question the subsidies that member-states pay to maintain public services (or "services of general interest" in EU jargon), such as energy, postal and even transport services. The public sector critics argue that the EU should adopt a directive that protects public services from damaging competition rules. Unions cite the problems of the UK's railway network and electricity blackouts in Italy as evidence of the dangers of the EU's existing approach to liberalisation and competition.

This debate has been most vigorous in France, where EU competition rules are commonly viewed as part of an attempt to impose a deregulated trading zone, à l'anglaise, on Europe. For example, the French think-tank *Europartenaire* wants the EU to "recognise services of general interest as something more than just a concession, something that is tolerated as long as it is compatible with competition [rules]". The former French prime minister Laurent Fabius made clear that the absence of a directive protecting public services was part of the reason for his opposition to the EU's constitutional treaty.

For the moment, the European Commission has resisted the pressure to frame a new directive. The commission's White Paper concluded that it did not need to take further action. But the debate over public services will not fade away, as Fabius' recent intervention has demonstrated. The existing EU treaties only mention in passing the need to "take care that such (public) services operate on the basis and principles and conditions which enable them to fulfil their missions". However, the new constitutional treaty (if it is ratified) contains a clause (Article III-6) which leaves open the possibility that the EU might take legislative action in the future.

On the other hand - as this paper has shown - member-states fund and provide public services in very different ways across the EU. A service that one country regards as the sole preserve of the state may be privatised in another. For example, in Denmark private firms provide emergency services, such as the fire brigade, but the state directly manages all prisons. In contrast, private prisons are commonplace in Britain but the state is the sole supplier of the emergency services. Even France, while highly protective of state-owned services such as railways, has taken a very liberal stance on its water supply. Critics argue that a single directive risks diminishing this diversity by attempting to define catch-all rules in a single directive.

Furthermore, existing EU law allows member-states freedom to provide and subsidise important services. Governments can choose whether public bodies or private firms provide services. Since state-aid rules are only meant

to cover serious distortions of cross-border trade, many locally based services are automatically exempt. Thus EU rules do not affect aid to municipal swimming pools. The commission has also stressed that even large subsidies to companies which fulfil mainly local needs - for example, hospitals or social housing - would normally be exempt from cumbersome state-aid notification procedures. However, the services directive (see page 7) and the proposed liberalisation of the water industry mean that a much wider range of public services could soon become subject to EU competition rules. In this context, a directive clearly protecting public services from the damaging application of competition rules could become much more urgent.

The EU also urgently needs to clarify the outcome of a recent European Court of Justice ruling on public services. In the Altmark case of July 2003, the court ruled that a subsidy paid for delivering a service (in this specific case, for a German bus service) should be exempt from state aid rules, provided the payment meet a number of criteria: the amount of compensation should be clearly calculated and objective; the compensation should not exceed that required for the provision of the service; and the public-service element must be clearly defined.

The court also suggested that governments should award subsidised public-service contracts by competitive tender (although it stopped short of making this a formal requirement). The commission is likely to support this principle and develop guidelines for national and regional governments. Tendering can help to ensure that the costs of providing subsidies are transparent. Such a reform is also in line with the EU's commitment, as part of the Lisbon economic reform agenda, to open up public procurement to greater competition.

However, the commission must state explicitly that member-states do not have to award such contracts on the basis of price alone - and that they can consider other social objectives according to the preference of their electorates. Clear and flexible guidelines are vital to reassure unions that tendering should not favour private firms. Tendering appears to be good practice for all tiers of government. But the focus on costs misses many of the intangible benefits that derive from efficient public services. Too often tendering has resulted in driving down quality as well as costs. Furthermore many public authorities lack the resources or expertise to effectively apply tendering rules.

Issues and challenges for public service unions

These trends towards cost containment, risk-transfer and deregulation of public services have profound implications for the labour movement generally and for public service unions in particular.

- Cost-containment threatens to narrow the scope of public-service provision and reduce investment in capital projects. In Germany, current economic pressures pose particular challenges to trade unions since an inflexible, high-wage economy is often posited to be a key factor (alongside reunification) in Germany's economic malaise. Attempts to bring unions into dialogue with industrialists, such as the Alliance for Jobs initiative, have resulted in concessions to employers, such as a reduction in social security contributions funded through a new ecological tax, but few concessions to unions.
- The transfer of public-service employees to the private sector is part of a strategy to reduce unionisation and create a flexible labour market. Union membership in Germany fell by 23 per cent between 1993 and 2003, from 11.6 million to 8.8 million. UK union membership fell over the same period by 12 per cent, from 8.8 million to 7.6 million. Private companies are less likely to be unionised than the public sector: in the UK, 62 per cent of the public-sector workforce is unionised compared to 20 per cent of the private-sector workforce. In Germany, more than 60 per cent of public servants are unionised compared to 43 per cent of blue-collar workers in the private sector and 20 per cent of white-collar private sector workers.
- Deregulation threatens to undermine long-standing commitments to social and employment rights. There are pressures on workers at major firms such as Siemens, Mercedes and Volkswagen in Germany to accept wage freezes, longer hours and more "flexible" work practices to avoid job losses. Some German works councils, especially in the eastern Lander, have acted independently of unions in accepting pay freezes to avoid lay-offs.

In tackling these challenges, German trade unions have organisational advantages over their UK counterparts since they operate in an environment of statutory and public support for trade unionism that does not exist in the UK. The principle of co-determination, while it endures, gives union and

employee representation on supervisory boards. Works councils at shop-floor level have rights of consultation and negotiation on working conditions and work practices.

Whereas UK trade unions have not enjoyed the same level of institutional involvement, they do have long experience of campaigning and mobilisation against hostile government proposals. For UK unions, campaigning is becoming ever more important as management endorsement of unions declined dramatically in the 1990s, undermining union bargaining and political representation on management boards.

There is much scope for shared learning between German and UK trade unions about how to maximise effectiveness across a range of channels.

Public-service unions can draw on a reservoir of public support. An opinion poll for the UK union the GMB in July 2001 (MORI) found that two-thirds of respondents would prioritise improving the pay and conditions of public-sector workers to improve public services. Another poll in 2003 found that 62 per cent of voters felt that the government was placing too much emphasis on using private companies to provide public services (Guardian/ICM). A cross-national survey of attitudes to private involvement in public services found opposition to private sector involvement in health care: 89 per cent of British respondents and 75 per cent of German respondents favoured the continuation of publicly provided health care. Unions should draw on this strong public support in their campaign to reform public services in a progressive manner.

The challenge for trade unions in Germany and the UK is not only to win over broad public support for their role, but also to stem the decline of union membership. As the proportion of unionised workforces fall, unions face new organisational challenges. They must work to establish new union branches, a greater challenge than encouraging new employees to join an existing branch. Such challenges are intensified as non-unionised workplaces continue to grow at a faster rate than unionised workforces. In Germany and the UK collective-bargaining arrangements are unravelling either formally or de facto, allowing greater local autonomy. The organisational challenge of increasing trade union membership needs to go alongside the extension of alternative forms of influence such as international solidarity action with workers from other countries, coalitions with campaign groups and social movements and publicity campaigns to target public opinion.

Public Services in 2020

Public services will be central to general elections in the UK in 2005 and Germany in 2006. The main political parties will come forward with competing visions which will shape the development of services over the next 15 years. This section considers two possible scenarios for the evolution of the public services during that period: the steady erosion of broad-based, universal public-services provision towards “residual” provision only; or the reform of existing services in a more “expansive” direction.

The two scenarios are summarised in the table. The attempt is to envisage not static pictures but alternative political dynamics which over an extended period would suggest either a “vicious” circle of deteriorating public services and narrowing political support for their funding or a “virtuous” circle of improving public services, leading to broad political support for their funding and, where necessary, expansion.

Public Services in 2020 - Two Scenarios	
Residual Public Services	Expansive Public Services
Minimal “safety net” services for poorest who cannot afford private	Comprehensive, universal services developing to meet social needs
Increased use of co-payment	Tax and insurance based financing
Risk transferred to the individual	Risk shared across the community
Means-tested benefits	Universal benefits
Adversarial roles between users, workers and government	Services developed on principles of co-production and social dialogue
Government employment standards match private sector norm	Government as a model employer setting standards for private sector
Increasing private finance and provision	Strategic investment in public-sector capacity
Centrally imposed standards	Standards agreed through stakeholder dialogue
Pan-European “race to the bottom” in working conditions	Strengthening of EU social rights and EU “social model”
Narrow and weak public support for redistributive funding arrangements	Broad and strong public support for redistributive funding arrangements

Residual public services

The first scenario is a natural development of many of the existing policies in Germany and UK, such as continuing cost-containment, risk-transfer and deregulation. Governments may become unable, or unwilling, to fund current levels of public services in the face of pressure to cut taxes and rein in the states. As a result, many services become means-tested, privately provided, and user payments increase.

As private and non-profit sector bodies take more responsibility for public service provision, the democratic accountability of services declines. Private companies are able to shield their accounts under the cloak of commercial confidentiality. Non-profit organisations, such as Public Interest Companies in the UK and religious bodies in Germany, are freed from many of the constraints limiting public sector providers and are able to operate without democratic oversight from established political institutions such as local government. The future of public services across Europe is being shaped by the GATS negotiations which are characterised by a complete lack of transparency, leaving interested citizens and non-governmental organisations starved of information.

The rationale for public services is increasingly on the basis of individual rather than collective benefits. Health and education are promoted as individual goods that enhance the quality of life and earning potential of the citizen, rather than collective goods enjoyed by the community. Such a rationale makes it easier to expand public-service user charges from current low levels (0.25 per cent of GDP in the UK and 1.5 per cent in Germany), despite evidence of high administration costs and the detrimental impact on access to services for poorer citizens. Means-tested benefits and tax credits are expanded, although stigma and complexity lead to low take-up. The state's role becomes one of simply compensating workers for the failings of the flexible labour market, rather than seeking to address the causes of labour market disadvantage.

The expansion of user choice chiefly benefits articulate, middle-class users and further deepens health and education inequalities. A lack of capacity and an unwillingness to bear the political costs of hospital and school closure limits the flexibility of government's response. Private and non-profit sector providers claim to enhance user choice and diversity but are premised on the targeting of particular groups, rather than the principles of universalism or solidarity that animate the state. Both for-profit and non-profit providers have an incentive to cherry-pick desirable public-service users: in the former case to increase profits, in the latter case to minimise the claims on limited resources. Examples of cherry-picking already abound. In Germany, for example, the wealthy are allowed to opt out of the statutory health schemes and join private insurers who can offer low premiums to the young and healthy. As a result, statutory health schemes retain a greater proportion of higher-cost members. In the UK, the private health sector is being encouraged by the state to provide routine surgery to low-risk users whilst high-risk users continue to be catered for by the NHS. Integrated state provision, which at its best fostered equality and recognised diversity,

is being lost to a proliferation of smaller non-state providers who keep costs down by limiting access and minimising flexibility.

Public sector workers find their autonomy further and further restricted by performance targets and centrally directed management regimes. The imposition of punitive targets leads to "pseudo-compliance, alienation of staff, and rigidity and ritualism in task-performance."³ Continued deregulation in the labour market increases worker insecurity and drives down pay and conditions. The private for-profit sector fails to invest in workplace training, exacerbating skills shortages.

Even where services are retained in-house, the need to compete with outside contractors pushes down the terms, conditions and job security of public sector employees. Young people are less attracted by public sector work and the recruitment of nurses, doctors, teachers and other public-service professionals fall. Women are particularly hard hit by rising casualisation, as they make up the majority of the temporary, part-time workforce. Trade union membership further declines as higher proportions of the workforce enter sectors with low levels of unionisation. The continuous government criticism of the inefficiencies of the public sector workforce breeds resentment and insecurity. As a result, public-sector workers become antagonistic towards the government rather than acting as allies in reform.

Thus by 2020, publicly funded services have become little more than a safety net for the very poor, those people that the private sector see little financial benefit in serving. Citizens who can afford to do so purchase better quality services either within or outside the public sector. Public services have lost all claim to foster cohesion or equality within society. Private corporations provide services on contract to the state, with transparency of service clouded by claims of commercial confidentiality. In place of democratically accountable public services, which recognise that citizens have universal claims and differential needs, services are provided by a patchwork of organisations with a multiplicity of eligibility criteria and service standards. The young, the healthy and the wealthy may be well served by such organisations, piecing together a desirable portfolio of health, education and social security packages, at least for as long as they stay young, healthy and rich. The old, the sick and the poor are dependent on a residual state or forced to accept discriminatory terms from private insurers. The democratic mechanisms which once infused public service provision with solidaric principles are silenced by the network of providers, regulators, auditors which now intercede between politicians and service users. In the long run, right-of-centre governments are able to privatise all but those goods, such as policing, defence and roads, that will not be produced by the market.

Expansive public services

The scenario of expansive public services builds on the stated commitment of the Blair and Schröder-led governments to well-funded public services which enhance social justice. In this scenario, public services are universal

3 Rustin, M. (2004) 'Rethinking Audit and Inspection', Soundings, 26, p. 102

and funded in most part through general taxation. The rationale for public services combines individual and collective benefits, encouraging individuals to enhance their skills whilst recognising the collective benefit of a well-educated workforce. There is a reassertion of the importance of government as a model employer, setting high levels of pay and conditions as a matter of principle. Ideologically, the assumption that private-sector provision is always more efficient than the public is discredited through better dissemination of existing evidence.

In health care there is a commitment to the wider social benefits to the economy and society of curing sickness and preventing disease, rather than an emphasis on individual risk-management. The Wanless Report emphasised that government investment in public-health promotion and sickness prevention was the best way to reduce demand for health care, encouraging changes in behaviour such as quitting smoking, improving diet and exercise regimes and tackling high levels of mental health problems. The OECD found that a greater share of public financing of health care is associated with better health outcomes.

Governments commit to funding healthcare efficiently through general taxation, building on the UK model. The Wanless report estimates that it would cost the UK £700 a year per employee to move to a German-style social insurance system. Health care funding in Germany is shifting more towards taxation funding, as it was beginning to do - along with France - in the early 21st century. However, the model for levels of health care provision is German rather than British: a low ratio of healthcare professionals to patients and minimal waiting lists.

Progressive public services are based on a wide range of different forms of organisation rather than the dogmatic insistence on private-sector provision. While the private sector may be able to provide some public services efficiently - levels of public satisfaction with private waste collection, for example, are high in the UK - other services do not respond well to the fragmentation and competition introduced by contracting out. The burden of proof is shifted onto those that favour a move away from in-house provision, rather than taking out-sourcing as the norm. Not-for-profit organisations continue to be part of a mixed sector of provision in Germany and the UK. However, all public-service provision is on the basis of common standards of job security and pay, with clear structures of accountability. Existing public providers are creative in expanding their roles: for example, post offices explore how to expand access to Internet services, as Poste Italiane already does. Employers and unions work co-operatively to develop quality services in-house without sacrificing pay and conditions. Unions are encouraged to work with employers on a broad range of service questions and participate in management decisions, rather than being restricted to negotiating only on pay and conditions. Trade unions and community organisations are involved in standard setting to allow transparent and democratic provision.

Users and providers of public services in 2020 co-operate on the basis of principles of transparency, accountability and participation. Individual users work with professionals to identify appropriate service provision alongside

collective and democratic mechanisms of user involvement. This in turn helps close the gap between government and citizens. For example, users participate fully in neighbourhood renewal schemes, park maintenance and “walking bus” initiatives for school children. Users no longer play simply a passive consumer role but help deliver more responsive and efficient services. The democratic structures of accountability, which were beginning to wither in the early twenty-first century, have been reinvigorated. At local government level, initiatives such as citizens’ juries, which began in Germany and spread to the UK, allow local citizens to participate in complex decision-making about public service provision. Freed from the unpredictability, rigidity and transaction costs of internal markets, public service providers can work with users to respond to their differential needs. Public services which were designed in the post-war era to meet the needs of traditional families are much more responsive to the diverse needs of a multi-cultural society premised on equality of treatment. For example, assumptions about the role of the woman in the family no longer underpin childcare provision, parental leave, pension provision and carer allowances. The public sector continues to lead the way, as it did during the twentieth century, in tackling unequal pay for women, ethnic minorities and the disabled.

Achieving progressive public services

The best way for trade unions to respond to this complex scenario will be a complex, and indeed controversial, area of discussion. Nevertheless some key elements of a trade union strategy for supporting progressive public services over the years ahead can be identified.

Alliances for public service improvement

Trade unions and the workers they represent must be seen to lead the process of public-service improvement and innovation. There are many examples of trade unions working creatively to redesign public services in ways that improve quality without diminishing job security or working conditions for members.

- The Kom An project run by Kommunal in Sweden developed self-managed in-house teams to restructure services while avoiding cuts to compete with the private sector. As one writer argues: “The key to Kommunal’s success in not only saving public money but improving public service quality has been the creation of workplace environments in which the union’s members can identify waste and devise new ways of working without fear that by doing so they will finger themselves or their colleagues for the chop”.⁴
- In the USA, trade unions have worked with local government - for example in Indianapolis - to improve services on the basis of job security. The Association of Public Service Excellence has encouraged this model in the UK and provides examples of good practice in trade union involvement in local government service delivery. Common themes include employee involvement in service design, training programmes and democratic accountability.
- In the UK, despite a tense political climate that could be seen as inhospitable to union-government partnerships in public service delivery, even in the years since the election of a Labour government in 1997, there have been some opportunities for unions to demonstrate the practical contribution they can make to the development of public services. These include the “Agenda for Change” pay negotiations in the health service which have allowed for considerable simplification and modernisation of NHS pay structures and working practices; and the “Workforce Remodelling” agreement for schools which, while not without its controversy, has been seen by some unions and employees as a “modernisation” which they can support and benefit from.

*Martin, B. (2004)
‘The Ecology of
Public Services’,
Soundings, 28,
p. 29*

International alliances in support of public services

Develop pan-European networks with trade unions and community organisations. There has sometimes been a tension between unions in export sectors who have been supportive of open borders, and unions in domestic production and public-service sectors who prefer national policy autonomy. Trade unions need to work together to make EU structures more democratic and to establish social minimum standards to prevent a race to the bottom. Unions could also strengthen links with non-labour civil society organisations and consumer organisations, emphasising that only a skilled and disciplined workforce will be able to deliver quality public services.

Campaigning for progressive public services

In addition to the broader strategic objectives, trade unions in the UK and Germany need to work together to develop campaigns around the following themes:

- Reintroduction of the principle of government as a model employer. The long-standing assumption that government will set high-quality employment standards as an example for other sectors to follow has been eroded. This principle needs to be restated. Governments need to lead by example in showing that working practices can be flexible in improving work-life balance without leading to reduced wages, discriminatory pay and worsening terms and conditions. In particular, trade unions need to campaign in defence of public-service pension schemes against threats to increase retirement ages and reduce benefits.
- Recognition of the limitations of contracting for public services, given the intangible nature of many aspects of public services and the transaction costs of the tendering process. In-house bids should be encouraged to retain expertise and accountability. Where contracting is used, more rigorous testing of the value-for-money of private contracts is required. Too many PPP projects rely on overly optimistic assumptions about rates of borrowing and project costings, resulting in projects that over-run and over-spend. More rigorous and transparent assessment of contracting processes needs to be introduced.
- Restatement of the principle of fair wages, so that private employers contracted to government offer staff terms and conditions that are comparable to those of public-sector employees, extending workforce regulations which already exist for some public-service providers.
- A rebalancing of existing forms of audit and inspection which imposes rigid oversight of all aspects of the public sector but allows private contractors to hide their profits and employment practices behind the cloak of commercial confidentiality. Common standards need to be enforced which permit innovation and diversity but do so under a framework of transparent and accountable public services.

- Expanded provision for trade union and workforce representation within public-service governance structures, including on the boards of non-state providers such as religious organisations and public-interest companies.
- Sharing and dissemination of comparative research data on private involvement in public service in the UK, Germany and beyond, to highlight the reality of expanded costs and reduced care.

Conclusion

In 2020, public services will continue to offer a bulwark against destitution and suffering. However, it is unclear whether they will continue to support the principles that underpinned their creation: of services which exist to secure decent living standards for all citizens as a mark of solidarity and shared membership of a political community. Over the next 15 years, public services will be a key battleground, in Europe and beyond, between the forces of private capital and the principles of a non-marketised public realm. In the twentieth century, trade unions were one of the most powerful voices in defence of public services, helping to establish a new consensus after the second world war. There is a need in the twenty-first century to re-affirm why public services matter.