

THE FUTURE IS PUBLIC: WORKING PAPER 15

Transforming the state: from ‘new public management’ in a market state to democratic public management in a socialised state

By Hilary Wainwright

‘We should not try to recreate the nationalised industries of the past,’ John McDonnell, The British Labour Party’s Shadow Chancellor of the Exchequer, has said. ‘We cannot be nostalgic for a model whose management was often too distant, too bureaucratic.’ Instead, a new kind of public ownership is needed based on the principle that ‘nobody knows better how to run these industries than those who spend their lives with them’.

Learning from 1945

Building on this commitment I suggest three lines along which we must learn critically from the post-1945 British experience of nationalisation to develop a more truly public (i.e. democratic) form of public ownership for the 21st century.

The first concerns the undemocratic nature of the British state, on which Labour uncritically relied to implement the party’s reform programme.

The second concerns the assumptions guiding methods of management, specifically what kind of knowledge is required to manage publicly-owned companies to maximise public benefit and who has it.

And the third concerns the defensive nature of the organised working class, including the relationship of the trade unions to politics.

The undemocratic state

In many ways, it was not surprising that nationalisation in 1945 should be ‘too distant, too bureaucratic’. The Labour government had inherited a state constructed to manage an empire. Its methods were (and still are) secretive, its rules opaque to the public but infinitely flexible for the powerful, who were under no obligation to be accountable. This peculiarly elite rule, which Labour has traditionally sought to deploy for its own purposes rather than to transform, is based on a historic compromise that led to Britain becoming a ‘constitutional monarchy’ rather than a republic. As such various functions of government are not subject to parliamentary debate or public scrutiny. Moreover, MPs swear their oaths of allegiance not to the people but to the crown which, in effect, stands for the moral authority of the state.

Flexible unwritten rules suit the elite

The consequence is that there is little recognition of the importance for democracy of open public debate on the rules that govern how we are managed without explicit publicly-formulated and commonly-‘owned’ rules, the ruling elite is left to interpret unwritten rules and conventions more or less as it likes.

This culture of flexibility disguised by opacity has pervaded all parts of the state, including the nationalised industries. The nationalisations of 1945 were mainly pragmatic, a means to reconstruct

after the war. They were generally meant to run on a commercial basis, and partly to provide an inexpensive infrastructure for the private sector. There was no explicit statement or agreement on their social objectives, and hence no mechanism for public scrutiny or amendment.

In this model, politicians, advised by specialised professionals, set policy goals, and managers had day-to-day control. Moreover, it treated questions of implementation (the sphere of management) as purely technical, with only one 'correct' approach. Thus, it militated against popular participation, debate and judgement in the implementation of policy.

Democratic public ownership requires a democratic state

The goal of democratic public ownership cannot focus simply on mechanisms and relationships *internal* to an industry. Since we are talking about state ownership, we have to think about the nature of the state itself and scrutinise how democratic it is or isn't

As it relates to public ownership, this scrutiny requires two dimensions:

- the function and mission the elected government gives to public industries and how they are managed, as well how far this entrenches their public ownership; and
- the extent of openness to citizen participation in, and awareness of, the decision-making of public industries.

The living laboratory of uruguay

Here it will help to look at an example of a country that has developed a democratic constitution to protect collective and individual rights. Uruguay is a small country with a population of 3.5 million, but its history has produced a unique political economy in which public enterprises play a leading role in meeting social and environmental development goals rather than simply increasing state revenue or providing infrastructure for the private sector. It is an exemplary case of a *developmental* state, as distinct from a *competitive* or *market-led* state. There are two key features of a developmental state.

First, it intervenes in the market to promote economic development rather than allowing market forces to determine the future of the national economy and the life chances of those who live and work in it. And second, it co-ordinates the different parts and powers of the state around explicit social and developmental goals, such as overcoming poverty, establishing economic security and strengthening the self-confidence and power of working people.

Public companies are seen as a central means of intervention in the market in their investment strategies and their purchasing and employment policies, and through their co-ordination to meet social and politically-determined goals. For instance, Uruguay's public utilities all had social objectives written into their missions. This explicitly social purpose has influenced how the public views these companies and has led to an unusual degree of popular support for the state.

The importance of a democratic constitution

Two distinctive dimensions of Uruguay's constitution are particularly important.

The first is the longevity of the public sector. Public companies are part of the constitution and hence understood as part of Uruguayan democracy. Generations have been educated in this view of their country. Hence, they have been quick to mobilise to defend these companies against privatisation and advance democratic principles (like winning the right of citizens to participate on company boards).

The second dimension is the importance of providing a foundation stone of public values to which citizens can refer to protect basic social as well as individual rights.

In Uruguay, the constitution is a living institution which citizens can change democratically to meet new needs, such as to protect water as a natural commons from the pressures of the corporate-driven global market.

Public benefit, not private profit

For a constitution to be democratic, it must be drawn up with full popular participation so that its values reflect the realities of people's lives. Such a constitution can establish the fundamental framework and shared values of democratic public ownership, with subsequent legislation determining specific organisational and governance structures. There then remains the crucial question of the *management* of public enterprises.

The means of management are not value neutral, nor simply 'techniques'. For a start, they either perpetuate or challenge existing relations of power, including those based on race, gender and class. And they shape the character of social relations both within an institution and externally –for example, whether they are collaborative, hierarchical and/or competitive. In other words, there are choices involved in the implementation of policy, based on purpose and values.

Valuing the practical knowledge and capacity of every citizen

John McDonnell's foundational principle of valuing the knowledge and capacity of every citizen implies a profound cultural shift in the attitudes and strategies of public sector management and in the consciousness and self-confidence of working people. This implies a break from both the 'new public management' encouraged by Margaret Thatcher to apply business methods to the public sector as well as the command-and-control hierarchies of the post-1945 state, inherited from the war and reinforced by the paternalistic and narrowly scientific understandings of knowledge of Labour's policy-making elite. How, then, do we move beyond –democratise– the traditional model of public management? In this model, democracy meant only electoral democracy.

In both of these traditional models of public management, democracy focuses mostly on electoral democracy. The assumption was that the knowledge to implement the politicians' mandate lay with the experts. Beatrice Webb, the great Fabian adviser to Labour leaders, put this vividly when she wrote in her diary: 'We have little faith in the average sensual man. We do not believe that he can do much more than describe his grievances, we do not think he can prescribe his remedies.'

The result was disastrous in terms of public benefit. Policies driven by this mentality have meant that possibilities for increased productivity that enhance workers' skills and satisfaction are missed, resulting in production processes that exhaust, deskill and demoralise otherwise creative, energetic workers. They have led to, for instance, public housing designed by architects who don't live there; public transport planned and run by people who do not use it; and women's lives shaped by public provision designed and managed by men.

A simple reversal of new public management and the Fabian mentality is not enough, however. In developing John McDonnell's 'new model of public ownership', we must address the problem of how, and through what institutions and processes, the knowledge of those 'who spend their lives with these industries' (both those who work for them and the communities and users affected by them) can gain effective expression and utilisation.

This is not simply a matter of democratic principle. Rather, because this aspiration to deep or 'radical' democracy is based on a recognition of the practical knowledge and capacity of all, it is also the basis for improved public efficiency. In a sense, it leads to a realisation of Marx's ideal of a society in which the 'fulfillment of all depends on the fulfillment of each'. It could be called 'productive democracy', as

distinguished from a liberal democracy in which political rights are conceived in isolation from economic and social equality.

Workers on the board: necessary but not sufficient.

'Workers on the board' is the common understanding of the democratisation of public companies. Certainly, worker representation is necessary if a real change in the relations of production is to be achieved. But it is by no means sufficient to change the balance of power between management and workers, which is essential for workers' knowledge and capacity to have an effective influence on company efficiency in meeting social goals.

Experience has shown that unless there has been a change in the balance of power in the workplace, due to trade union organisation and changed management methods, board representation alters little. This is illustrated negatively by the experience of *mitbestimmung* in Germany, where the fact of workers on the board has often had little effect where the unions are weak. It is illustrated positively in Uruguay, where union industrial power and political influence has been decisive and the unions have pushed for board representation as a means of consolidating their more informal power.

Furthermore, the social benefits of practical and often tacit knowledge cannot be realised by simply being turned into 'demands' fed through the structures of a union or company from shop floor to the board. Of course, on some key decisions, workers' views can be conveyed through such a process, but there is a deeper level of workers' and citizens' knowledge that is tacit and embedded in skills and capacity that are expressed and shared through practice, whether in technological design and manufacturing, caring for other people, or creating works of art. This practical dimension of knowledge can only be released for the benefit of all through collaborative practice.

Learning from the organisation of the commons

One useful source on how to move beyond hierarchical models is the work of Elinor Ostrom on the core design principles that distinguish groups that are successful in managing a common resource.

These design principles include strong common purpose, inclusive, participatory decision-making, commitment and peer-group monitoring, fairness in reward and cost, just conflict resolution, local autonomy and consistent governance.

These principles could be applied to the public sector, which in many cases is concerned with stewardship of a commons, such as water, the environment (including air quality and renewable sources of energy), or the capacities, knowledge and creativity of citizens themselves. This would involve replacing the risk averse and often stifling bureaucratic hierarchies traditionally typical of the public sector with structures that co-ordinate and support autonomous, problem-focused teams working within the framework of an explicit shared purpose where experimentation and innovation is encouraged.

Replacing market 'discipline' with that of social and environmental need

Worker representation plus democratic relations of production and/or service delivery would still not be sufficient to meet fundamental social and environmental goals, such as transition to a low-carbon economy or overcoming the poverty, exclusion and wasted human talent caused by decades of market-driven politics.

Unless its external economic relationships are changed, a publicly-owned company is still subject to the same pressures that lead private companies to act in anti-social ways. The 'discipline' of the market

must be replaced with the discipline of democratically determined social and environmental need. All the different powers of public bodies – procurement, borrowing, employment, planning, property ownership, environmental regulations, health and safety and more – must be deployed to generate a positive ‘multiplier effect’ in meeting need and creating socially useful and satisfying jobs. The social and environmental benefits resulting from public economic activity as it percolates through the economy must be accorded value beyond the monetary cost and benefits of the initial expenditure.

Collaboration from below: the experience of community wealth building

Collaboration around a common purpose can be implemented through a decentralised process, building on local initiatives and struggles that precede the electoral victory of a transformative government.

A pioneer exemplar of such a collaborative approach can be found in what has become known as ‘community wealth building’ in the UK. Inspired by US experiences of more democratic forms of community economic development, it began in Preston post-2008 after the local authority was let down by a private partner in a major regeneration project. As part of the ‘Preston Model’, the council has collaborated with other public authorities in the town and region to deploy their procurement budgets, investments, and workforce development policies to support local, unionised, and democratic enterprises (such as co-operatives) .

The Preston model offers a building block for further systemic change. National government support could strengthen and spread such local exemplars with greater powers to local government and through a network of regional public development banks.

Moving from a defensive to a transformative trade unionism

Government action is necessary, but insufficient and limited. The democratic drive in any scenario requires the involvement of a transformative agency beyond government.

For instance, recent experiences of community wealth building have seen public-spirited councils blocked by their limited powers and a private sector driven by speculative profit seeking. The wealth creators, the working class, organised through their unions and co-operatives, should be the allies of a government seeking to democratically transform the economy. And sometimes, like in Uruguay, they are – or show how they could be.

The legacy of the labour party’s origins

In order to do so in Britain, we must address a problem with the historic relations between the trade unions and the Labour Party. The Labour Party was founded on a division of function between the unions and the party. The unions left politics, including industrial strategy, to the party in exchange for legislation to protect their autonomous rights to organise and bargain.

This was to prove debilitating from a transformative point of view since Labour governments rarely recognised trade unionists as knowledgeable producers and therefore allies in their programmes for industrial change. Instead Labour tended to treat management as its source of know how and the unions as, at best, subordinates. Without an ally with shared goals regarding the control and direction of business, Labour governments have struggled to transform the economy in the face of business and capitalist opposition.

An exception that proves the rule

There is an exception that proves the rule. In his brief period at the Department of Industry, Tony Benn, who did see workers as knowledgeable producers, illustrated what a practical, working alliance with shop floor representatives could achieve.

With his encouragement, trade union delegates from Lucas Aerospace developed an 'alternative plan' through prototypes based on the proposals and designs of their membership. The products were designed to be socially and environmentally useful, an alternative to the military components that were Lucas Aerospace's existing specialism.

But once Benn had been removed from the department by Prime Minister Harold Wilson, under pressure from the City and the Confederation of British Industry, the Labour government sided with Lucas Aerospace management and the plan was never implemented. A good idea, however, cannot easily be suppressed. Some of its proposals were taken forward by the Greater London Council (later abolished by the Thatcher government) and it has been an inspiration behind John McDonnell's vision of democratic public industries.

Lessons from uruguay

In Uruguay, this vision of a democratic, socially useful public company is shared and sometimes driven by the trade unions. Here's how Gabriel 'Chefle' Molina, president of the telecoms union Sutel, sees the significance of the industry being public: 'because [the telecoms company] Antel is public, its services must be for everyone –including those who can't afford it. [And because revenues go back to the state] nowadays we have tablets for pensioners and laptops for young kids to go to school and study with.'

This positive commitment to the social purpose of Antel has had practical consequences. First, it has led to the union being a strong supporter of the integrity of Antel as a public company and a fierce opponent of any plans to privatise services or contract them out to multinational telecoms companies.

Second, the role of the union went beyond the defensive to participation in the appointment of the new director of Antel, Carolina Coase. For ten years, in close collaboration with the union, she led Antel in a direction that was both ambitiously innovative technologically and radical in its social provision. The involvement of the union, and specifically front-line workers, led to successes that would not have been possible if the workers had not understood and supported such ambitious projects.

The relationship between the unions in Uruguay and the left coalition party was forged in the common struggle against the previous dictatorship. As a result, rather than a rigid division of function between them, like in the UK, there was a culture of collaboration and mutual solidarity against a common enemy, originally the dictatorship (until 1985), then right-wing parties and then the corporate-driven global market. We are beginning to see the signs of similar collaboration and solidarity in a common cause – resisting austerity, privatisation and deregulation – in the UK. But even now key unions are not preparing a transformative strategy for their industries, including in the public sector. This preparation, this shift to a more strategic, political trade unionism, is a precondition for the realisation of democratic public ownership.

Conclusion

In sum, democratising public ownership requires a radical shift in the balance of power towards front-line workers, users and affected communities. Such a shift cannot be achieved simply by institutional engineering, such as workers on boards. This kind of institutional opening up is necessary, but it will only release a democratic dynamic if there is a conscious movement for industrial and service transformation

coming from workers and communities themselves. And this requires a steady transformation, including democratisation, of the labour movement itself.

ABOUT THE AUTHOR



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This working paper is presented at The Future is Public Conference (December 2019). The draft report “The Future is Public: Towards Democratic Ownership of Public Services” and 15 working papers together form the conference resources. The Transnational Institute and co-publishers will publish the improved report and final papers as a book in 2020. To access the conference resources: futureispublic.org