

## 10. Afterword: re-engaging with public governance

Political writers have established it as a maxim, that in contriving any system of government, and fixing the several checks and controls of the constitution, every man ought to be supposed a knave and to have no other end, in all his actions, than private interest. By this interest, we must govern him and, by means of it, notwithstanding his insatiable avarice and ambition, co-operate to the public good.<sup>1</sup>

David Hume (1777)

### 10.1 Pathologies of neoliberalism

Ronald Reagan began his 1981 presidential address by remarking on how, in the US,

The orderly transfer of authority as called for in the Constitution routinely takes place, as it has for almost two centuries, and few of us stop to think how unique we really are. In the eyes of many in the world, this every-four-year ceremony we accept as normal is nothing less than a miracle.

That address is remembered, however, for setting out the case for neoliberalism in one sentence: ‘In our current crisis, government is not the solution to our problems: government is the problem.’<sup>2</sup> In 1989, towards the end of Reagan’s second term, he drafted an executive order to establish a new government agency. It was to act on the findings of the secret Project Socrates, led by Michael Sekora, which had diagnosed the underlying cause of America’s declining competitiveness. That project found that the falling competitiveness

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of the US was the consequence of its institutions shifting their focus from technological innovation to ‘increasingly sophisticated economic *shell games* to maximize profits’ (emphasis in original).<sup>3</sup> That was the outcome of taking seriously Friedman’s 1970 doctrine that:

there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception [or] fraud.<sup>4</sup>

Reagan’s term of office ended before his executive order could be signed.<sup>5</sup> His successor, President George Bush, abolished Project Socrates. In the 2000s and 2010s, increasingly sophisticated economic shell games continued to be played in the financialisation of the economies of the US and UK, with four pathological consequences.

The primary pathology is the corrosive impact of financialisation on what used to be great companies in the real economy (see Chapter 5). The mission of maximising shareholder value overturned almost all other arguments about what was needed to build great corporations – by making money the core mission and sole rationale of the organisation and those who work for it. In the 1990s, Boeing was the world’s most commercially successful aircraft company, thanks to the success of its 747 aircraft, which was designed and developed by people who ‘eat breathe and sleep the world of aeronautics’.<sup>6</sup> After its takeover by McDonnell Douglas 20 years ago, Boeing’s core mission became ‘improving the company’s financial profile’.<sup>7</sup> In 1976, Fred Hirsch wrote:

In principle, individual maximisation can be held to its social purpose – making the best of opportunities for all – so long as it operates on the basis of properly designed and implemented rules; yet individual maximisation means manipulating these rules too.<sup>8</sup>

In 2018, in Indonesia, Boeing’s 737 Max 8 airline, ‘which was practically new, crashed minutes after takeoff, killing all 189 people on board’.<sup>9</sup> In 2019, in Ethiopia, another Boeing 737 Max 8 crashed, again killing all 346 people on board.<sup>10</sup> On 22 September 2022, the *New York Times* reported that:<sup>11</sup>

Boeing reached a \$200 million settlement with U.S. securities regulators on Thursday to resolve an investigation into claims that the aircraft manufacturer and a former chief executive had deceived investors about problems with its 737 Max plane ... The aircraft manufacturer last year reached a \$2.5 billion settlement with federal prosecutors as part of a deferred prosecution agreement ... Last year, a group of Boeing directors agreed to a \$237.5 million settlement

with shareholders who accused them of failing to adequately oversee the company, allowing the lapses that led to the crashes.

The secondary pathology is the consequences of major shocks to the body politic in the US and the UK as a consequence of the 2008 Global Financial Crisis. Everyone could see that the rules of the game in the institutions of financialisation were privatising gains and socialising losses and that undermined trust in our institutions. Fiona Hill was brought up as the daughter of an unemployed miner and midwife in Bishop Auckland and went 'From coal house to White House', becoming an adviser on foreign affairs to US Presidents George W. Bush, Barack Obama and Donald Trump. She saw the same pathologies led to those in the deindustrialised areas, which had been left behind, to vote for new political settlements: in 2016, for Brexit in the UK, with its promise to 'take back control', and Donald Trump in the US, as the 45th president, with his promise to Make America Great Again (MAGA).<sup>12</sup> Brexit now makes the British economy look like a team of athletes who used to struggle to compete in the Olympics and have decided to go on a fast-food diet: they can still run but not compete effectively.<sup>13</sup> Trump's refusal to accept his defeat in the presidential election of 2020 resulted in that infamous day of 6 January 2021, when five people died in the Capitol in Washington. That ceased to be Reagan's miracle of 'orderly transfer of authority'.<sup>14</sup>

The third pathology is a set of direct malign consequences from the growth of the UK financial sector and its lobbying power. John Muellbauer and David Soskice highlight the following:

- lax regulation and generous tax treatment of capital gains and hedge funds;
- a seamy underbelly of the UK financial and property service sector, abetted by the UK's overseas territories, making international tax evasion easier;
- credit-fuelled property booms, and high property prices; and
- diminished productivity growth.<sup>15</sup>

The fourth pathology is, perhaps, the most troubling of all: the low productivity of the UK as compared with other countries in Europe, and the UK's rate of increase in productivity over the decade to 2018, which was the lowest in the last 250 years.<sup>16</sup> The UK's stagnating economy is why there have been historically high levels of taxation and failing services (for example, nearly 26,000 waiting more than one year for treatment in the NHS).<sup>17</sup> Those struggling to deliver front-line services are trapped in a vicious circle of being underpaid and overworked, which creates problems of retention and recruitment, and so staff leave. The government's plans to tackle staff shortages in emergency care were deemed to have been misdirected for 'a demoralised and burnt-out workforce seeing high rates of people leaving, and a social care system devastated by years of squeezed budgets and bad pay'.<sup>18</sup>

## 10.2 Second thoughts on markets and quasi-markets

The quintessential neoliberal philosopher Robert Nozick, in 1974, argued that the market ought to be allowed free rein. He carefully chose what then seemed to be an innocuous example: the willingness of baseball fans to pay to watch one of the sport's greatest players, Wilt Chamberlain.<sup>19</sup> In his book *What Money Can't Buy: The Moral Limits of Markets*, Michael Sandel offers troubling examples of what the rich can now buy: access to an elite university, shooting endangered black rhinos, and the right to immigrate into the US.<sup>20</sup> He still has the ticket from when he was 12 years old and went, with his father, to watch their baseball team, the Minnesota Twins, play in the World Series. They lost and he was devastated. There was then little difference in the prices of admission for the two types of seats, box seats and stand seats. The market for sport is now financialised. In 2012, a box seat to see the New York Yankees costs \$260.<sup>21</sup> I remember, when I was 18 and at school, paying out of my pocket money to watch George Best play for Manchester United at Old Trafford. Those who now pay up to £239 to watch a game at Manchester United are buying not only hospitality but also exclusivity.<sup>22</sup> Sandel's argument is that these changes have undermined how watching sport used to develop a strong sense of belonging to the same local community.

Timothy Besley responds to Sandel's book by showing that economists have recognised the problems he illustrates when only money matters.<sup>23</sup> I noted above that Julian Le Grand's quasi-market theory is that this encourages those who are 'knights', who are altruistic, and discourages 'knaves', who are driven by self-interest, because the former are rewarded and the latter penalised by changes in market shares and funding. Timothy Besley and Maitreesh Ghatak question the efficacy of seeking to generate incentives from financial gains and losses for those who have chosen to work in *not-for-profit* organisations.<sup>24</sup> They argue that high performance of public services follows from matching their missions to the motivation of those who deliver them. For example, teachers who derive intense satisfaction from educating the young are committed to their calling as professionals and do not seek large financial rewards.<sup>25</sup> This approach stands in radical contrast to the mission of maximising shareholder value and financialisation by re-emphasising the core mission of the organisation and those who work for it. Chapter 8 showed that health-care is an exemplar for where markets fail and where effective alternatives have been implemented.

We would expect a quasi-market for schools to work best in cities. But it failed in London, which is why the Blair government launched the London Challenge. This combined 'experimentation on the ground, [and] rapid feedback and learning by advisers and officials, with strong project management across different strands of the policy'. It ran from 2003 to 2011 and improved the performance of secondary schools in inner London local authorities from being 'the worst performing to the best performing nationally'.<sup>26</sup> It has had an abiding impact. In 2019, Farquharson, McNally and Tahir showed that more than three-quarters of local authorities where at least 70 per cent of primary

school leavers met the expected level in reading, writing and maths were in London.<sup>27</sup> They also found that the impacts of poverty, as indicated by eligibility for free school meals (see Chapter 7) on attainment at GCSE in London schools was around half of that in the rest of the country. They emphasise that this was 'entirely driven by better performance among disadvantaged pupils, meaning that lower educational inequality in the capital is a result of "levelling up" rather than levelling down'.<sup>28</sup>

Although Julian Le Grand and Samuel Bowles start from David Hume's maxim, with which this chapter began, they argue for, and against, the use of market mechanisms as a system of governance of public services. Le Grand was aware of the risk that introducing quasi-markets could crowd out altruism by turning 'knights' into 'knaves'.<sup>29</sup> Samuel Bowles argues in *The Moral Economy* that this is what quasi-markets are designed to do, because individuals are motivated either by altruism or by market mechanisms, but not both.<sup>30</sup> And, as these processes cannot be separated (as is required for quasi-markets to work), market mechanisms undermine, rather than reinforce, 'knightly' behaviour. Market mechanisms also typically fail to provide sanctions for 'knaves' because it is so problematic for a failing provider (school, university or hospital) to exit the market. What happens instead to failing providers in a quasi-market is that they continue to provide a poor service with inadequate funding. That is what happened to the comprehensive school of Chelmsley Wood council estate, and was found by the Institute for Fiscal Studies for schools in England (see Chapter 4).

Hume observes that 'it appears somewhat strange' that his political maxim 'that *every man must be supposed a knave* ... should be true in politics which is false in fact'.<sup>31</sup> Indeed, it is reasonable to assume that most who choose to deliver a public service start out aiming to be 'knights'. So, we require a more discriminating system of governance than treating all as if they were 'knaves'. Ian Ayres and John Braithwaite lay out the principles of regulatory discrimination of a strategy of tit-for-tat based on the conduct of those providing services: being punitive for 'knaveish' and persuasive for 'knightly' conduct.<sup>32</sup> Adam Oliver proposes a system of governance by reciprocal altruism, which offers an alternative to a market mechanism. Reciprocal altruism has two different systems of negative reciprocity, which sanctions unacceptably poor performance by 'knaves', and positive reciprocity, which encourages excellence from 'knights'.<sup>33</sup> Diagnoses of, and remedies to, the pathologies of neoliberalism have been developed by those known as 'behavioural economists'. That raises an obvious question: isn't all economics about human behaviour? To which the answer is: not when it is based on mathematical models abstracted from institutions and human behaviour.

David Hume's close friend Adam Smith has a strong claim to be the first 'behavioural economist'.<sup>34</sup> His *Theory of Moral Sentiments* emphasised the importance of sympathy, that we feel loss more acutely than a gain of similar magnitude, and introduced the concepts of positive and negative reciprocity.<sup>35</sup> Scholars of Smith's work have sought to reclaim the breadth of his vision of society from its misrepresentation by neoliberal economists

(including Ludwig von Mises, Friedrich von Hayek and Milton Friedman). Glory Liu reviews the scholarly literature on what is known as ‘Das Adam Smith Problem’, namely the cognitive dissonance between the *Theory of Moral Sentiments* and the Chicago School’s version of Smith as ‘an economist who believes in the social productiveness of self-interest alone, and whose metaphor of “the invisible hand” illustrates how free markets – not government – protect and promote individual freedom.’<sup>36</sup> Jesse Norman’s book on Smith lucidly sets out how ‘In Friedmanite fashion [the discipline of economics] has long been overly preoccupied with its own models rather than the real-world phenomena they are supposed to represent.’<sup>37</sup> In 1976, Milton Friedman won the Nobel Prize in Economics and celebrated the 200th anniversary of the publication of *The Wealth of Nations* in his paper ‘Adam Smith’s Relevance for today.’<sup>38</sup> Jesse Norman describes that paper as a ‘master class in adjusting the facts to fit one’s own theory’: Friedman was being economical with the truth in his account of Smith’s position on Britain being overgoverned, the efficacy of free markets, and the importance of the ‘invisible hand.’<sup>39</sup> Scholars of Smith’s work have sought to reclaim the breadth of his vision of society from its misrepresentation by neoliberal economists (including Ludwig von Mises, Friedrich von Hayek and Milton Friedman). Jacob Soll argues that they failed to understand that Smith’s thought was grounded in Cicero’s economic vision in which ‘good morals ... drove a healthy market.’<sup>40</sup> Glory Liu points out that Barack Obama cited Smith:

They who feed, clothe and lodge the whole body of the people should have such a share of the produce of their own labour to be themselves tolerably well fed, clothed and lodged.

Obama translated that to mean ‘if you work hard [you] should make a decent living [and] be able to support a family.’<sup>41</sup> The failings of neoliberalism to deliver a promised land after 40 years of trying can be understood as a consequence of a fundamental misreading of Adam Smith. In economic behaviour, what matters is not only, or even primarily, money.

### 10.3 Governing by reciprocal altruism

In the UK, teachers, doctors and nurses, who provide vital public services, were three of the top four most trusted professions in 2020 (the other was engineers).<sup>42</sup> The reputational damage from ‘naming and shaming’ members of these professions for unacceptably poor performance brings a loss of esteem that undermines their core identity – like being unfrocked in public. The regime of ‘star ratings’ is an exemplar of how that sanction of negative reciprocity tackled unacceptably poor performance in the English NHS. If ‘naming and shaming’ does not work, then negative reciprocity requires dismissal – as applied in the ‘star rating’ regime (see Chapter 8).

Negative reciprocity is, however, limited in scope: it can be effective only when performance is unacceptably poor, for example if waiting time at a hospital for a hip operation were three years (and the target were 18 months) but not if it were 19 weeks (and the target were 18 weeks). Positive reciprocity encourages high performance through collegial benchmarking with recognition for high achievement by peers and the public. Timothy Besley and Maitreesh Ghatak describe that kind of competition as sustaining and supporting the mission of excellence to deliver outcomes that benefit citizens.<sup>43</sup> Positive reciprocity is encouraged through recognition of excellence by awards in a process of ‘naming and faming’, for example from winning a Nobel Prize.<sup>44</sup> In the US, the Sammys are annual awards of medals that highlight excellence in the federal workforce.<sup>45</sup> Our honours system does not do the same for our public servants. Positive reciprocity is most effective in concert with negative reciprocity. For example, it would have been futile to try to develop collegial competition for developing care of high quality at Mid Staffordshire hospital between 2006 and 2010 (see Chapter 1).

Oliver argues against trying to use the same system for both positive and negative reciprocity.<sup>46</sup> But that is what we do for public services in England with, for example, NHS star ratings, school league tables, and inspections by the Care Quality Commission and OFSTED. Christopher Hood argues that it is easier to implement punitive policies, such as negative reciprocity, in big countries because of the substantial *relational distance* between the government and those who deliver public services.<sup>47</sup> This may explain why the devolved government in Wales stopped publication of school league tables, and did not follow England in implementing a regime similar to ‘star ratings’ in its NHS, with consequent worse outcomes in Wales than in England.<sup>48</sup> Oliver argues that positive reciprocity of learning through collegial competition against benchmarks needs to operate at a regional scale. Regions need to be large enough that there are enough producers of public services to learn from each other but small enough that the key players in each organisation can meet in the same room at the same time to learn from those delivering exceptional performance, as in the London Challenge. As so often in the case in the UK, that was a localised one-off exercise.<sup>49</sup> We need to institutionalise that capacity to learn as integral to our running of devolved public services, as in the network of the Interregional Performance Evaluation System across and within Italian regions (see Chapter 8). Veneto, which is part of that network, showed more resilience when Covid-19 hit Italy than did Lombardy, which is the only region in Italy that persisted with trying to make hospital competition work. At the end of March 2020, Pisano et al reported that the mortality rates per 100,000 were six in Veneto and 50 in Lombardy.<sup>50</sup>

George Akerlof and Rachel Kranton developed the economics of identity, which explains the power of negative and positive reciprocity for public services as compared with financial incentives.<sup>51</sup> Negative reciprocity defines what is, and is not, acceptable behaviour. They describe the initial rite of passage for new cadets at the United States Military Academy at West Point (‘R



day'). They are stripped to their underwear, have a severe haircut, are put into uniform and required to salute and address an older cadet 'until they get it exactly right, while being reprimanded for even the smallest mistake'.<sup>52</sup> The mission of West Point is:

to educate, train, and inspire the Corps of Cadets so that each graduate is a commissioned leader of character committed to the values of Duty, Honor, Country and prepared for a career of professional excellence and service to the Nation as an officer in the United States Army.<sup>53</sup>

West Point has developed processes to develop a cadre for whom reciprocity (not self-interest) is fundamental. Akerlof and Kranton highlight the profound sense of identity imbued within that cadre. For example, a soldier would rather risk his life than let down his peers and, after leaving military service, will experience acute disappointment on being offered jobs by potential future employers who assume that only money matters.<sup>54</sup>

If we look to developing governance based on reciprocal altruism, the UK's current constitutional arrangements look like one hand clapping. England has the scale for negative reciprocity but lacks a regional organisation for positive reciprocity. The devolved countries are at the scale for positive reciprocity but lack the relational distance for negative reciprocity. Devolution in England remains problematic because, as I found, officials in Whitehall devolve power as willingly as a leech gives up sucking blood (see Chapter 1). A review of devolution in Manchester pointed out that devolution in England has resulted in 'very little local autonomy, major areas not devolved and hardly any tax raising powers'.<sup>55</sup> But the evidence from more than 20 years of fuller devolution to national governments within the UK has shown them to be more vulnerable to producer capture, which is why their schools and hospitals have tended to perform worse than in England.<sup>56</sup> Devolution to Scotland, Wales and Northern Ireland is necessarily asymmetric because the scale of England dwarfs that of the other countries. That means that it makes no sense to have a Parliament for England.<sup>57</sup> That does not, however, justify our two deficiencies compared with proper federal arrangements.<sup>58</sup>

First, our public services are funded by taxes on a UK-wide basis without a constitutional basis for agreeing what should be the UK-wide elements of policy: for example, charging for medicines and other prescriptions (which continues in England only) or not charging tuition fees for undergraduate education (which continues in Scotland only). Second, one promise of federal arrangements is that they offer a laboratory to experiment with different kinds of governance so enable learning about which works. We have experiments across the UK but lack the capability to learn from them, partly because we lack a federal institution to negotiate arrangements for reporting performance across our countries. Over time it has become increasingly difficult to compare public services' performance across the four countries of the UK – a



blind spot that reduces the scope for citizens to put pressure on their governments to remedy their shortcomings.<sup>59</sup> Requiring each government to collect basic data, following common definitions, so that performance can be compared and lessons learnt, does not constrain the different parts of the UK from having different priorities or pursuing different policies. This was recognised in the Concordat on Statistics of October 2021 in which the UK government and devolved administrations agreed on the objective of producing ‘coherent/comparable statistics at the UK and disaggregated levels.’<sup>60</sup> But, in August 2023, it was reported that the UK statistics authority had problems in being supplied with comparable NHS data.<sup>61</sup>

The development of performance monitoring at the national and regional levels in Italy offers a good model for a new constitutional settlement for the UK in which there is full devolution to regions within England combined with effective scrutiny of their use of public money and by the devolved countries of the UK. An example is the performance agreements linked to funding for government departments as implemented by the Treasury under Gordon Brown in the Blair government in the early 2000s.<sup>62</sup> In a new constitutional settlement, the Treasury would report to the public on how effectively their taxes are being used by the devolved countries and English regions. And these bodies would develop their own systems of comparing performance of local providers of public services by developing collegial competition between them. These services would include healthcare, and all education except for an elite set of internationally competitive research-intensive universities. Regions would also look to develop means of better use of our resources for healthcare along the pathways of care and education over a lifetime.

## 10.4 A new political settlement

In 2022, Peter Hennessy, writing in *A Duty of Care*, hoped Covid-19 would be followed by a new political settlement, as after the 1942 Beveridge Report (see Chapter 3).<sup>63</sup> William Beveridge set the agenda for the Attlee government with his five giant evils: *Want, Idleness, Disease, Ignorance* and *Squalor* (see Chapter 3). This is a game you can play. My take on our current five giant evils is as follows:

- *Want* (or poverty and lack of means) was caused by the economics of less eligibility for the unemployed. Beveridge showed that the UK could have afforded to abolish it in the 1930s, and how that could be done in the 1940s, in a system of social security. In modern Britain, *Want* has re-emerged as a giant everywhere. The high cost of housing in a financialised market is a primary cause of poverty. And, contrary to Adam Smith’s view of a well-ordered society, all too often having a job offers no escape. In-work poverty means too many have to trade off heating and eating, or childcare versus employment.

- *Idleness* was a consequence of market failure that sustained armies of unemployed people over a decade. Now regulatory failures of complex markets generate *Insecurity* in our future supplies of privatised water and energy, from toxic social media (the murders of Jo Cox and David Ames give menace to the anonymous death threats our MPs receive every week), in our financial institutions, and from the existential threat of climate change and developments of artificial intelligence (AI).
- *Disease* was prevalent from lack of access to healthcare. Now we have *Ill-health* from overall policy systems so designed that many people ‘freely’ choose ways of living that have resulted in ‘epidemics’ of obesity and diabetes.<sup>64</sup>
- *Ignorance* was caused by lack of access to secondary education. Now we have *Miseducation*, with degrees awarded by our bloated university sector, from which only 25 per cent of graduates earn enough to pay back their student loans in full. Uniquely across the OECD, our younger generations of people in the UK are no more numerate or literate than those born four decades earlier.<sup>65</sup>
- *Squalor* was caused by the mismatch between where people lived and opportunities for employment, leading to very poor living environments. While some problems here have been ameliorated by post-war economic growth, rundown areas remain on almost the same scale, leaving people living in them vulnerable to *Despair*, where those on benefits or with gloomy jobs see no escape for themselves (or their children) from a life of drudgery, low pay and low status. In the US, despair is a leading cause of deaths from drugs and suicide.<sup>66</sup>

Beveridge’s 400-page report was focused on tackling *Want*. (His recommendation for the governing principles of what became our NHS was because this would tackle *Want* – and, of course, *Disease*.) He described the five giant evils in two short paragraphs. It is beyond the scope of this book, and my knowledge, to suggest how we tackle what I have suggested are our five giant evils. Indeed, the purpose of this book is to inform debate over their causes, so others more expert than I can debate how we ought to tackle them. I conclude with the following observations on our systems of governance.

- We are still living in the Thatcher settlement based on neoliberalism as if there were no alternative. Indeed, Colin Crouch, in 2011, described what failed to follow the Global Financial Crisis as *The Strange Non-death of Neo-liberalism*.<sup>67</sup>
- For neoliberalism to die, we need a new political settlement: the enabling state, which recognises that now *market failures are the problem of government*. As Chapter 5 argued, it would be a mistake to go back to the Attlee settlement based on the state ‘rowing’. This new settlement

is where the state steers different systems of governance: regulating markets where they can work effectively (not just for shareholders and senior executives) and developing alternatives where they do not.

- Effective devolution is vital to developing an enabling state in the UK, with consequent radical changes in the skills, staffing and attitudes of those working in Whitehall and Westminster.

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