PART IV
SPECIAL TECHNIQUES

13 Routes in Depth

Privatization is one of the techniques which derive from the type of analysis which recognizes political markets and seeks to work with them. More accurately, it is a range of techniques. One fact which emerged very early is that no two cases are the same. Every single activity in the public sector has unique characteristics which distinguish it from all other ones. This means that all of them present unique problems. The techniques which work on one area cannot simply be applied to others without a regard for the differences between them.

It is true that there are broad principles, and that a variety of methods derived from those principles has been employed. It still leaves the detail of individual cases to be attended to. No one can know in advance which methods will apply; each case has to be studied before possible solutions can be attempted. The sale of British Gas was not exactly the same as that of Telecom, though there were obvious similarities. One difference was that 100 per cent of British Gas was offered for sale, whereas only 51 per cent of Telecom was released at the first flotation.

Micropolitics demands a study of each individual case, including those involving privatization. The analysis should focus on the various interest groups who derive and trade advantages within the public sector status quo. After the analysis comes the policy formulation. This is a creative exercise, requiring solutions to be proposed to the problems posed by the public sector situation, and for a policy to be woven which circumvents them. Sometimes a method of dealing with one group's benefit will create problems for another; so care must be taken that the proposed policy has no internal contradictions. Rarely does the finished policy show the simple elegant lines of a clear ideology. It is far more likely to be bristling with *ad hoc* clauses tacked on to cope with special interests.

If the exercise of dismantling the public sector can be compared with any other activity, it is like that of dismantling an unexploded bomb. The first task is to remove the cover-plate and to examine the wiring. When all the connections have been traced and a picture of their role has been formed, the calculation has to be made concerning how they should be disconnected and in which order. The analogy is not a very good one, except perhaps that if it is done wrongly it can blow up in the face of whoever attempts it.

A glance at the different techniques used in privatization shows the enormous range of policy which micropolitics can give rise to. Even on the very limited range in which a public enterprise is sold, there has already been used in practice a large variety of different ways of selling. Sometimes all of it is sold in one piece, sometimes sections are separated off. It may be 100 per cent sold, or only 51 per cent. The buyer might be a private corporation, a worker and management consortium or the investing public. It could be sold for cash down, or on easy terms. City firms could be called in, or not; public advertising may or may not be used. The price of shares could be fixed in advance or determined by tender. Variations and permutations of all of these methods have been used so far. The range of them is as large as the number of examples of privatization.

because each individual case is different, and each case requires a separate policy.

Direct sale to the private sector is one of the devices suggested by micropolitics as a solution to some public sector problems. It must be done in a way which suits the particular industry and the economic circumstances surrounding it. Amersham International was sold straight off by flotation. No large-scale advertising was used, but City professionals were used to pilot the sale to market as they do regularly for private issues. It was sold in a piece, and 100 per cent was offered. The price immediately rose, accompanied by the soon to be familiar charge of 'underselling'.

British Petroleum was a low-key privatization and was, incidentally, the first. Government owned just over 50 per cent since the crisis of 1976 had produced requirements from the International Monetary Fund to make the Labour government sell some equity. The pretext was a 1979 sale, in which the government allowed its share to fall below 50 per cent. Treasury rules made the company now private. It became more profitable, its shares rose in value, and the government was later able to sell further tranches at higher prices. For Cable and Wireless, an initial sale of 49.4 per cent in 1981 was followed by a rights issue in 1983 in which the government, by not exercising its option, allowed its stake to fall to 45 per cent. However, privatization by accident or stealth is not a normal option; the circumstances were, as they always are, unique.

Just over half of British Aerospace was sold, with an employee allocation, as in Amersham, and the first 'golden share' to guard a strategic industry from foreign takeover. The government later sold all its residual holding except this one share.

National Freight Corporation was sold 100 per cent to the management and worker consortium, with assistance from banks. Shareholders were not allowed to resell for five years. Redhead shipyard was closed and then sold to a worker consortium which reopened it. The hotel chain and the Channel ferry and hovercraft services of British Rail were detached and disposed of separately. So were a large number of subsidiaries of other state industries.

The 1981 sale of Cable and Wireless shares was at a set-price; the 1983 tranch was by tender. By contrast the first sale of Britoil in 1982 was by tender, and the subsequent 1985 tranch was at set-price. The Enterprise Oil privatization was under-subscribed; for Jaguar shares they fought in the street to get applications in on time. Customers of Telecom were offered the choice of reduced telephone bills or bonus shares if they bought in; for gas customers the benefit was the certainty of a preferred allocation of shares, as well as the bonus.

Every sale is different not only because every case is different, but also because new twists are constantly being thought up. No 'right way' exists because there might be a variety of ways of doing it successfully. Those who claim that privatization is just 'selling off state assets' should note the huge variation of the techniques used. It suggests that the aim is to achieve rather more than a simple sale. Substantial benefits are targeted at important groups as political trade-offs for losses they might otherwise sustain. In many cases the aim is to make some groups sustain benefits in order to make the process less susceptible to later reversal.

Direct sale, while it involves promotional campaigns and attracts interest by its razzamatazz, is only one highly visible technique. Others have been tried as successfully, if not as spectacularly.

One method seeks to leave the public supply intact, while growing an alternative alongside it in the private sector. Without there being a direct threat to the existing supply, circumstances are created in which people have an effective alternative choice. As more and more of them exercise that choice, the total proportion produced in the public sector declines as a fraction of the total supply.

When this method is used, it is the public itself who determine the rate of privatization. They effectively privatize the service themselves as they elect in increasing numbers to buy the private alternative. The long-distance inter-city bus services in Britain were deregulated in 1981 to the extent that private operators were allowed to compete. Their entry led to spectacular fare reductions, down to one-third of the state monopoly levels in some cases, and to vastly improved services and innovative levels of comfort. The public started using the private services on the first day, reducing the proportion of bus transport performed in the public sector.

This technique has much to commend it for more sensitive areas of service where the public would like a better service without risk to the existing one. Health is an obvious candidate, in that the security provided by the National Health Service is clearly held to be of great value, however much the service could be improved. By leaving the NHS intact, but encouraging the spread of private medicine, the government can create circumstances in which the proportion of private medicine increases as people make the choice to use it.

This has happened since the Chancellor restored the tax-exempt status of employer-provided health insurance schemes for low wage earners. Even though the salary level has to be below £8500 to qualify, and although it is limited to employer-provided schemes, it does provide an incentive, and takes the choice of private medicine down market. The numbers covered by it in Britain have quadrupled since 1979, and include hundreds of thousands of trade unionists for whom it is a negotiated benefit.

The advantage of this approach is that the NHS is still there for those who need it and wish to make use of it. But as more and more turn to private medicine, they relieve the public sector of a part of its burden, enabling its scarce resources to be turned more accurately toward those who need them. Micropolitics points to the groups who turn to private medicine, identifying them as the articulate middle classes, of high visibility and effective at applying pressure to the system to secure their ends. Once in private medicine, they constitute a major interest group anxious to retain its benefits. The more of them who can be encouraged to make that choice, the stronger does private medicine become, and the stronger the groups who will fight to retain it. Attention is turned, therefore, to other ways of helping private medicine to grow. These might involve extending the modest tax concessions, or perhaps making charitable donations easier to make on a tax exempt basis.

The technique is to grow the private secta alongside the state supply as an alternative which does not threaten it, but which offers the public a choice. Government policy and generally rising standards can move that choice down-market until it lies within the range of most people. Gradually, and as a result of free choices made by individuals, the state system will slowly turn to provide what people think it should concentrate upon.

This method of growing a private alternative supply alongside a state provision left in place is one of a range of micropolitical strategies covered by the general name of 'micro-incrementalism'. They represent an attractive variation in which people themselves make the changes by their own decisions. The policy research team produces proposals whose effect is to create circumstances under which people find choice worthwhile. They find it advantageous to choose the private alternative to the state supply. But the choices are made gradually by individuals, and over months and years they cumulatively produce the new reality. The most secure revolutions are ones which people make for themselves over time; these are the ones we call evolution.

Policies which encourage exit from the state supply come into the class called 'micro-incrementalist'. At the heart of the strategy to promote choice must lie a policy which makes the alternative more attractive. It might make it cheaper, it might make it better, it might make it easier. In the background is the central fact that people have already paid for the state supply. If other things were equal, only the very rich could have choice, by being able to afford to pay twice over. The policy can make sure that other things are not equal.

It can take the choice down-market by a variety of strategies designed to increase access to the alternative, and therefore to encourage exit from the state. It can make the payment tax-exempt; it can make it a valid business expense; it can repeal a monopoly; it can remove some of the barriers to private supply and remove some of the burdens from it. None of these is in any sense a 'clean' solution. Conventional free market politics would probably advocate biting the bullet and undertaking to end the state service. Such a policy would fail because it would not deal with the fears and anxieties of consumers any more than it dealt with the benefits enjoyed by the state sector groups. By taking the issue head on, it would meet all the enemies head on, and all of them together.

It is basic to the strategy of micropolitics that not all of the enemies are met together. On the contrary, considerable ingenuity and effort goes into turning some of them into friends, and into using alliance with some groups to outweigh the opposition of other ones. A further innovative tactic used to achieve this is that involving the subdivision of classes. It is possible to look at problems in terms of the broad classes of activity or status of those involved. Thus we might talk about the difficulties which face 'landlords', 'tenants', or 'businesses', and look for solutions which cover the whole of the class.

This approach has two drawbacks. In the first place it ventures towards the holistic approach, dealing with the class as a whole. Secondly, any proposals which emerge are likely to generate opposition in large groups, as they bring benefits and penalties to the broad classes or to those whose interests they oppose. Thus, measures which bring aid or relief to 'landlords' are likely to incur the hostility of 'tenants'. Those which help 'businesses' can bring down the wrath of 'employees' or maybe of 'consumers'.

Micropolitics recognizes the merits of subdividing these classes into smaller ones, in order to treat them separately. It achieves a reduction in the size of the opposition by reducing the size of the groups dealt with. More importantly, it identifies the parts of those classes with which the problem or its solution resides, and deals only with them. Whereas macro-analysis sees the large groups and operates at that level of detail, micro-analysis goes onto a much finer scale, looking at the sub-sections of those groups to identify where the problem lies, and how it might be solved.

To give an example, there may be a problem caused by the lack of private rental property, and its causes may lie in the operation of rent control and total security of tenure. It is possible in theory to solve the problem by dealing with the whole class of private rentals, but in practice the opposition of all of the tenants and their supporting groups could thwart it. Analysis on the smaller scale recognizes that it is a shortage of new rentals which causes much of the problem, and is therefore prepared to consider subdivision of the class in order to deal separately with 'new landlords'. It might show that the problem could be solved if people owning one or two extra homes could be tempted to let them, and might propose a subdivision of 'small landlords' with their own different rules and exemptions.

Similarly there is a problem for business, in that the levies and burdens which fall upon it are a disincentive to expansion and job creation. Much effort that would otherwise go into enterprise is being diverted to compliance with regulation, and the jobs are not being produced in sufficient numbers. Analysis at the macro-level recognizes this, and proposes reduction of taxes and regulations. This would be excellent, if it could be done, but involves major confrontation with large and powerful groups. It is unlikely to succeed, given prevailing political markets. Micro-analysis sees that the burden falls more severely on small businesses who have neither the staff nor the resources to cope with it as the large ones can. Moreover, the new jobs in an economy are overwhelmingly generated by small businesses. The micro-solution suggests that a new subdivision of 'small businesses' be recognized and treated separately. They feel the problem more heavily, and are the source of its solution. It might propose special circumstances to deal with firms which employ less than twenty persons. In doing so it will not incur the wholesale hostility which a total restructure of the laws governing business as such would have evoked.

Dealing with subdivisions of classes means two things: that the groups in opposition will be similarly subdivided, and that it will be possible to focus more accurately on the source of the problem and the means of its solution. Micropolitics is thus characterized by its readiness to create and to recognize novel classification of sections of larger groups, and to contemplate special treatment for them. This is by no means as remarkable as it sounds. To the micro-analyst it is obvious that the corner shop with two employees faces very different circumstances to the department store with 20000. If the application of rules designed for large stores causes excessive problems for the small ones, it seems reasonable to recognize their differences and to treat them accordingly. There is clearly something wrong if the laws designed to protect employees in factories cause the small businessman with one assistant to devote his time to checking temperatures and the size of toilet seats instead of making more sales and generating more jobs.

Two questions arise in response to this attitude. The first is about the boundaries which are created. If subdivisions are given special treatment, there is a disincentive on the boundary which deters people from moving into another class. If small landlords receive special treatment, it might be against their interest to become large ones. If firms employing less than twenty people receive special treatment, they will be deterred from employing the twenty-first. This is correct, but trivial. Subdivision of classes does involve boundaries, but what it does is to move them, breaking one big hurdle into more smaller ones. There is a big gulf for a business to jump when it takes on its first employee. A subdivision which creates 'small' businesses reduces that gulf but interposes a smaller one later. Instead of incurring all of the levies and burdens at once, the subdivision phases them in for the firm as it grows in size.

That said, policy which derives from this kind of micro-analysis directs considerable ingenuity to lessening the impact that might be caused by 'boundary effects'. It constantly seeks innovative proposals to diminish the hurdles which are interposed between the divisions. One hope is, of course, that the experience of deregulation and the lifting of burdens will bring such benefits as to make further action easier to accomplish. That is, although the initial actions are limited to specific subdivisions in order to limit opposition by tackling the problem only where it is most acute, the hope is that a successful result will leave other subsections clamouring for similar treatment, and that the practical results will diminish the opposition to extending it.

The other objection is that it is not fair to single out specific sections for favourable treatment. If it is right to deregulate and lift burdens, it should be done for everyone. This may be true, but the question is one of whether it is possible to do it for everyone. If the answer is no, and that opposition from the interest groups will prevent it, it then comes down to whether it is better to do it for some than for none at all. The micro-analyst suggests that it is indeed better to do it for some, the more so if most of the problem can be solved by doing so. There is always the added bonus possibility that doing it for some now will make it easier to do it for others later.

It should be pointed out, in fairness, that there is a school of thought which works at the macro-level and suggests that special treatment for subdivisions makes it less likely that the policy can be applied generally. By solving most of the problem through selective targeting, the argument runs, the pressure which might lead to a general solution is weakened. By leaving things as bad as possible, the pressures are left in place which will one day demand a solution for the whole class of activity. The logic of this position is that improvement should be avoided because it hinders the pursuit of the perfect. This is apocalyptic politics, taking no steps until the great day dawns when they can be taken all at once. It bears little relation to the real world, in which improvement is made by degrees, and in which problems which are left unsolved continue to become worse indefinitely. 'There is', as Adam Smith pointed out, 'a lot of ruin in a nation'.

There is a similar tactic to the subdivision of classes; rather than separating off some groups for different treatment by status it does it by geographical area. The policy is that of the small-scale experiment. Given the dire warnings which are uttered when deregulation or the easing of controls and burdens is raised, and the forceful opposition which is engendered, the proposal is made that the ideas should be tested in a limited area to observe the effects. If the predicted mishaps and disasters occur, then there is no need to experience them in society at large; they can be confined to the test area. By the same token, if benefits yielded vastly outweigh any adverse effects, the measures can be put into effect on the larger scale.

This is the type of thinking which produces proposals for such innovations as enterprise zones and freeports. The deregulated climate might accelerate business activity, leading to the creation of wealth and jobs, as its proponents claim. On the other hand, without the guiding hand of regulation, there is a measure of uncertainty as to what might happen. The idea of the special zone is that it enables a test to be made. After results have been observed, the argument about consequences no longer need be conducted at the theoretical level; there will be practical experience to judge from.

Furthermore, the experiments can be established through the political process because they offer special advantage to selected areas. Those who stand to receive such benefits fight harder, as always, than those who must confer them. Thus the areas which stand to be designated for experiment form an effective lobby in support of the policy. The proposal for freeports in Britain was followed by applications from 46 localities seeking the status, all of whom supported the proposal in general in the hope that they might be among those who benefited in particular. Locally elected representatives of all parties backed the applications of their own area, showing once more the strength of interest over ideology.

The argument that the whole country should be given the status of a freeport or an enterprise zone is not relevant. The point is that it is not going to be. A chance is stood by the small-scale experiments, but not for the sweeping macro-scale proposal. The small experimental areas, if they succeed, could leave others clamouring to be treated in the same way, setting up a lobby for deregulation.

There are, however, more serious objections. The first is that the experiments are not valid on the small scale because they operate on a differential effect. That is, they attract business growth to them because of the benefits they offer within their perimeters, and thus deprive other areas of that growth. This is true to some extent, and the task is to find out how much. It is certainly true that enterprise zones have attracted growth which might otherwise have taken place elsewhere. By offering a holiday from local rates and easier planning laws, together with other incentives, it is more advantageous for some types of business to expand there than at their present location. Two examples are the hypermarkets which have tended to locate there, and the printing plants, already planned, which have opted to move to enterprise zones.

The tendency is less strong for freeports because of the emphasis on using them promoting overseas trade. The freeports aim at jobs which would otherwise be done abroad. In both enterprise zones and freeports, however, the experiment must be backed by analysis of how many of the new jobs were simply 'moved' from elsewhere because of the differential effect. Experience in Britain suggests that a high proportion, perhaps roughly half, of the new jobs in the enterprise zones are not really new, but that this does not apply to the very small number of jobs being created in some of the freeports. This, while qualifying the results, does leave a net gain of jobs created by the climate of lower burdens and regulations. This does suggest that more jobs can be created by deregulation on a wider scale.

A more serious objection is made on the basis of micro analysis itself. It suggests that insufficient account has been taken of the bureaucracy as an interest group. While the experiments might attract the support of the localities and their representatives without being large enough to provoke widespread opposition, not enough has been offered in trade to the bureaucracy supposed to administer the experiments. The result will be that when detailed proposals are formulated in the Civil Service, they will be such as to absorb the experiment within the conventional framework, instead of letting it strike out onto new ground.

Critics point out that this has happened to a large extent with both enterprise zones and freeports. Enterprise zones were meant to be areas free of regulation and restriction; instead the Civil Service has made them into extensions of regional policy, turning them into islands of subsidy rather than zones of enterprise. The freeports have fared even worse, being hamstrung at every turn by Treasury officials determined to subsume them under the existing regulatory framework and allow no special rules to apply there.

If this allegation is sustained, and it must be said that there is considerable evidence to support it, then it will to a great extent invalidate the experiments. It will not invalidate the principle of geographical experiment on the small scale, however. What it will do is to send proponents of it back to the drawing-board to formulate policies which can overcome or circumvent bureaucratic opposition in the same way that they are constructed to outflank opposition from other groups.

The principle behind both limited geographical experiments and the subdivision of classes is that it is easier to move on the small scale than on the large scale. Action in limited areas or on limited groups deals with minorities, and it is fundamental to micropolitics that minorities have more power than majorities. They are able to identify their benefit more immediately, and to isolate its value. What is conceded in general by the public at large in order to sustain the benefit in particular is always of lower value and less worth fighting for. Whatever benefits accrue from selective treatment, be it deregulation or lowering of the burdens, are thus easier to secure for experimental groups.

It is hoped, of course, that these beachheads, once secured, can be extended. The criticism that the selection of an appropriate boundary is an arbitrary choice can be turned into a virtue. It is true that it is arbitrary. What counts as a 'small' firm might be one with less than twenty employees. It might just as well be ten, or twenty-five, or even fifty. The original selection of a boundary, arbitrary though it may be, is based on two criteria. First it is chosen on the basis of its ability to solve the problem.

If a significant proportion of new jobs are created by firms with less than twenty workers, and if there is a measurable jump before the next group makes a sizeable contribution, then there is a good case for fixing the initial boundary at twenty. If studies show that 80 per cent of all private rentals are likely to come from landlords owning less than five properties, there is a *prima facie* case for fixing the class of small landlords so that it consists of those who fit into that category. In other words, the first selection is empirically based on the contribution to the solution which will be made by the group chosen.

The second basis of choice of group size is the likelihood of the size of the opposition to it. If there would be a great deal more hostility to giving special exemptions for firms of less than thirty employees than to firms of less than twenty, prudence suggests choice of the lower figure. A similar criterion applies to the selection of category to qualify as 'small' landlords. Neither of these two is in any sense 'fair'. On the contrary, the assumption is that the whole system is unfair. Any decrease at all in unfairness is therefore an improvement. The determination of the maximum which can be achieved at each attempt is an empirical one, derived from the two criteria referred to.

The fact that the boundaries are arbitrary, however, can be turned to advantage. Once the categories have been selected and the benefits of selective treatment have been reaped, and seen to derive from the reform, there is little reason not to move them. The success of the process itself creates a demand from the next group to be included. In this way it might be possible to proceed by extending boundaries to a more general qualification for the special treatment than would have been possible initially. If the boundaries are indeed arbitrary, they can be moved.

The same empirical streak which runs through the selection of the boundaries for groups which are to be subjected to different treatment permeates all of the techniques considered in this section. Just as the selection of group size is determined by its likely contribution to the problem and the desire to keep the number of opponents down to manageable levels, so the choice of geographical test areas, the number of them and their size, are determined by similar factors.

If exit from state supply is to be encouraged so that private alternatives can grow, the estimate has to be made concerning the level of incentive which will prove sufficient. Tax concessions normally involve loss of revenue, so the calculation has to be made as to the degree of savings which can be achieved if state services no longer have to cater for certain numbers. Again, the calculation is empirical. The estimate must be made of what will be saved if 10 per cent, for example, opt for private medicine, versus the cost of whatever concessions are needed to encourage those 10 per cent to opt out of state provision.

Many of the calculations will involve not so much empirical study as guesswork backed by market research. There is no accurate way to determine how many people will choose a private alternative, given a particular inducement, short of actually offering it. The estimate may be based on surveys of intent, but no one can tell if the intentions will translate into action. Nonetheless, to secure the acquiescence of a government attempting a regimen of fiscal responsibility, it may be necessary to propose reforms which are at least fiscally neutral. The incentives must be set in such circumstances so that savings made possible outweigh the revenue forgone. And this is a matter of practical calculation.

If anyone had supposed that the understandings brought by the public choice school would enable a clear and coherent system of policy formulation to be built upon their base, they must now be having second thoughts. They need not. The system is clear and coherent, but the policies it produces are not. The basis is one of computation of advantage, and of the construction of policies which offer acceptable trade offs for it.

The benefits and advantages enjoyed by interest groups stick out like protein groups on the surface of foreign bodies entering the bloodstream. The policy to cope with those interest groups must, like the antibodies which cope with invaders, be constructed to match them and neutralize them. Each one may look unwieldy and appear to be put together on an *ad hoc* basis; but the unity lies in the method of construction and the principles by which it is performed.

14 The Role of Choice

When it comes to the supply of services rather than goods, the public sector is geared for the production of a standardized output. It is marked by uniformity rather than by variety. This is to be expected, given its structure and status. The decisions as to which services are to be provided, and in what degree, are largely political decisions. The determination is affected in part by what can be afforded, which itself is determined by what expenditure the political leaders think the public will support.

This is not the same as what people would willingly spend if the decision was their own. It can be influenced by the economic state of the nation, which in turn may be the outcome partly of international events. Political leaders may be wrong; they may underestimate what people would spend themselves, or they may put too high a figure on it, reflecting their own scale of values instead of the general one.

There is the tendency to overproduce quantity, if not quality, in the public sector; hence come such sights as the large numbers of empty bus seats being transported around for much of the day. Adding the effects of producer capture, overmanning and under-capitalization, there is very little room for consumer input except diffusely, through the political process. The system is one in which producers find it convenient to offer a uniform service designed for the great majority of people, though not necessarily what they would have designed for themselves.

One feature which derives from the political market is that state services will normally opt to provide a little service for the many, rather than a lot of service for the few. In the state health service, for example, roughly nine of every ten ambulance journeys are rated as non-emergency cases. This means that people who could use public transport or their own are being given ambulance rides. There is no charge at point of use, and it provides a modest service to a great number of people. On the other hand, the ambulance service lacks many emergency facilities necessary to give life-saving help. Its vehicles are not well equipped to cope with acute heart problems or trauma cases. Other countries with different methods of finance and different markets at the political level do feature well equipped vehicles, but do not devote as many resources to giving free taxi-rides.

Because the public sector is bidding for votes instead of money, its services count heads. A service to the many picks up support even if it is a small one. A major service to the few has rather less value in the political market place. When people choose how much to spend on services, and which ones to buy, they do not necessarily choose the same distribution pattern. Their real concern, and hence the real money, might be saved for the services which really matter to them.

Where there are alternatives to the state sector, even though not within range of most people's means, it is interesting to see what the private competition offers that people think worth paying for. In the case of health it is overwhelmingly the desire to have their case dealt with when they, the patients, want it, rather than when it is convenient to the producers to treat them. Choice of the time of treatment is ranked very high among those who buy private medicine. Secondly, the individual attention is cited. Instead of feeling that they are processed like sausages in some vast machine, patients when they are also customers buy a more personal treatment. Thirdly are ranked the little comforts such as greater privacy, hospitals run to serve the patients, and the greater dignity which private medicine manages to accord to its clients.

In education it is the failure of the state system to achieve what parents want which apparently motivates them to seek a fee-paying alternative. The individual attention which each child is alleged to receive in the private sector is cited as the reason why parents pay twice, rejecting the state education they have already paid for through taxation. Children are felt to be left more to their own devices in the state system. Whether they gain a worthwhile education from it is thought to be a matter of luck. If they live in the area of a good school or come under the influence of a good teacher, they might do well. Otherwise they take their chances. The private alternatives are thought to leave less to chance, but to take the effort required in each case to bring out the best in the child. If it is true, one can see why people are prepared to pay for it.

A further factor which influences the parents who choose private schools is the fact that such schools provide the type of education which parents value, rather than that which professional educators esteem. There is no producer control in the private sector, so no imposition of producer values. Parents do not feel their children are the subjects of social experiment in private education, they feel instead that they are taught the fundamental skills which parents want them to acquire.

It is a perfectly legitimate view that state services provide a standardized output because most people want and need roughly similar things. Anyone with extraordinary or special needs can seek the private alternative; meanwhile the majority will be satisfied with the state product. It is a legitimate view but not necessarily a correct one, and it is certainly a difficult one to test. If people can have any colour they want as long as it is black, it is hard to find out whether they have preferences for other colours.

Such evidence as there is suggests that they do. First, in the private sector people express choices in all kinds of services and products. There seems no limit to the degree to which each product or service can be customized for the individual buyer, except the capacity of the producer to accommodate it. Secondly, where public services have been opened up to competition and choice, there has always been a profusion of alternatives made available for consumer choice. And consumers have exercised those choices. While the telephone service was a monopoly, to have a telephone meant to pay a quarterly rental on a bakelite hand set with a rotary dial, looking like the 1930s without the art deco.

When the prospect of privatization was raised, with the entry of some competition, the choices proliferated. One could easily have asserted that most people would be satisfied with a basic black standard telephone. In fact people preferred push button sets, cordless telephones, multi coloured-ones, and ones shaped like Mickey Mouse. All of the evidence, limited as it is, points one way. When people are given the chance to make choices, variety proliferates as they do so.

One of the central tasks of micropolitics is the 'individuation' of state services. That is, the problem is one of transforming a standardized, producer-oriented public sector product into the range of individual alternatives which people would choose to fit their own requirements. The service is 'individuated' by being broken down from a basic identical output into the proliferation of varieties which are geared to meeting the preferences of individual consumers. It means introducing both variation and choice. It means redirecting the forces which determine production so that they either bypass the political process completely and come from the economic pressure of consumers, or they take place still in a political market, but one changed so as to reward the satisfaction of individual preferences. This is no small task.

A feature of public sector supply, especially when it exercises a near monopoly for most people, is that it becomes difficult after a time to conceive of life without it. The prospect of a Britain without universal state health or education is, for most people, unthinkable. This is not because it would be calamitous, it is simply because it is unknown. Never having seen alternatives to it, many people cannot even think that any might be possible. To them it is a question of how the state service might be improved or made to respond more to their needs. The idea of replacing it has no place to rest within their imagination.

Hardly less difficult to deal with is the fact that long use of a public monopoly supply has made people accustomed to its merits, even while they are aware of some of its shortcomings. The merits give it a perceived value which they do not wish to see placed in jeopardy. The presence of a National Health Service means that no one will be denied treatment on account of poverty, and means that no illness need prove financially ruinous, no matter how catastrophic it might be from the medical points of view.

Universal state education has brought every child the right to a schooling regardless of the means of the parents. Children denied their chance because their parents could not afford continued schooling feature now only in stories from the bad old days. The combination of tax-funded state provision and state compulsion to the age of sixteen means that the basic education is assured with little financial impact on parents.

These values cannot be treated lightly. They are genuinely held, as those who would dismiss them soon find. People really do value the security which the free health service brings. They feel the benefit of a free school place for their child. There is no point in telling them that these services are not free, that they do pay through taxes, or that they could afford them in the private sector. That is not how they perceive it. Most people look at the amount of money they have left after necessary expenditure and conclude that they would have none left for private services if they had to pay for them. Complex taxation sums are abstract to them because most people actually think that their services are provided by 'the government', and that the money to fund them comes mostly from sources other than themselves.

That they are wrong is not relevant; they believe it to be true. The real situation is very different. Not only do they themselves pay for state services, they pay expensively. The public sector is top heavy on administration, inefficient in its use of personnel, and poor in its application of capital and technology. The chances are more likely than not that the standardized service most people receive from the state costs them more personally than would a private sector equivalent with variety responsive to their individual needs and requirements. The reality to be dealt with, however, is that people do not perceive it that way. Herein lie the ways in which political markets operate.

The micropolitician has to accept these attitudes as facts. While it might be possible to change them in the long term, they colour the present reality, and cannot be ignored. It is theoretically possible that the attitudes could be changed, and that a long-term programme of public education could persuade people to abandon them and set sail happily into the uncharted waters of the free market. No one knows if such a project would succeed, or how long it might take. We do know, however, about the force of an interest compared with that of an idea.

In yet another inversion of conventional thinking, micropolitical analysis suggests that it will be easier to change the attitudes after the policies have changed, rather than before. It recognizes that the advantages of choice and variety are difficult things to teach at a theoretical level. People are much more likely to see the practical benefits when they are present, than to imagine them when they are not. One of the aims of this type of thinking is therefore to secure elements of choice and variety in a system dominated by uniform state supply. If they can be introduced in a way which poses no threat to the security so valued in the public sector provision, there will be no mass hostility from consumers of the service.

On the contrary, there will be support from those who do wish to exercise their new choices, without opposition from those whose state provision is left intact for them to use as before. As more and more people make use of the choices, and draw the benefits of a more varied and responsive service, then the advantages of them will be perceived more readily in practice than could have been managed in theory. Having experienced for themselves the benefits which choices bring in some areas, people are more likely to be disposed to accept them in others.

Thus the individuation of standardized state services is achieved not by a sweeping conversion to free market ideals, but by steady progress to introduce gaps in the uniformity here and there, and opportunities for people to give expression to their preferences. All of this has to be done without putting at risk the inherent security which people value so much about the state supply.

It may be argued that this piecemeal progress simply puts off the day of reckoning when the state system must be tackled head on, complete with the security people have come to depend on. At that time, it could be claimed, people will have to be cut loose from its protection and set adrift to float on their own devices. This is erroneous for two reasons. In the first place if such a day were to come, people would fear it far less if many of them had already grown used to making their own choices, and if some had acted to secure their own service independently of the state. Secondly, the demise of the state system, if it comes about, could be with more of a whimper than a bang. If the numbers who decide to make alternative provision grow sufficiently large, the state supply could end up as a tiny proportion, irrelevant to the lives of most people.

In many ways this is the most attractive fate which could befall a public sector service: to proceed from a near universal service offering a standardized output, to one in which individuals make choices and generate variety in response, and to finish up as a mixed system in which the public element is sufficiently small to be inconsequential. The upper tier of the state pensions scheme in Britain seems to be headed for such a fate. The provision that people may opt to leave the state earnings-related pension scheme (SERPS) is accompanied by tax advantages for those who do so. The choice to leave can only be exercised by people who select an alternative private scheme; but the tax concessions make such schemes more attractive for most people. The result has been that over half have already left the state scheme, and have instead chosen from the various private schemes one tailored more closely to their individual requirements. The state scheme is gradually being individuated by the choices of individuals.

Moreover, the numbers in private schemes strengthen the power of the interest group which supports them, and diminish the strength of the group supporting the state scheme. The result has been to make it possible to alter the balance even more. The government has trod carefully, making sure that no disgruntled group whose advantage seems threatened will oppose them. The changes proposed will not apply to benefits already promised, and will not affect anyone who reaches retirement age before the end of the century. But the effect will be to accelerate slightly the rate of exit from the state scheme, bringing closer not the day of reckoning, but the day when it fades to insignificance.

The approach to state pensions illustrates an important technique which can be used in the process of individuating the state services. It is that of blocking future entry, while guaranteeing the benefit of those who are already in. By cutting off inflow to the state scheme, government sets in motion a long-term process of change. It may take more than a generation before the last of those within the state scheme finally work their way through, but the alternative supply is growing all of this time, and forms an effective interest group long before the final demise of the state supply.

Restrictions on entry will typically be imposed to prevent new workers joining the state scheme. Instead, they will be invited to enter into one of the private alternatives offered. If it is something like a state pension, it will be the insurance industry and the private pension schemes which take up the slack. The age of maturity, or leaving school, or starting the first job, are reasonable cut-off points to choose for requiring new provision. Birth is not usually a suitable point because children do not make decisions for themselves.

The advantage on entry restriction is that it does not affect any person currently dependent upon the state scheme. For them, and perhaps for the rest of their life, the state supply will be kept available. Without new entrants, however, the proportion using it will diminish over time. Even though the state supply might be guaranteed, thereby deflecting possible opposition from current consumers, accompanying measures will be put into effect to make the alternatives more attractive, and to encourage those still entitled to it to make provision elsewhere by their own choices.

In addition to various methods of lowering the price of private alternatives, including tax exemptions and rebates, the rate of exit from the state system can also be accelerated by cash offers to those who forgo their right to future benefits. The offer by British Airways to its employees while they were still in the state sector was of cash to those who switched from high benefit index-linked pensions to conventional ones. It was high enough to persuade them to make the change. The same principle could be used to promote more rapid exit from other state schemes to which viable alternatives existed.

Cases involving pensions and insurance would prove too costly if government had to redeem immediately all of the benefits people had been promised from the system. Only a slow rate of exit could be afforded if the redemption cash had to be provided for each person wanting to go private. The solution here would be to offer a bond from the government, redeemable on retirement, for each person leaving the state scheme to take into the private sector. The move to make pensions portable is part of an overall strategy aimed at individuation. If the pensions rights become the property of the individual, to be disposed at will, then schemes can be offered tailor-made to the needs of that individual, instead of to the convenience of the producers of the service.

Useful though the various methods of encouraging exit might be, and advantageous though it is to have policies which close off further entry into state schemes, they are only part of the task. The huge section of the population who see no valid alternatives to staying in the state sector, even if they are incorrect to see it this way, constitute a major group still dependent on services dominated by producer needs and still having access only to basic standardized output. The task must include ways of introducing mechanisms into the state system itself to foster the growth of variety and choice. Individuation need not be confined to the private sector if creative policy engineering can devise ways of opening up the state products to individual needs.

This means a realignment of the forces which have impact upon the output. They tend in the public sector to derive from producers, leaving no effective forces impinging on it from consumers. How, then, to change it? One group of methods is based on re-routing the funding of public services.

The typical method of funding state sector activities has finance for them raised by government, paid to the Treasury, allocated to the ministry responsible, and passed on to the administering agencies. These might be local education authorities, the British Rail Board, the regional health committees, the University Grants Committee, or the Post Office. In some of them, such as railway travel or electricity supply, part of their funding comes from user charges, but for most people there is no alternative supply of rail travel or electricity.

The method of funding keeps the service producer-oriented. Since finance comes from the administering body, it is used to pay for whatever that body specifies. That body can go through the motions of consulting public requirements, but it need bow no lower than it wishes in that direction. The convenience of being able to offer standard services far outweighs the advantages of offering the public the range and variety of individually tailored services they might prefer. There is, moreover, no comeback. Denied alternative choices of service, the public has to take the standard product.

If they pay partly through user charges, they have the limited option of curbing their consumption or turning instead to a technological competitor. There may be no choice of railways or electric companies, but they can at least turn to road transport or opt to use more gas. If they pay entirely through taxation, as in education or most health services, they do not even have this choice unless they are rich enough to pay twice over.

In order to bring some variety and individual choice to standard state services, the funding must be re-routed to give effective power to consumers. It does not have to get into their hands either physically, as in tax rebates, or by token, as in voucher schemes. All that is required is that the allocation of funding has to result from consumer choices. This is just as well, given the entrenched and bitter opposition to voucher schemes, and to public apprehension about their unknown effects. Tax rebates are contentious, too, with opposition from the Treasury itself to the potential revenue loss, and from those who advocate fiscal neutrality instead of attempts to influence behaviour through tax policy.

The discussion of state education, and the comparison drawn there between micropolitical strategy and more conventional proposals, shows how funding can be directed according to consumer choices. In the case of education, the switch to direct funding of schools on a *per capita* basis, combined with open entry to allow parents a free choice of schools, suffices to give effect to consumer preferences. The parent chooses the school and the money follows the child.

It is an important corollary that there must be provision which allows for variety in order to make that choice effective. There is little point in introducing choice into the state sector, and in devising arrangements which direct funding in the direction of that choice if there is nothing to choose between. The third element in the education proposal was for schools to be given independence under their governing boards. Without the ability of schools to pursue different educational objectives and to follow different approaches to education, the choices made by parents would be meaningless. Open entry to the school of their choice, and a system to direct funds according to the choices made, would be valueless without the variety which admits their preferences into the system. The basis of the proposal was its three parts put together: open entry to give choice, independence to permit variety, and *per capita* funding to direct resources to what parents chose.

It is important, therefore, that redirection of funding should be accompanied by measures designed to introduce variety into the state system. If its uniformity is to be broken up, there must be alternative options available within it, and a means of ensuring that the satisfaction of consumer needs controls the allocation of funds.

The technique thus has several elements. In the first place it must take away the total discretion of the administration board. This has to be replaced by a system which allocates funds on the basis of some formula whose key element is demand by consumers. Secondly, it must decentralize authority to such an extent that local centres are able to make independent decisions over their own operation, and to modify it as they see fit. While it might be advisable to retain the reassuring rein of minimal standards, it should be a loose one. In the case of education, for example, any overall requirement should be confined to core curriculum only, and be measured by achievement of it rather than by input toward it. Thirdly, it must ensure that choices are permitted between the varieties available, instead of people being allocated to the nearest service point for administrative convenience.

The elements of this technique could be applied to several state monopoly services. Its aim is to break up the standardized output into a variety of alternatives which respond to consumer choice. At the heart of it lies a decentralization of power which will be opposed by some of the producer groups, and which needs to be structured in such a way that it attracts the support of consumer groups in large numbers, and at least some of the producers. The term 'consumer groups' does not refer to any organized pressure group allegedly representing consumer interests, but to numbers of individual consumers. Experience shows that the 'consumer' pressure groups are producer satellites or represent ideological lobbyists.

Such a technique would be a viable way of changing the standard nature of university education in Britain. The present funding is from taxation to the University Grants Committee to the courses and the institutions which find favour with them. If the funding were to be redirected, it would be via the students. The present system gives them little input, except as recipients of what is on offer. That offer exhibits a surprising uniformity considering the variety of individuals and individual needs in higher study.

Without changing the total level of funding which goes to higher education in Britain, and without changing the source of it in taxation revenue, it would be possible to individuate the public sector standardized product of university education by directing the funds to follow student choices. If the funding bypassed the UGC, and were allocated according to the institutions selected by students, universities would have an interest in satisfying demand. No doubt a fluttering of hearts would occur at the top tables; long experience of feeding at the public trough makes producers think of the public they are supposed to serve as an unfortunate but necessary nuisance.

The process might involve students receiving fee certificates to hand in, or might simply have enrolment in various departments determine the size of grant for each university. Either way, the redirection would make the choice of students effective. Universities which attracted them would flourish, others would decline, unless of course they were able to change. Some producers would perhaps claim that students know nothing about education, just as some warn of parental 'interference' in schools. Instead of the huge enrolments in easy courses of zero educational value which might be predicted, however, the overseas examples suggest that students might choose courses more related to intended careers.

From the point of view of political strategy, the redirection of funds has the advantage of preserving the most valued elements of a state service, even while individuating its previously uniform output. The free school place is still there, and the university course paid out of public funds. Opposition is not aroused from those who simply wish to preserve the security which that brings. While it might be argued that there should not be free school places or publicly funded degree courses, this range of proposals is designed to improve their responsiveness to consumer wishes if they do remain. The technique which acts by redirecting funds shows that even if their hold on the political market is strong enough to resist market alternatives, it is still possible to introduce some market elements by carefully contrived policies.

What is being done, of course, is the introduction of competition within the state sector. As well as the various expedients to promote competitors outside it, and to take the ability to choose them down-market towards ever more people, it is possible to generate competition internally. By decentralizing power to local centres and redirecting the funding mechanism, a situation can be created which makes it in the interest of producers to satisfy the demands of consumers instead of those of the administration board.

Private markets are characterized by the proximity of funding and consumers. If the consumers are attracted, the funds come along with them, so producers compete to bring in customers by offering what they want. The devices to achieve some individuation within uniform state services are techniques to achieve a linkage of funding and consumers similar to that of the private sector. Once such a linkage is achieved, some of the forces which it drives in the private sector will operate within the state system. It will not be a perfect copy, nor even a close one, but it will contain variety, competition and choice, will direct funds to where the demand is strongest, and will tend to bring more satisfaction of individual needs than is achieved by the normal model of public service operation. It will be an internal market.

The promotion of competition within the state sector as well as outside of it is a technique which works if the system is altered so that its pressures sustain it. There is no point in trying to have elements of the public sector compete against each other if no consequences follow from it. If there are no rewards for those who compete successfully, and no penalties on those who fail to do so, then nothing is achieved. What makes it work is the policy to redirect funds towards successful competitors at the expense of unsuccessful ones, and the independence of decision action which is devolved down to local centres such as individual schools and universities.

Unless the plan is conceived as a whole, with its interlocking parts reinforcing each other, it becomes no more than another one of the futile attempts to graft private sector characteristics on to public sector operations. The desirable features of private businesses are not accidental, they are a concomitant of the pressures and forces which drive the private sector. The attempt to make the public sector more efficient, more cost-sensitive, or more responsive to consumers, needs to be accompanied by forces to drive it. Unless those forces are somehow set in motion, the desire becomes no more than wishful thinking, and has, at best, only a limited and short-term result.

The thinking behind individuation is that these forces can be set in motion within the state service. It takes a great deal more ingenuity to make such attempts both workable and acceptable, but it can be done. This means that as well as the alternatives which give scope for variety and choice in the private sector which parallels the public operation, the state service itself can be made to break into varied offerings which compete against other sections.

As a final example, the National Health Service is generally regarded as the most sensitive area in which to attempt reform. A widely held attitude esteems the security it brings, and opposes any move which might jeopardize it. Yet the NHS is typical of its class. It offers a standardized service, and is characterized by its lack of attention to consumer requirements. Its long waiting-lists bear witness to its inability to match supply to demand. It might also be noted that the NHS is notoriously unable to exercise any control over its costs. Indeed, for many areas it has no idea what they are. It presents a difficult case for the exponent of micro-politics to work on.

There are solutions, however, which can improve it. There is the rapid growth, already noted, of private medical facilities which are mushrooming alongside it. Measures to encourage that growth and to accelerate it are already in operation and more could soon be put into effect. None of this need bring major hostility from interest groups, since no significant ones are threatened. Even the general public which depends on the NHS does not oppose the spread of private medicine. One of its effects will be after all to relieve the burden of demand on the state system.

The question arises as to whether a scheme can be devised which, like those suggested for schools and universities, might re-route the funding within the system so as to give effect to consumer preferences. If this can be achieved, it will gradually succeed in individuating what has hitherto been a uniform, unresponsive output. The answer is that such a scheme can indeed be devised. The state may be large, but so is human creativity. Armed with a valid method to direct it, there are few problems so big that they cannot be brought down by it.

The first step might be to augment the total funding which finds its way into health, not by increasing its allocation from the taxpayer, but by encouraging people who can afford it to add their own resources. Other advanced countries manage to achieve a higher level of spending on health as a fraction of GDP because people spend more personally, and perceive benefits to themselves and their families.

Tax incentives can provide the means of encouragement, reducing the cost of private insurance to large numbers who cannot quite afford it at present. This has the advantage of simultaneously increasing the total spending on health, even while it reduces the demand on the National Health Service. The NHS would be in a far worse position without the 9 per cent already in private medicine or the 400,000 items of elective surgery performed privately.

The obvious avenue for improvement in the NHS is its lack of any intermediate facilities between general practitioners and hospitals. It is overwhelmingly a two-tier system. If the doctors' prescriptions do not cure the patients, they are sent on to hospitals. The private sector and health systems overseas have a range of facilities between the two, featuring such things as group diagnostic facilities and out-patient clinics. Since much of the treatment which is given expensively in hospitals could be performed more efficiently outside them, and since such treatment would be more local and more consumer-friendly than large-scale institutions can provide, there is an opening for possible reform if the interest groups can be assuaged.

One answer might be a reorganization of the NHS to include health maintenance organizations. These HMOs work in other countries to provide total health cover, and include doctors, clinics, specialists, diagnostic facilities and hospitals. All work within the HMO to provide whatever health care is appropriate. They will usually receive a fee on behalf of each patient, making it in their interest to keep their customers healthy in cost-effective ways. They have the range of intermediate facilities so absent from the NHS, and have to attract and keep patients who have the choice of going to other HMOs instead.

The principle could be introduced into the NHS. In place of the Regional and District Health Authorities there could be created independent Health Management Units (HMUs). General Practitioners would sign up with one, taking their patients in with them. An individual patient could always change HMU by changing doctor. The doctors would then be paid by their HMU for work done, with fees for each consultation and each item of treatment.

When patients were sent for treatment by hospitals or specialists their HMU would select an appropriate course of treatment. They would have an incentive to choose a cost-effective supply from the alternatives available. Each hospital would have to know the cost of all of its activities, and to perform them efficiently. Otherwise HMUs would not make use of them.

The system which these changes produced would induce competitive pressures into the system, bringing the benefits of efficiencies and innovative techniques. It would enable management at various levels to be more flexible and to take independent decisions. The doctors and their patients would have a choice between HMUs, and the HMUs would choose between the services of different hospitals for their patients.

The HMUs could be financed by an annual allocation for each patient, and would have to provide health care for that sum, up to standards determined nationally. If a patient left one HMU and joined another one, their annual allocation would move with them. This would mean that the money would follow the choices made, as it would follow the child within an internal market in education.

There could be refinements to make this system work. HMUs would not be able to refuse patients, except for a limit on their total size. Even then they would have to establish waiting lists. The annual allocation could vary with the category of patient, or even the geographical area of residence, to reflect the different health care costs.

This does not incur the odium which would greet an attempt to replace the NHS. Instead it promises to improve it. Patients see their doctors as before, and it is still free at the point of consumption. They receive hospital and specialist services and these are still free. The change is that an internal market has been created in which there are variations and choices, in which there are incentives for efficiency and competition, and in which the resources of the state are redirected as a result of those decisions. It could be done, and has the advantage that each of the elements which would make it is worth doing individually.

The effect would be to set in motion a train of events which would gradually individuate the service to conform to the various needs and preferences of consumers. It would still be a public sector supply, and still a National Health Service, but pressures and forces within it would now be working to produce different results. HMUs which satisfied consumers would receive more funds, and others would be encouraged to do the same. Cost-effective HMUs would be able to offer greater rewards to their participants than inefficient ones, so talent would find new opportunities.

The example of the National Health Service indicates the range of problems to which these principles can be applied. Once political markets have creative solutions applied to redirect their forces, major reforms can be achieved. The NHS is almost the limiting case; if the methods work there, they can perhaps work anywhere.

15 More Technical Devices

Two other methods deserve special attention. One of them attempts to introduce pressures into the public sector to make it respond in some degree to consumer demand. In the absence of the ability to shop elsewhere, the consumer normally has no choice but to take what is offered. This being so, there is no incentive to make that offering correspond to what consumers actually want. The producers have more capacity to make trouble than consumers do, so their needs count for more.

There are cases where it may be impossible to apply an intricate solution which involves redirecting the funding of the public service and promoting variety within it. Even in such difficult areas, there are devices which can introduce some pressures to assist consumers. One of them involves establishing a right to the service offered, with provision for consumers who fail to receive it to seek satisfaction elsewhere. For example, it is often a feature of public operations that they produce what those involved in production find convenient, and keep consumers waiting for what they want. Delays and waiting-lists are common features of public supply, in everything from health to housing.

Having to wait for service is one of the least popular features of public services. Even consumers who value the service and the security which they feel through the public funding of it, do not like the delays. All things being equal, they would rather have the public supply serve them now rather than later. If no other provision is made, this can prove useful material to those who wish to increase public spending. They can point to the delays, attribute them to shortage of funds, and use popular hostility to them to fuel the campaign for an increased allocation. Since the profession and the producers will support it, backing from lobbyists and consumers as well can create powerful pressures in the political market. Even though they might know that additional funds would not cut waiting-lists significantly, government might have to vote them.

An alternative is to reject the notion that if the public sector fails it needs more money, and turn to the private sector to help out. If the public supply involves lengthy delays, there is some justification at least for turning elsewhere. The establishment of a right to the service can be interpreted as meaning that if the public sector cannot itself deliver it, then the consumer can get it from somewhere else at public expense. It is important to stress the last three words. Anyone has the option of avoiding the queues and delays by buying a private service instead. This is not what is meant by a right to the service. What it does mean is that if someone has paid through taxation for a service, they have the right to get it, even if it means using public funds to buy privately.

In practice this means that after a period deemed to be as much as can be tolerated, people acquire the right to receive service from elsewhere at public expense. To give specific examples, when tenants require repair work done to state-owned houses, there are often lengthy delays even for urgent work such as the repair of roofs and windows. Local housing departments may use the delays as a justification for increased funding, which would be unlikely to cut significantly into the delays, even if granted. A more imaginative alternative sets a time limit for the public sector to respond, and permits the tenant after its expiry to hire private contractors from outside, and bill the public service for the work done.

There are obvious protective clauses to be built in in practice. The cost of work done by private contractors must not exceed what the state would have spent on the job, and there must be clear evidence that the public service concerned knew about the repair needed, yet failed to carry it out within a set time limit. The cost of private contractors is highly unlikely to exceed the cost of in house labour, to judge by almost every comparative survey which has been done.

The introduction of the notion of a right to the service, a right which can be exercised elsewhere if the state fails to deliver, puts pressure on the state to deliver the service itself. If the tenant who fails to receive his repair job in an adequate time can go elsewhere and send the bill, there is a strong incentive for the state to make sure the necessary work is done on time. If it fails to do so, a part of its service will be automatically privatized, and it will lose part of its funding to a competitor from the private sector. Naturally, it will act to prevent this if it can. Thus the right to service, when introduced, puts into the system the pressure from consumers which the ordinary market cannot do with public monopolies.

A right to service is something calculated to be popular with the consumers of state services. On the face of it, it does nothing to threaten the public supply. It simply permits those who fail to receive service within a reasonable time to have the state buy it from outside. The general public can see the right to service as an important guarantor; they recognize straight away the value which it gives them, and support it accordingly.

The producers of public sector services do not, of course, like the idea of their customers being able to buy services from other producers and send in the bill. However, this is a rare case in which the force of one pressure group is sufficient to outweigh the force of another. There are more dissatisfied consumers, or ones who perceive they might be, than there are producers upset at having to concede them new rights. The basic integrity of the public supply is not threatened. Indeed, if it does its job none of it is threatened. Consumers who acquire the means to jump over delays and waiting lists count for more than do producers who are happy with things as they stand.

What happens in practice is that producers take good care to make sure that very few cases actually get to the point where private contractors are called in. What they do is to beef up the service and streamline it so that it responds more effectively and more rapidly. They monitor applications for repairs, and keep careful tabs on how long consumers are kept waiting. As the cut-off date approaches, they go in to begin the necessary work. All of these are things which a good private business does anyway, forced by the pressures of the market. If it should fail to do this, a bad reputation will spread, and customers will melt away. The notion of a right to service simply substitutes alternative pressures in the public service to make up for the absence of the normal ones.

The principle, moreover, can be extended right through the public sector. In a surprising personal opinion given during the last strike of water engineers in Britain, the former Master of the Rolls, Lord Denning, expressed the view that there already was a right to service in common law, and that the public could have work done privately and send in the bill if the state failed in its obligations. This was never tested in court, and may or may not be true. Whether or not the right exists in common law, it can certainly be supplied by statute wherever the public service is felt to merit its introduction.

Waiting-lists and delays for hospital treatment or other medical needs are not among the popular features of the National Health Service. They are frequently cited by producers and the lobbyists who support them as reasons calling for increased funds. But they might just as well be used to vindicate a right to treatment like the right to have state houses repaired. If the public service takes taxpayer funds, they have a valid claim on its output.

A right to treatment in the Health Service might involve the NHS in the obligation to provide treatment within, perhaps, six months. If it failed to do so, it would be required to purchase treatment for the patient from the private sector. This means that there would be an automatic upper limit of six months on the waiting lists. The introduction of such a measure would be very popular indeed among patients or potential ones, even among those who were enthusiastic about the NHS. It would be popular with some doctors, nurses and specialists, but would not go down very well with area health administrators. They constitute a small group, albeit with some capacity to cause trouble.

In practice, once again, there would be an immediate change in the attitude to waiting lists. Administrators would monitor them and make much more efficient use of surplus facilities in some areas to cope with shortages in others. No doubt sophisticated measures would allocate patients to available treatment centres whenever vacancies arose. As the cut-off time approached, massive efforts would be made to treat patients in time. The effect would not be to have large numbers having private sector treatment paid for by the state. It would be to have more efficient use of state resources, and greater awareness of waiting times.

A further practical consequence of no little significance is that it would be very popular with government, and would increase the popularity of the government by immediately taking away criticism brought on by waiting lists for hospital treatment. If patients did actually reach the point of being treated in the private sector, they would hardly complain. Nor would government find its costs excessive. They would certainly be less than the extra funds it would take to upgrade the NHS to that level without the additional pressure.

The notion of a right to service is a good application of the micropolitical approach. The state service is left in this case as it is. It has the first chance to provide the service. Only if it fails to do so within a reasonable time is the alternative activated, and then the benefit goes directly to the consumers. The device introduces a very limited partnership into the public services. It allows the state sector to do what it can, and then brings in the private sector to do whatever it cannot do. If the NHS cannot treat patients within six months, only then is private medicine brought in to fill the gap. If the housing authority is unable to repair roofs and windows within a reasonable time, only then are private contractors called upon to do the work.

The device is carefully calculated to offer consumers what they want from the state service: responsiveness to their needs. Long delays until producers get round to providing a service are ended by the threat of private service and, where necessary, the reality of it. It thus introduces pressures into public services on behalf of consumers, even where it is inappropriate to open up opportunities for variety and choice, or impossible to do so. The pressure is supplied by the mere threat of an alternative after the expiry of a deadline. In putting pressure on state producers by this technique, government takes pressure off itself which the delays and waiting lists were imposing. Instead of being forced politically to increase funding for the state service, government uses the private sector to force the state service to improve. All of which makes the device a powerful tool.

The other method meriting special attention seeks to deal with the problem of capital depletion in the public sector. The basic difficulty is that capital spending has few supporters compared with current spending. Expenditure on the current side pays for services, which pleases consumers, and pays for salaries, which pleases producers. Pleased consumers and pleased producers lead to pleased governments. All of this creates a powerful tug on the current side. If not enough money goes on current spending, the producers can interrupt the service, and irritated consumers can put pressure on government.

The capital side has no such protectors. Its main beneficiaries are future consumers, who have little to trade in today's marketplace. Capital investment keep up the supply of equipment and premises, and makes sure that the service is up to date with its technology and does not have to rely on used and worn out stock. It is because the pull is very much stronger on the current side that the problem of capital depletion occurs. It is always easier to raid the capital side of the account to meet strong demands on the current side. Thus, over the years, the typical public sector service exhibits a decline in the proportion of funds allocated to capital, and a steep decline in the capital used per employee.

Not surprisingly, the public sector services are notorious for their under-capitalization. They have to stretch old and worn-out equipment far longer than would be tolerated in their private sector equivalents. The public has to make do with patched-up stock and over-extended premises. Victorian hospitals, antiquated schools, overcrowded prisons, shabby railcars; all are products of a system which feels an unbalanced pressure on the current side and is unable to keep up its capital stock.

Usually there is pressure from producers for increased spending. Just as this is advocated to relieve waiting-lists, so it is put forward as the answer to capital depletion. More spending is put forward as an answer for all public sector problems. Depletion of capital does ultimately put pressure on government for what is called 'reinvestment,' but is really increased funding. Pressure from producers and consumers alike eventually mounts to the point where government feels compelled to act.

Unfortunately, increased funding is not a valid answer to capital depletion. With the pressures still in place pulling expenditure toward the current side, new funds feel those forces just as much as the old funds did. The influx of new money makes it harder for administrators to resist demands by the workforce, and harder to cut back on unnecessary or wasteful services. The money is there to fund them. The effect is to pull much of the new funds to the current side, intended though it was for capital replacement.

The problem is that chronic shortage of capital means that poorer services will be offered from the public sector, and the means of improvement will erroneously appear to be increased expenditure of taxpayers' money. This is not a good situation for those who think that services should respond to demand, offer variety and choice, and be funded according to consumer preferences. It locks most public services into a self-defeating spiral of decreasing quality.

The method involves a technique for introducing private capital into the public sector in a way which increases the investment in capital items, without funding a further upward twist in current spending. It seeks to bring in private capital on an investment basis. Private capital is available, provided that circumstances are suitable. In years when public capital has been squeezed to its lowest ever proportion of total spending, the private markets have been awash with capital for stock purchases, new issues, and shares in privatized companies. The cash is there; the problem is how to entice it into the public sector.

Straightforward government borrowing is not appropriate. It makes funds available for spending at government's discretion, which means no difference in practice from increased funds raised from taxation. Government borrowing has to be financed and eventually repaid. As a source of revenue it is not subject to restraints to limit its use any more than is taxation revenue. When government borrows more, public spending increases and the pressure to hold down the costs of each department diminishes. Part of the reason for the squeeze on funds is a desire to limit total borrowing.

For technical reasons there are difficulties involved in direct capital investment by the private sector. Instead of lending the government money, the idea has been put forward that private cash should go directly into public projects. Government would then pay to use the capital plant, be it buildings or equipment, thus giving the private investors a return on their capital. Private investment might build a bridge, for example, with government approval, and then receive its return as the government paid it to use the bridge. This could cover capital items as diverse as sewage plants and museums. The advantage is that government gets its capital investment now, without having to put cash up front, while the private investors receive a return on their money.

Effectively this is a lease-back arrangement. Private capital is used for necessary public works, and government pays to lease them from their owners. The public has the use of them, although they are privately owned, and government pays for the use rather than the construction. Much needed bypass roads, bridges and tunnels could be built under this system, without the necessity of a huge capital outlay from the public sector. The proposal has many advantages and one fundamental flaw.

The principal merit of the proposal is that it switches capital expenditure by government over to the current side. Recognizing that the public sector causes an inevitable depletion of capital, this method supplies that capital from outside, and funds it out of current spending. Instead of paying out capital to build the required roads and bridges, the government pays only to use them. Capital comes from the private sector, which has it to spare, instead of from a government hard-pressed to keep down spending. The payment for it is a current operating expense, and secures the service of the sewage plant or museum for public use.

Unfortunately, the proposal falls foul of Treasury rules. It has been tried successfully in several American states, but cannot be applied in Britain in the form described. The problem is that if the payment from the government is guaranteed, the Treasury rules treat the investment as government borrowing, and count it as part of the total. Even though the investment comes from private sources, it must be accounted for as a portion of total borrowing by government. The official view is that without the element of risk, it is not a genuine investment but a loan. If the private investors had simply lent government the money in return for set annual payments, the effect would be the same.

While this rule would appear to exclude the proposal altogether, what it does is to require an amended version incorporating some element of risk. The micropolitician, if private capital is to be brought to the rescue of an under-capitalized public sector, now has to devise schemes which involve the risk factor that comes in ordinary private investments. This is less straightforward, but does overcome the objections that private capital is nothing more than a thinly disguised loan.

There is a risk factor in that no one can know for sure just how much use will be made of new capital stock. The government might receive advice on the likely usage of a new road, or the number of vehicles per hour anticipated for a bridge or tunnel, but the figures are only estimates. Similar calculations about the use of museums or other public capital projects can all involve elements of guesswork. This provides the loophole through which risk can enter to sanctify the scheme according to Treasury rules. What is involved is hard bargaining between a government anxious to gain access to capital funds, and investors equally anxious to secure a good return on their money.

A figure must be agreed for the break-even usage of a bridge, for example, and for the rate per vehicle to be paid by government to the investors. If more vehicles make use of it than that figure, the investors will gain, but if it turns out to be less, they will lose. This has the advantage of incorporating a genuine risk element to prevent the capital sum having to be included in total government borrowing. It has another important advantage as well. Because the financial calculations devolve on actual usage of the facility, there is a strong incentive for only those schemes to be financed for which private investors anticipate heavy usage.

There is a degree of contrivance about the notion of expected use and the concept of a rate of return which fluctuates depending on whether the actual use is higher or lower than expected. This is because the rules themselves are rather arbitrary. The definition of genuine risk is found in the realm of rule making, rather than reality. The same is true of ownership. When government holding moves from 50.1 per cent to 49.9 per cent, a company suddenly enters the private sector as if by magic. The point is that rules and definitions involve arbitrary boundaries. Just as these can work against some proposals because of rigid interpretation, so they can work in favour of others which are tailor-made to fit around the rules.

The likelihood is that private capital will need to be attracted to public investments. There are many ways of using money to make a return in private investment, and any public schemes will need to be at least comparable in terms of risk and rate of return if they are to attract funds. This means that if agreements are made between government and potential investors, they will need to err on the side of the investors. That is, in calculations concerning the likely use of any public facilities built with private funds, potential investors will need to feel that there is a reasonable chance of the target figure being exceeded.

Fortunately there is a margin which makes this possible. Public operations in general make less effective use of money than their private sector equivalents. This is because they are subject to political forces which distort their spending patterns. They tend to be over-manned, as well as under-capitalized, and this applies to their maintenance and operation of capital items as well as to the provision of services. Other things being equal, one would expect private firms to spend less on maintaining and operating capital items than the equivalent work would cost in the public sector. This provides a means for private investment to seek out profits from its application, even while giving the public sector good value for money.

A scheme involving the public use of private funds will normally be for the construction of a capital item, for the operation of it over a number of years and its maintenance during that period. The public sector rarely builds with its own in-house constructor and labour force; more commonly it invites tenders from private contractors. If a project is undertaken with private capital, the actual construction will proceed similarly, though perhaps with some opportunities for savings through innovative techniques and less rigid application of bureaucratic rules. The real saving is made possible by the private performance of maintenance work and operation. These are quite often done by direct labour from the public sector.

Private investment agreements will usually be able to present a total package which is attractive to government in that it costs less than government itself would have to spend to attain the same results. The package is similarly attractive to investors because it offers a long-term agreement reasonably certain to pay them a good return with low risk. Anyone who supposes this to be only a theoretical point should examine such schemes operating in the United States. It is becoming quite usual for private firms to tender for the construction and operation of a state prison according to public specifications, and to do so in a way which not only provides the building, but gives the state a substantial saving in the cost per day of keeping prisoners.

In Britain it would be possible to provide a risk element which would seem high enough to Treasury officials looking at the cost the package would impose if done by government, and low enough to private investors looking at the lower costs achievable in the private sector. In this way the need for a risk element can be met without unduly deterring potential investors. The point could be made that this complicated process is not devoted to producing real risks, but to the production of what can be passed off as risks in order to avoid having genuine private investment counted as part of government borrowing.

It should also be pointed out that while the return to investors is measured in financial terms, government also makes a political return. The calculations may be about costs and possible density of usage, but if the project goes ahead with private funding, the government ends up with capital projects for which it does not have to put up public funds. It gets its bypass road, its bridge, tunnel, prison, museum or sewage plant without having to increase taxation or public borrowing to pay for it. It also gets the gratitude of those who use these facilities.

Of course, government will have to pay for the use of them, but this is more acceptable than public capital spending in several respects. Government would have to pay to use its own facilities in the sense of operating them and maintaining them; and its payment to the investors covers those costs as well. Moreover, government is used to current account spending. It is quite able to allocate sums over a number of years to pay for the provision of certain services. What it finds it difficult to do is to make adequate provision for capital replacement and acquisition without having the funds pulled over to the current side.

There is also the fact that the payments have to be made over a number of years, perhaps a large number. Governments are not very good at spending money now in order to secure future provision. A property of political markets is that present voters have a great deal to trade in them, future voters have little. This is why in areas such as pensions the rewards come now, the payments later. The use of private capital to build public facilities fits in with government's usual pattern of giving the present a premium and the future a discount. The capital projects are built now, but the money is paid for over the years, much of it by future taxpayers who do not have much clout in today's marketplace. So today's electors get their facilities and tomorrow's electors do some of the paying. From the point of view of today's government, this is by no means a bad arrangement.

This is not a flattering view of government; it simply recognizes the pressures which fall upon it. In the normal course of events government has to cut back on capital spending because the need to achieve political gain pulls it to spend more on the current side. The new proposal is skilfully crafted to counterbalance the tendency by an opposite force. It creates circumstances in which government derives advantage from capital spending now, with an immediate political gain, even though the investment comes from the private sector.

Each of these two methods supplies the means of correcting to a limited extent an inherent defect of the public sector. The idea of a right to service forces the public sector into an attention to consumer needs it would not make without it. The idea of using private capital for public projects enables capital spending to bring gains to government it would otherwise lack. Both methods illustrate a common style of approach. The analysis of the way in which the public sector operates identifies the shortcoming, and the policy is tailor-made to correct that particular shortcoming, or at least to mitigate its impact.

There is no fixed list of such methods, no set range of techniques which covers the whole field. A facet of this approach is that it is limited only by what creativity can produce. A great variety of techniques might be proposed to cope with each of the various shortcomings of the public sector. Once the political market is understood, devices can be introduced to redirect the forces that operate within it. This is all that micropolitics seeks to do.