

# Public services

by David Hall

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# Summary

- History and principles of public services
- Past, present and future trends
- Public services and equality
- Effectiveness and efficiency
- Healthcare: private systems do not work
- Austerity and public spending

# History of public services

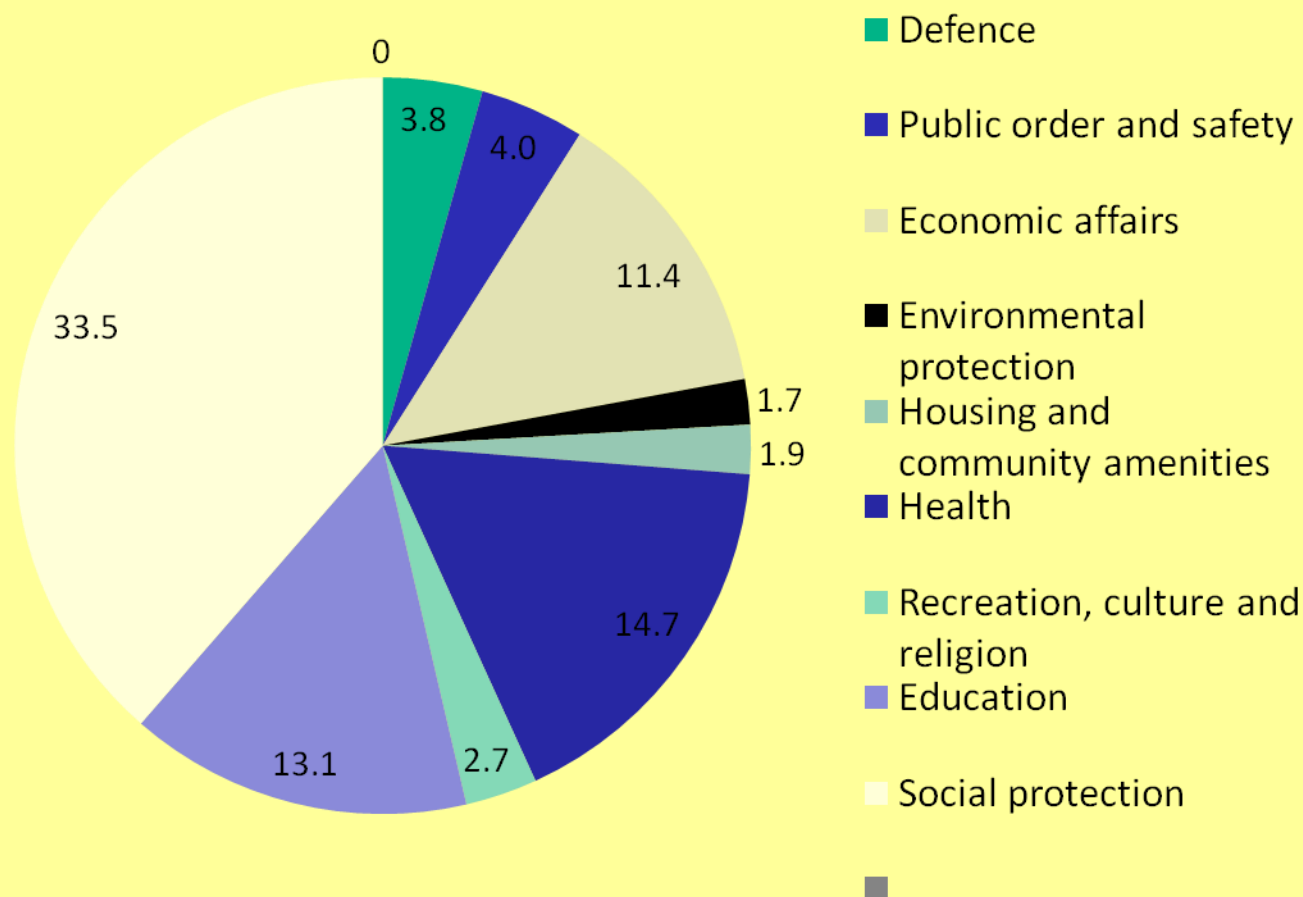
- Medieval states: law and military
- 19<sup>th</sup> century water, gas, electricity, public transport, telecom, roads, waste: economic and social infrastructure: “municipal socialism”
- 20<sup>th</sup> century compulsory public education, healthcare, social security, housing, planning: “welfare state”
- Key factors: solidarity, efficiency
- Common pattern for all countries inc. USA, EU, Japan

# Sustainable public services

- Sustainable finance, capacity, and accountability
- Taxation: efficient tax collection systems
  - also enables state borrowing and bonds
  - Charges possible but not necessary
- State capacity: civil service, public employees
  - Paid, professional, independent of political patronage
  - Key factor against corruption
- Politics: democracy and public participation
  - Participatory budgeting, referendums

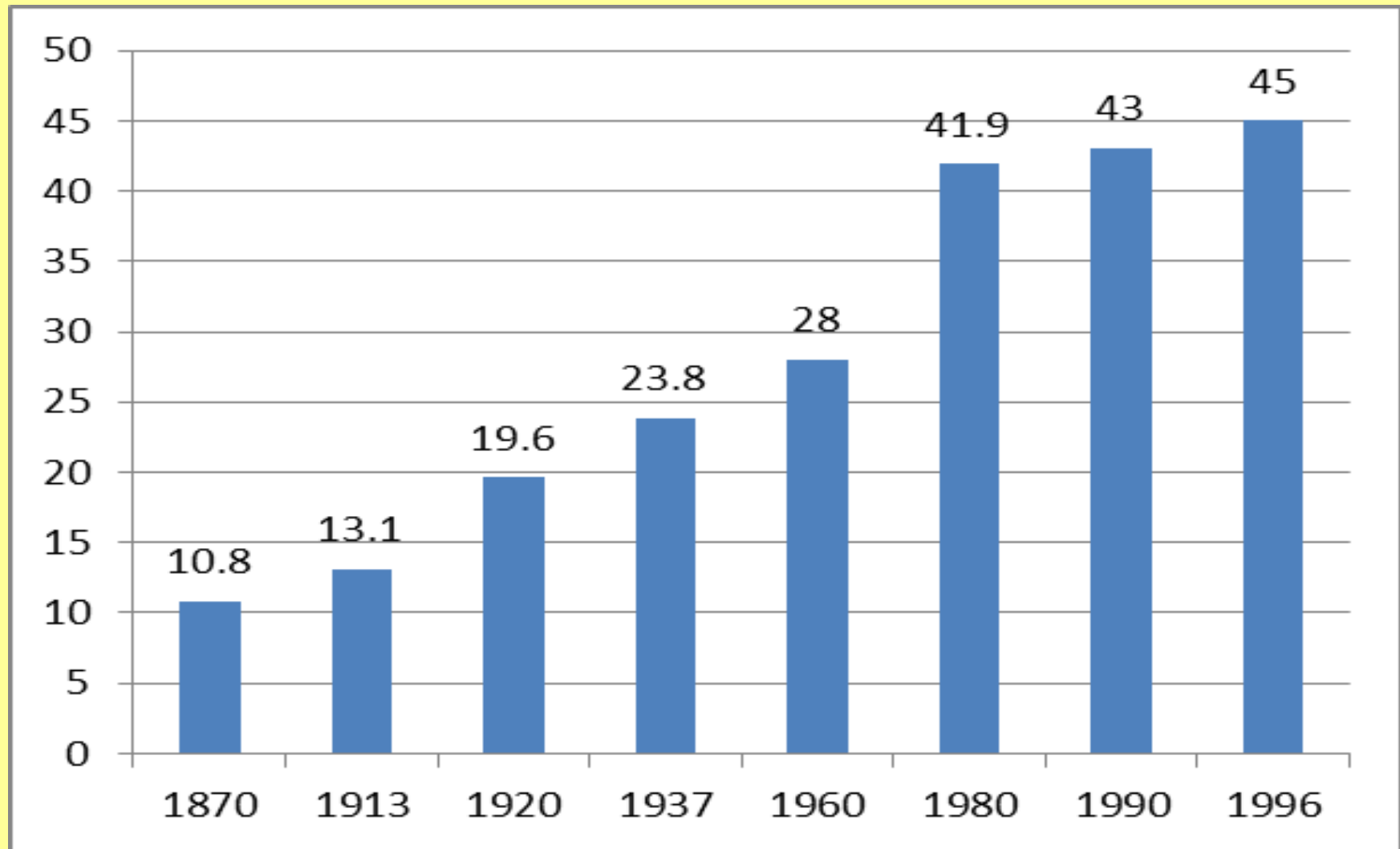
# OECD 2008: Functions of public spending

OECD31

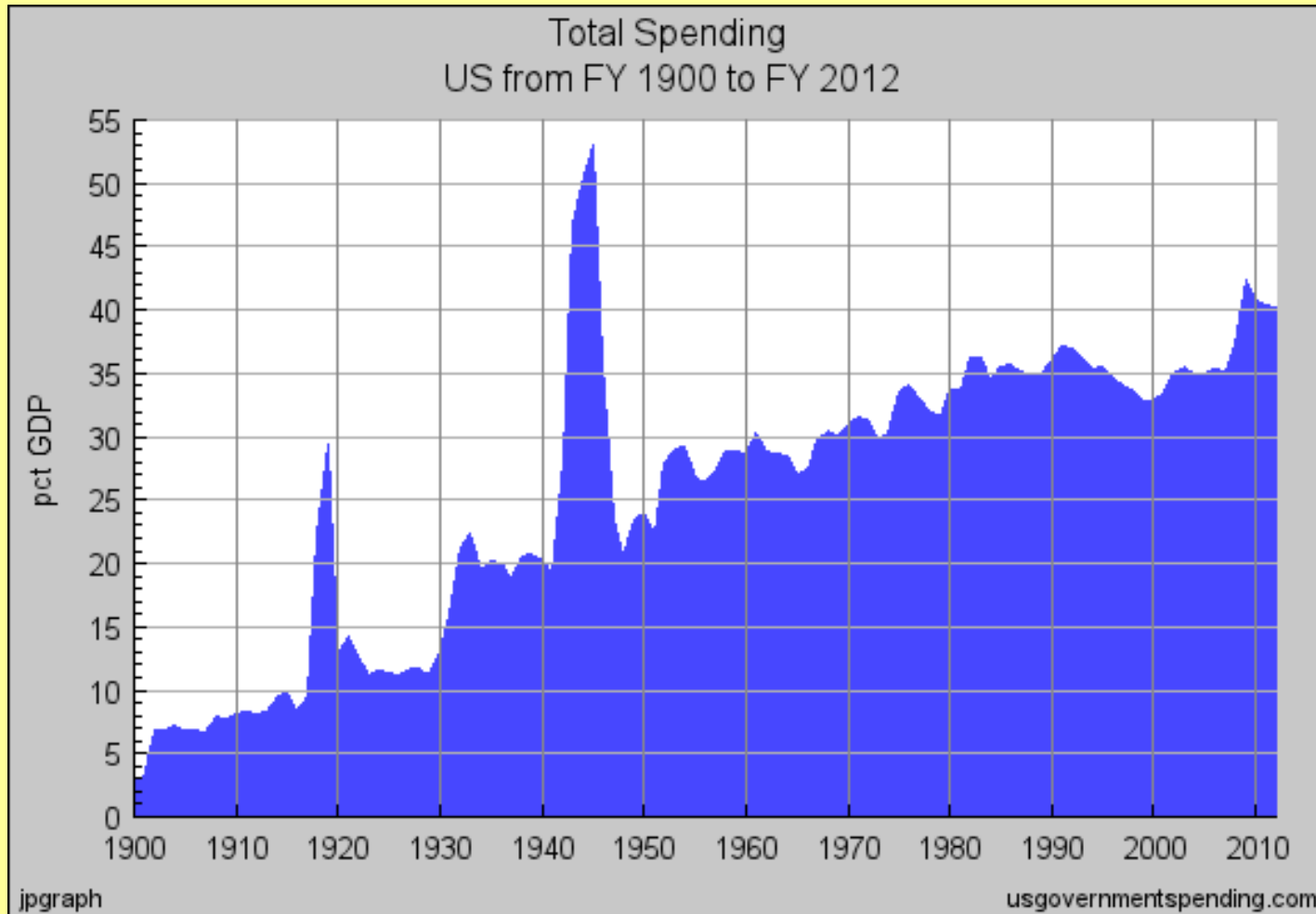


# Long-term link between public spending and growth

Government spending as % of GDP 1870-1996, ave of 14 countries

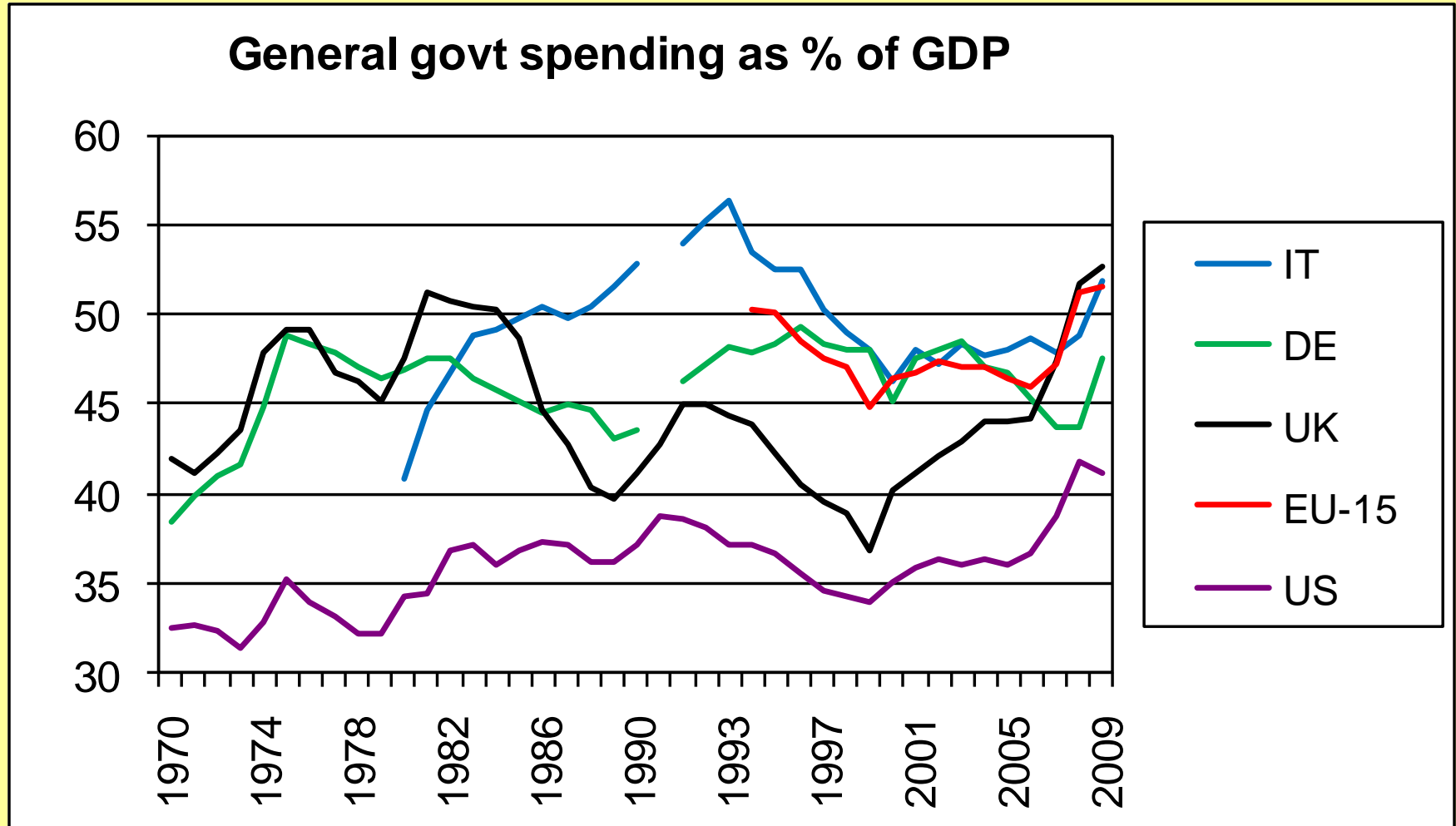


# Government spending as % of GDP, USA, 1903-2010



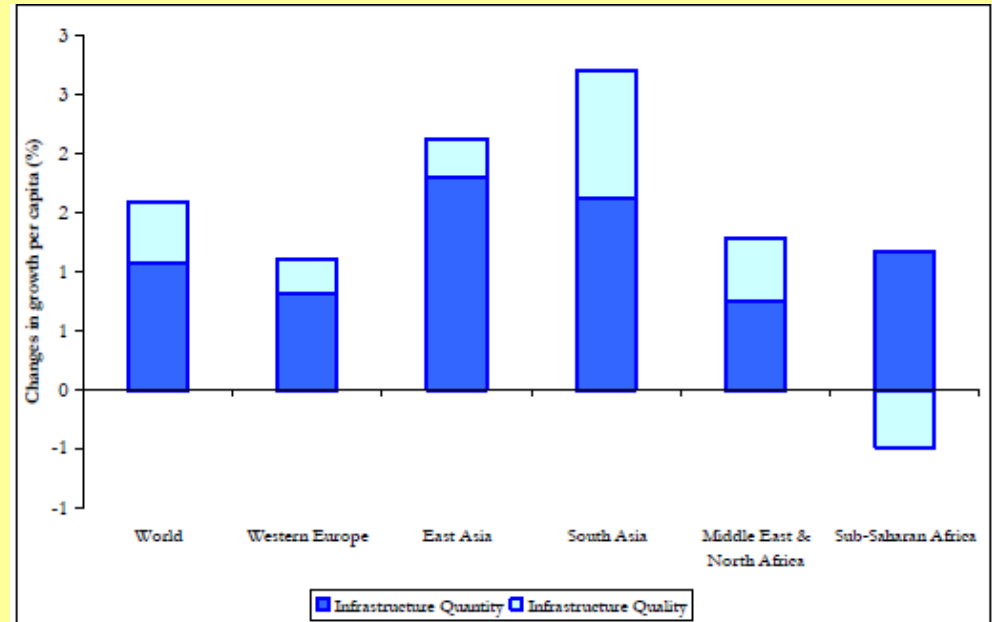
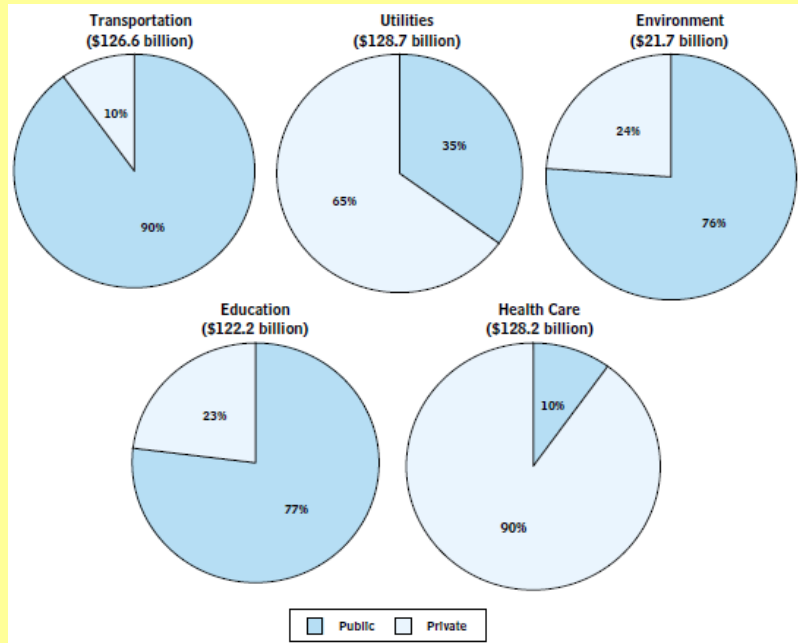
- [www.usgovernmentspending.com/](http://www.usgovernmentspending.com/)

# Government spending as % of GDP





# Infrastructure



## Public and private capital spending on infrastructure USA 2007

- Public finance central to infrastructure investment - road, rail, electricity, telecoms etc
- New demands for public investment
  - Broadband and fibre-optic cable
  - Renewable energy vs. climate change > public spending +1.5% GDP

## Infrastructure investment and growth 1991-2005 Calderon and Servén 2008

# Affordable and fair taxation



“our tax collectors are like honey bees, collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit”

Pranab Mukherjee India's finance minister, budget speech, July 2009

# Re-municipalisation across Europe

Sector	Process	Countries	Factors
Water	Municipalisation of services	France, Hungary	Private failure, cost, control, contract expiry
Electricity	New stadtwerke, purchase of private companies,	Germany	Private failure, cost, control, contract expiry
Public transport	Municipalisation of contracts and concessions	UK, France	Cost, private failure, public objectives, control
Waste management	Contracts brought inhouse, Inter-municipal incinerators	Germany, UK, France, etc	Cost, control, contract expiry
Cleaning	Contracts brought inhouse	UK, Finland	Cost, employment, contract expiry
Housing	Contracts brought inhouse	UK, Germany	Cost, effectiveness

Source: EPSU conference May 2012 <http://www.epsu.org/a/8357>



# Munich: home of BMW - and remunicipalisation

DieterReiter : Welcome address, Munich Economic Summit May 2011. <http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf>

- In an alarming number of cases, the results of privatization were highly problematic and do not seem to indicate that privatization can be seen as a silver bullet....After years of privatizing formerly municipal services, the results are sobering.
- Energy supply was one of the key sectors affected by privatization of formerly public enterprises. Today, energy supply is characterized by oligopolies of private energy suppliers. There is practically no competition on price. The transition to renewable energies is made rather reluctantly... By 2025, our utility company aims to produce so much green energy, that the entire demand of the city can be met. That requires enormous investments around 9 billion euros by 2025 and can only be successful if the long-term goal is sustainable economic success rather than short-term profit maximization ....
- In the history of privatization of local public transport, more often than not, the services provided were reduced dramatically and the prices saw steep increases....
- The financial crisis also quite drastically revealed another key function of public enterprises: public enterprises can help to stabilize our economic and financial systems.... Our savings banks took over important parts of the credit market which could no longer be maintained by the beleaguered private banks. We would be far worse off today if the countless advocates of privatizing our savings banks had succeeded in the past and if, as a consequence, savings banks had also gambled away their customers money on international financial markets.
- German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past. There are many examples of newly established or revived municipal utility companies, especially for energy and water supply, or of the repurchase of municipal transport services. Even private housing stock formerly owned by the city is sometimes bought back.

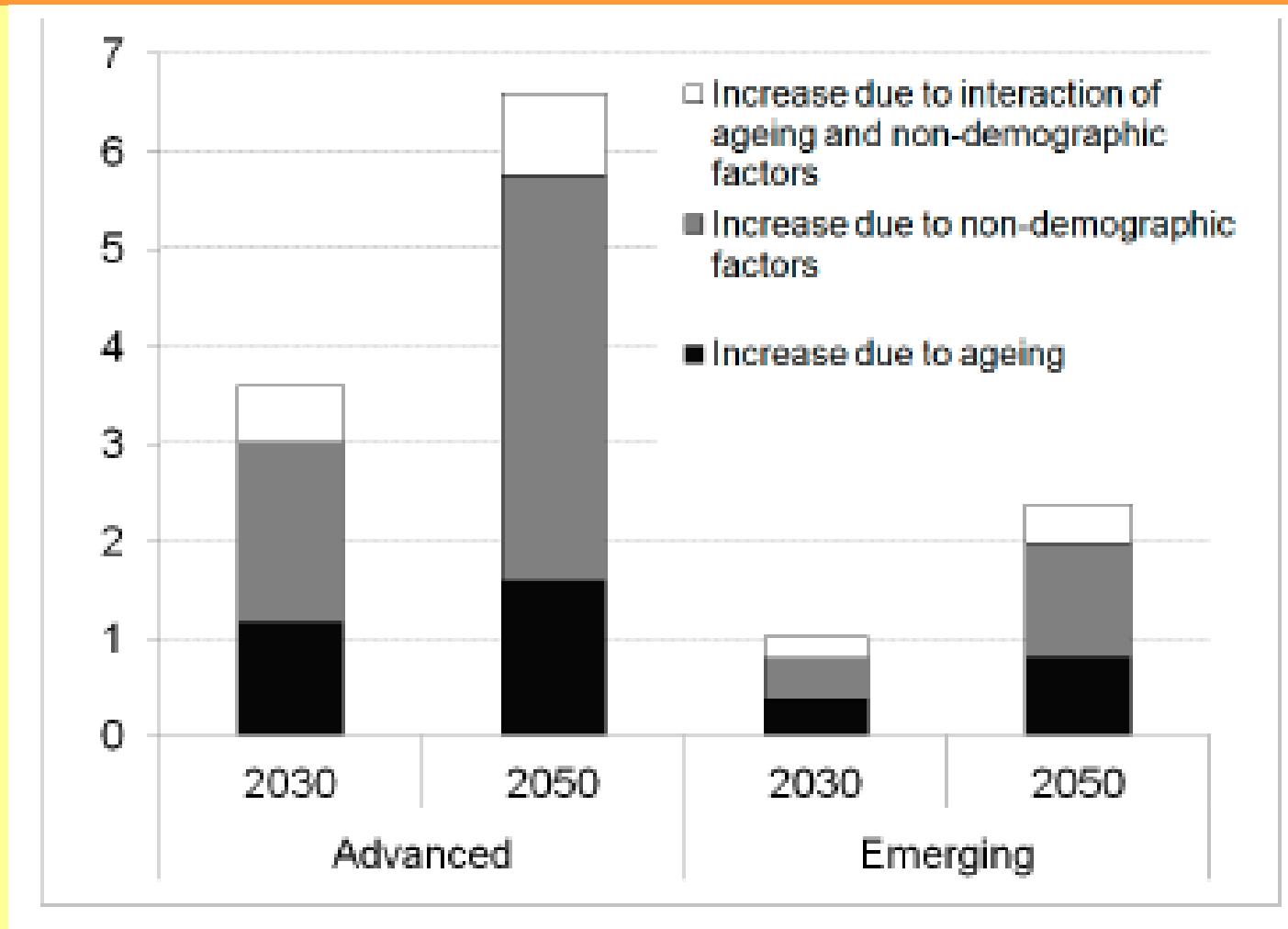
Green electric cars: “BMW, Siemens, and the Munich [municipal] power utility are cooperating in Munich: Siemens is supplying the charging infrastructure, the utility is feeding in green power, and the BMW Group is providing 40 MINI E vehicles.”

<http://www.siemens.com/sustainability/en/core-topics/product-responsibility/references/electric-cars-with-ecopower.htm>

# Increased future needs for public spending

Service	Annual rise in public spending	
Health and social care	+4.5% GDP	Public? or inefficient and inequitable
Pensions		Secure? or linked to returns on investment?
Climate change	+1.5% GDP	Necessary
Fibre-optic etc	?	
Developing countries	?	Necessary: schools, health, infrastructure

# Forecast increase in public health spending (IMF)



“the top priority is to contain the high rates of spending growth that have led to marked increases in spending-to-GDP ratios over the past 50 years”  
(IMF 2010)

# Public services worth most to poorest

	Q1	Q2	Q3	Q4	Q5	Total
Education	30.6%	18.5%	14.2%	10.4%	5.6%	11.8%
Health care	34.9%	22.2%	15.8%	11.8%	7.2%	13.9%
Social housing	1.8%	0.7%	0.4%	0.2%	0.1%	0.4%
ECEC	4.5%	3.0%	2.4%	1.5%	0.8%	1.8%
Elderly care	4.0%	1.9%	0.7%	0.4%	0.2%	0.9%
<b>Total</b>	<b>75.8%</b>	<b>46.4%</b>	<b>33.5%</b>	<b>24.3%</b>	<b>13.7%</b>	<b>28.8%</b>

Source: Verbist et al p.35 <http://dx.doi.org/10.1787/5k9h363c5szq-en>

# Half the jobs in the world

Jobs supported by public spending and public services	<b>Total</b>	<b>Of which</b>	
		Public employees	Private sector employees
<b>Percentage of all jobs in the world</b>	<b>50</b>	<b>17</b>	<b>33</b>

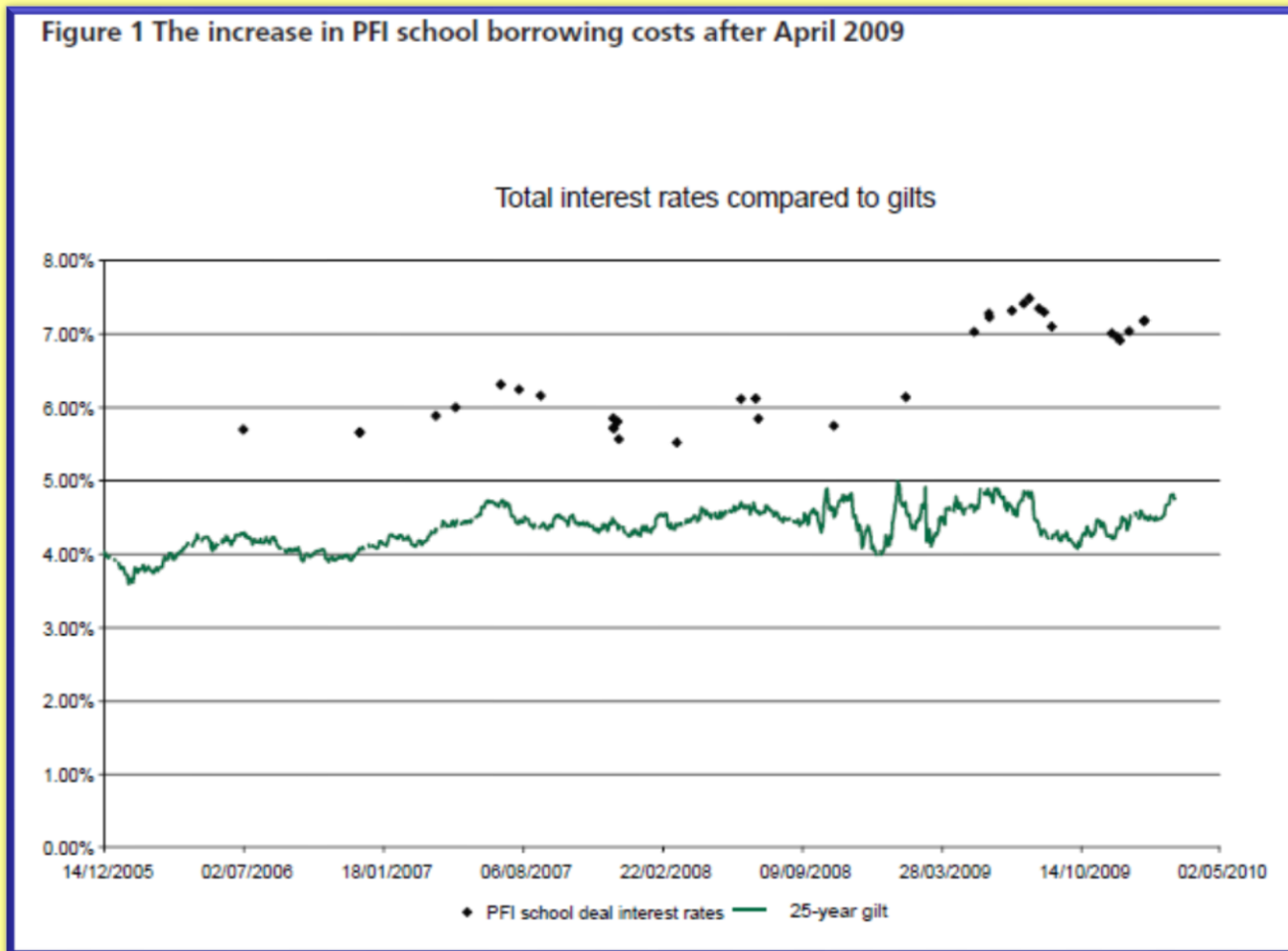


## Economic factors: “Value for money” and public vs private sector

- Cost of capital :always higher for private sector
- Construction ‘on time’: is costly ‘turnkey’ contract, for bankers’ benefit
- No efficiency savings
- Real transaction costs and uncertainty

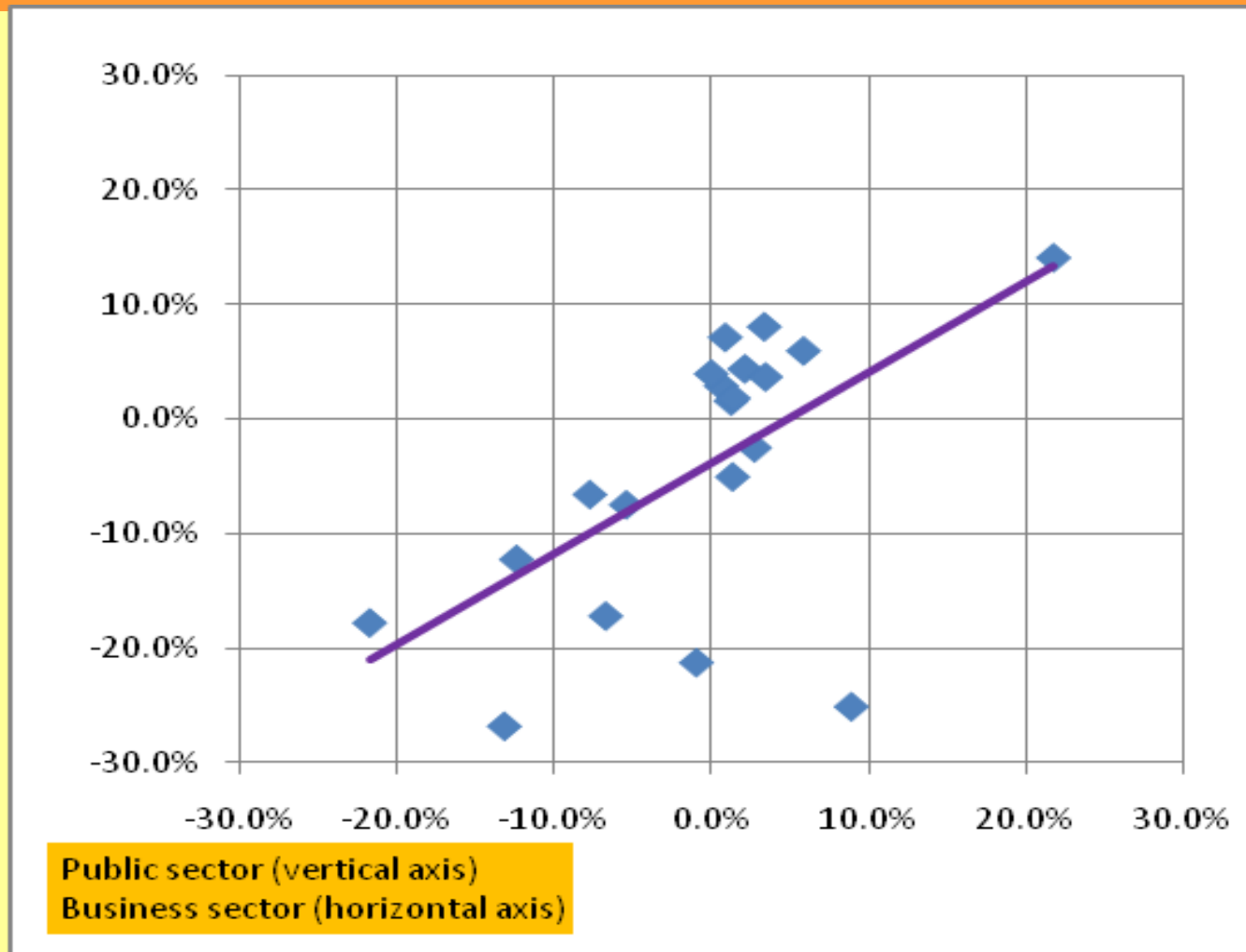
	Factor	Comparing	Evidence indicates
1	Cost of capital	Debt interest + dividends	Private more expensive
2	Cost of construction	costs and completion	Private more expensive/neutral
3	Cost of operation	efficiency	Neutral
4	Transaction costs	Procurement/monitoring vs managing	Outsourcing more expensive
5	Uncertainty	Incomplete contracts, contingent liabilities, impact on service	Outsourcing riskier

# PPPs pay higher interest rates: UK data



Govt bonds pay 4.5%, PPPs 6%, post-crisis 7% Source: PAC 2010  
Cf Build America Bonds as successful public finance alternative

## Public sector pay rises = private sector - except in IMF countries



**EU: public and private change in real wages during recession are closely linked, except for 4 countries with IMF programmes: Greece, Latvia, Hungary and Romania (Eurostat, 2008Q1-2011Q1, for 20 EU countries)**

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- Cho, Hsun-Jung and Fan, Chih-Ku. 2007 Evaluating the Performance of Privatization on Regional Transit Services: Case Study J. Urban Plng. and Devel., Volume 133, Issue 2, pp. 119-127 (June 2007)
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- Estache A. and Gomez-Lobo A. 2005. Limits to Competition in Urban Bus Services in Developing Countries Transport Reviews, Vol. 25, No. 2, 139–158, March 2005
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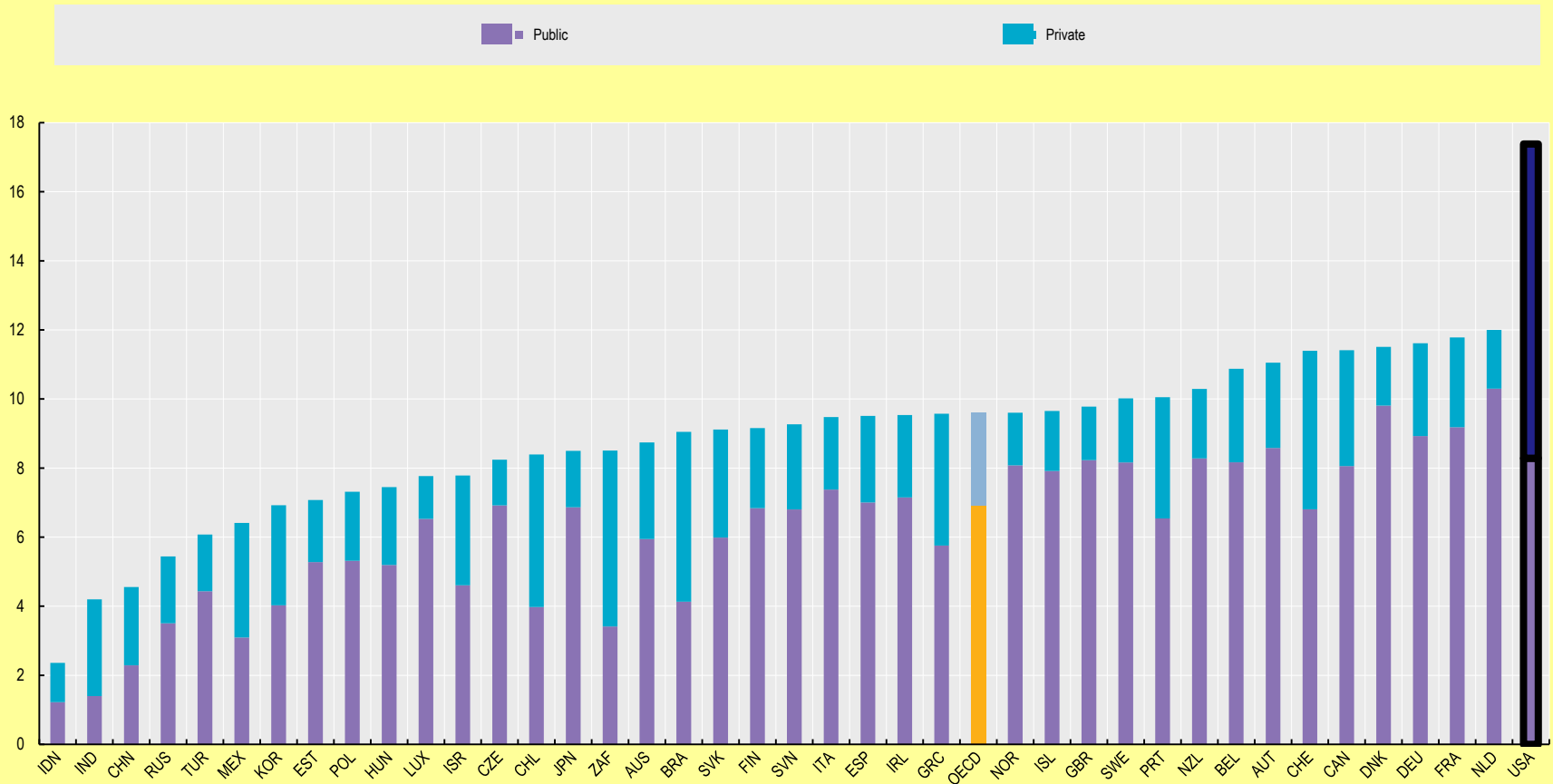
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# USA has high public AND private healthcare spending



- Private spending on health in USA is over 9% of GDP: only Brazil (4.9%) and S Africa (5.1%) reach even half that level
- But public spending on health in USA is 8.3% - just above UK (8.2%)

# But extra private spending seems useless.....

	Public spending on healthcare (% of GDP)	Private spending on healthcare (% of GDP)	Life expectancy at birth (2010)	Infant mortality rate (2011)	GNI per capita US\$(2011)
<b>USA</b>	8.29	9.10	78.2	6.4	48450
<b>Belgium</b>	8.17	2.71	79.9	3.5	46160
<b><i>Cuba</i></b>	9.72	0.91	79.0	4.5	5460 (2008)

Source: OECD, World Bank

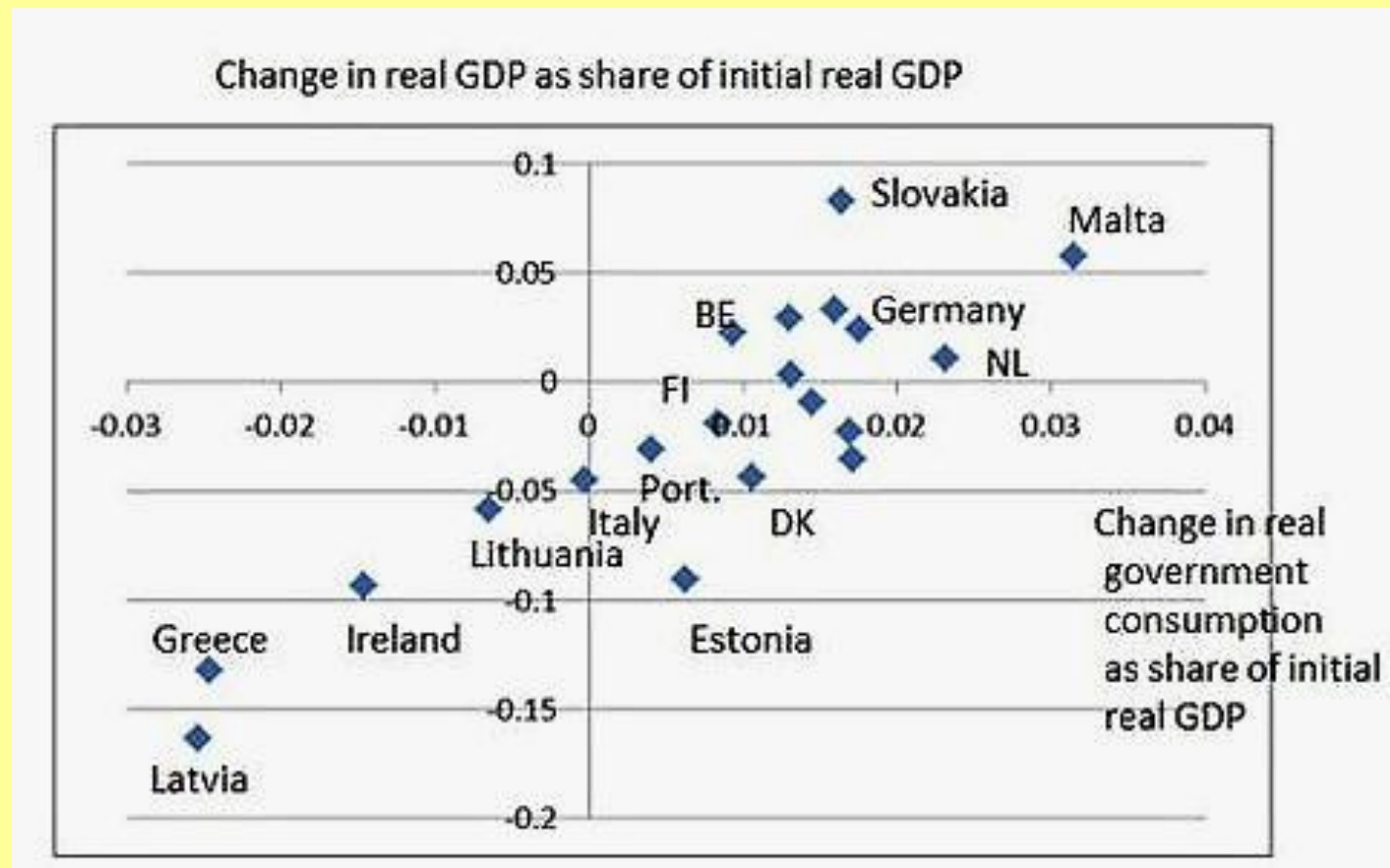


# Tacke, Tilman and Waldmann 2011

- “an increase in public funds is both significantly correlated with a lower mortality and significantly more efficient in reducing mortality than private health care expenditure”
- private expenditure in general was consistently linked to worse (higher) infant mortality
- a startling calculation: without altering total healthcare spending, replacing all private spending by public spending could avoid nearly 5 million child deaths per year.
- Switching from public to private spending - as encouraged by the World Bank and IMF - would have the opposite effect.

Tacke, Tilman, and Robert Waldmann. 2011. ‘The Relative Efficiency of Public and Private Health Care’. CEIS Tor Vergata RESEARCH PAPER SERIES Vol. 9, Issue 8, No. 202 - July 2011 SSRN eLibrary (July 5)

# Austerity: bigger cuts = worse growth



- Austerity - Blunder of Blunders 23/03/2012 By Paul Krugman  
[http://www.social-europe.eu/2012/03/austerity-blunder-of-blunders/?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed%3A+social-europe%2FwmyH+%28Social+Europe+Journal%29](http://www.social-europe.eu/2012/03/austerity-blunder-of-blunders/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+social-europe%2FwmyH+%28Social+Europe+Journal%29)

# IMF research shows deregulation damages economy

- “our findings convincingly reveal that those features that were meant to strengthen supervision and, through it, financial and economic resilience—supervisory unification and better governance—have not really met those objectives.
- “Across our regressions, both features are associated with weaker resilience. We also notice that the countries with the best ratings in terms of public sector regulatory framework, as well as those countries with the most far reaching financial deregulation were hit the hardest economically.
- “Finally, the degree of involvement of the central bank in supervision did not seem to have had any significant impact on resilience.”
  - [from: The Economic Crisis: Did Financial Supervision Matter? Donato Masciandaro, Rosaria Vega Pansini, Marc Quinty IMF WP/11/261 Nov 2011  
<http://www.imf.org/external/pubs/ft/wp/2011/wp11261.pdf>

# Unsustainable deregulation: IMF ‘good’ governance is bad for economy

- IMF study of 102 countries found that:
- countries which scored well on the quality of the public sector regulation...as measured by the Worldwide Governance Index—quality of regulation did worse economically in the recession than others.
- the same results with banking sector liberalisation: “the countries that liberalized their financial systems the most, were most affected by the banking and economic crisis.”
- It concluded that:
- “the countries with the best ratings in terms of public sector regulatory framework, as well as those countries with the most far reaching financial deregulation, were hit the hardest economically”
- The results confirm previous studies:
  - by ECB economists who found that countries did better if they scored badly on ‘market friendliness’ - especially in the financial sector.
  - in Latin America in the 1980s, which found that financial liberalisation damages growth.

UKRAINE SCORES ON World Bank Governance Indicators	Year	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
Voice and Accountability	2010	44.1	-0.15
	2005	39.4	-0.23
	2000	32.7	-0.5
Political Stability	2010	42	-0.1
	2005	38.5	-0.27
	2000	29.3	-0.49
Government Effectiveness	2010	24.9	-0.77
	2005	33.2	-0.59
	2000	23.4	-0.76
Regulatory Quality	2010	32.5	-0.55
	2005	33.8	-0.5
	2000	28.9	-0.53
Rule of Law	2010	25.1	-0.8
	2005	26.3	-0.81
	2000	14.4	-1.13
Control of Corruption	2010	17.2	-0.97
	2005	29.8	-0.69
	2000	7.8	-1.09

Sources: IMF WP/11/261 The Economic Crisis: Did Financial Supervision Matter? November 2011

<http://www.imf.org/external/pubs/ft/wp/2011/wp11261.pdf>; Worldwide Governance Indicators Ukraine (March 2012)

[http://info.worldbank.org/governance/wgi/sc\\_chart.asp#](http://info.worldbank.org/governance/wgi/sc_chart.asp#)