Continuity and change: public service reform from Thatcher to the Coalition

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Much airtime and newsprint has been wasted on how the Coalition Government has been undertaking fundamental reforms in public services. Andrew Lansley's changes to the National Health Service have been described as the biggest shake-up of the NHS since its inception; Michael Gove's education reforms as nothing less than a revolution.

In fact, most of these changes are evolutionary not revolutionary. They are the legacy of a real revolution in public services, one that took place under a previous Conservative government: that of Margaret Thatcher and John Major. It was that government which broke up the old state monopoly on public provision; that tried to shift power from public service professionals to service users by introducing user choice and provider competition: in short, that created the so-called quasi-market in public services.

More specifically, it was Thatcher's Education Secretary, Kenneth Baker, who introduced parental choice of schools, set up a virtual voucher system where the money followed the choice, allowed some schools to opt out of local authority control, and gave budgetary independence to the remainder. It was her Health Secretary, Kenneth Clarke (yes, the same Clarke, now Justice Secretary) who dismantled the NHS monolith, split the purchaser from the provider, gave hospitals their independence and their own budgets, and introduced prices for patient treatment so that hospitals could only get resources by attracting patients. He even pioneered the idea of GPs holding the budget for their patients' secondary care: what was then called fund-holding, and is now GP commissioning.

These were enormous changes – of a much greater significance than anything being proposed now. Much of the old welfare state, whereby monopoly providers of health care and education were given resources and basically allowed to spend them as they liked, was swept away. Instead, power was to be shifted to parents and patients and the providers were to become subject to market disciplines.

This in turn reflected a growing mistrust by the Thatcher Government of public sector professionals, including doctors, nurses and teachers. Instead of being assumed to be altruistic “knights” only concerned with the welfare of their patients or pupils, they were now recognised to be at least partly self-interested: “knaves”, in David Hume's terminology, with a strong interest in their own livelihoods and in the survival of their institutions. In the old-style welfare monopolies, the pursuit of self-interest led to hospitals and schools being organised more in the interests of providers than users; hence the shift to quasi-markets where, in line with Adam Smith's dictum concerning the “invisible hand”, the forces of competition could be harnessed to promote the public good.

After some backsliding when Labour came into power in 1997, many of these ideas were taken up by Tony Blair. His government encouraged parental choice in education, and introduced academies independent of local education authorities. In the NHS, the Government developed patient choice, created independent foundation trusts, set a fixed price for medical treatments, and brought in private providers to compete with for NHS patients.

After the stagnation of the Brown years, and, as evidence began to emerge that these quasi-markets were working, the Coalition decided to develop them further. So Gove's push for academies and free schools and Lansley's NHS reforms were mostly more of the same; greater opportunities for competition, a regulated market, GP commissioning. All of this reflects exactly the same philosophy: one where competitive-type incentives replace those implicit in bureaucratic monopolies.

This is not to deny the presence of radical elements in the Coalition's programme of public service reform. The pupil premium in education (although the idea for that also stems from the 1980s); David Willetts's introduction of a quasi-market in higher education; and the development of employee-owned mutuals to deliver public services (where I declare an interest as Chair of the Cabinet Office Mutuals Task Force); none of these have any real parallel under Thatcher/Major or Blair/Brown. And the elements of the reforms that encourage liberalism and community provision in the Public Services White Paper are some way from either Thatcher's or Blair's centralism. But, again, it is worth noting that these are largely about changing the way public services are delivered, not about the underlying philosophy and rationale (or even the funding) of public services.

There are even parallels with both the rhetoric and reality of the Coalition's cuts in public spending with the “cuts” in the Thatcher period. An economist, Meghnad Desai, has pointed out, the current cuts are not absolute reductions in that spending. In fact, total public spending is to be frozen at current levels in real terms for five years: if this is achieved, and if growth resumes, this will lead to a fall in public spending's share of GDP – but not a fall in absolute terms.

In fact, I doubt whether, when the numbers are finally tallied, they will show even that has been achieved. Cuts themselves paradoxically involve spending commitments, including the costs of redundancies, of compensation for broken contracts and so on. More importantly, the usual pressures to keep spending up...
show no sign of going away: in particular, the growth in the numbers of frail elderly, and the continued developments of expensive drugs and medical technologies, will continue to put pressure on health and social care. And a new factor will put pressure on education: there is a rise in the birth rate, which in a few years’ time will result in increased demands for nursery and primary school provision.

Something similar to this happened under Thatcher and Major. Then there was, as now, much sound and fury about the rolling back of the public sector and the welfare state. But, during their government, total welfare spending (education, NHS, housing, social services and social security) increased in real terms on average by 2.5 per cent a year. There were significant changes within that total, with the expenditure on the health service, social security and social services all increasing, largely at the expense of housing (the only service to show a fall in real terms over the period). But welfare spending as a whole rose substantially, even as a proportion of GDP – from 23 per cent in 1979-80 to 26 per cent in 1995-6.

All this is not to deny the current round of expenditure control will have an impact. Some specific services will be cut, as indeed they were during the Thatcher years – and there will be losers, as there were then too. However, the overall picture will be much less bleak than is conventionally painted.

As I said at the time, during the 1970s and 1980s the welfare state survived an economic hurricane and an ideological blizzard. Indeed, partly as a result of the radical market-oriented reforms to service delivery begun by Thatcher and Major, public services in that period emerged in many ways revived and strengthened. I venture to predict that much the same will happen during this Government’s life-time, provided it holds its nerve and does not give way to the siren calls of providers asking for a return of their monopolies – as sadly it has shown signs of doing with respect to the NHS. The Big Society will complement, not displace, the Big State.