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Chapter 10

The Covert Reasons For Privatisation

Given the inadequacies of market theory, the weakness of the arguments for privatisation, and the market's failure to deliver the claimed benefits (except deceptively), one wonders why the pressures for privatisation are so strong. Clearly, personal experiences with the inadequacies of public provision - which result in the feeling that "There must be a better way" - have something to do with it, but they hardly seem sufficient.

There are other sets of pressures. The first come from those who have direct or indirect vested interests in privatisation. The second group is more obscure. It has to do with sociological processes which maintain our society in its present form and on its present course.

These sets of pressures interact: Those who will benefit most significantly from privatisation manipulate both public opinion, and those sociological processes which are vital to the perpetuation of the kind of society we live in and come to be supported by the evolution of myths which guide public opinion and discussion.

In this chapter we will discuss who these groups with a particular interest in privatisation might be and the nature and operation of these more obscure, sociological processes.

1) The Role of the Financial Institutions in Generating Pressure for Privatisation.

The IMF and the banks have a very strong *financial* incentive to create a smokescreen both to legitimise their existence and to create investment opportunities. As we have seen, the banks mainly earn interest by lending purely notional - self-created - "money". If they are to get a return on this money they must lend it to people who have investment opportunities. With reduced opportunities to lend to governments to maintain the machinery of war, newly privatised companies provide an alternative - for both individual capitalists and for pension funds. To legitimise this operation, the banks have a strong interest in perpetuating a mythology about the "efficiency" of privatised operations.

But the privatisation process yields, from the banks' point of view, a perhaps much more important benefit. The sale of shares in newly privatised companies to both middle and working class investors yields a return on the money invested. Although this return is, in reality, very much less than the returns reaped by the banks by lending purely fictional

money, the diffusion of the ownership of shares induces all these people to endorse policies which are, in actuality, much more heavily in the bankers' interest^{10.1}.

Government privatisation of pensions contributes to this process in two vitally important ways. In the first place, it creates investment opportunities for banks. In the second place, these pension companies require a supply of "privately owned" companies in which to invest the money they collect now in order to generate the future profits out of which they are supposed to pay pensions. They then make the paper profits required to attract the investment income they need to pay current pensions by selling these assets to each other at higher and higher prices. It would therefore seem that privatised pension schemes needed for these "investment opportunities" may be one of the most potent forces driving the demand for further privatisation.

2) Privatisation and Government Control.

From the government's point of view, privatisation within the framework of what is in reality a managed economy has one enormous advantage: It is much easier to close organisations down and shift activities around for reasons of short-term political expediency than it would be if those activities were being carried out by the public service. Public servants are so much more powerful and more inclined to take a long-term view of the public interest.

Governments can, ironically, also control directors of privatised research institutes and television companies more easily than they can control permanent civil servants. While civil servants can be silenced, their knowledge of reality continues to grow and they pose an ever-increasing threat. In contrast, "independent" research institutes and television companies can simply be closed down. In a privatised system, all any government who wishes to get rid of a disruptive Institute has to do is claim that the organisation has ceased to be "cost-effective", "viable", or "competitive" or that its services are no longer required.

There is every reason to believe that governments do not *really* want self-managing market economies: They want the kind of society *they* can manage most easily - and "privatisation" provides a convenient smokescreen which enables them to do just that. For example, governments do not even have to take responsibility for seeing that research programmes make sense: Nonsensical and badly executed programmes can simply be blamed on the incompetence of the "contractors" - who can then be changed without taking steps to ensure that the next one is any more satisfactory. The programme can be chopped and changed depending on political whims, thereby ensuring that nothing comes of it: Everything can be blamed on the incompetence of previous administrations and research contractors. Responsibility can be evaded whilst control is maintained. The possibility of anyone else accumulating significant information is minimised.

3) Privatisation and the Maintenance of the Social Order.

In earlier chapters we have seen that privatisation tends to operate in such a way as to create differentials which induce people to participate in the system whether they like it or not. It also strengthens the tendency for senior positions in society to be filled by those least able and willing to challenge the existing system. Both processes perpetuate the social order. A number of other ways in privatisation does this will now be reviewed.

- i. Privatisation increases the gap between “good” and “poor” provision. This creates a stronger incentive for people to invest time and money in insurance schemes and educational activities. The increased demand for that form of “education” (certificates) which buys entry to jobs makes it easier to insist that both teachers and pupils be personally “accountable” only for very limited forms of competitive “success”. This strengthens the illusion that those who do not succeed either lack “the abilities needed to succeed in modern society” or have failed to make use of their abilities. These perceptions reinforce and perpetuate a narrowly-based, competitive system which actually ignores - even denies - people’s most important talents and needs and helps to ensure that only people with limited self-interested preoccupations are advanced into senior positions. This tidies up the whole system and legitimises the differentials within it.
- ii. It leads to a reduction in the number of positions available to those who are concerned to act in the public interest. Under privatisation, promotion is increasingly restricted to those who are either: (a) more willing and anxious to do whatever other people want them to do regardless of its social and long-term consequences, (b) unwilling or unable to question and analyse the workings of our present system and seek to change it, and (c) less concerned with the public interest. Positional influence is in this way increasingly restricted to the sort of person who will advance the vacuous claims of its manufacturers and service providers - including their claim to having produced these goods and services “efficiently”.
- iii. It creates conditions in which people are forced to say, and to pretend to believe, things they know to be untrue, to engage in work which they know to be socially destructive whilst proclaiming that it is beneficial, to accept without challenge - as normal - a world permeated by false claims. In such a climate - and in conditions of an accepted need for personal duplicity - it is not only unlikely that many people will have a strong concern with truth and to act with personal integrity, anyone committed to such values is also unlikely to make much progress.
- iv. It makes it easier for those charged with the management of society - i.e. public servants and politicians - to avoid blame for mis-management of society and instead to lay the blame for social ills at someone else’s door. Instead of having to fulfil politicians’ and bureaucrats’ responsibility to manage society in the public interest, myths to the effect that there are opportunities the poor could have taken if only they had worked harder and made more intelligent choices become more compelling so that blame is diverted to the victims of the system. The myth that business failure is due primarily to a lack of management competence is also strengthened.
- v. It creates the endless frenetic activity required to survive in a competitive system. This eliminates the time that would be needed to study the operation of the system as a whole. This tendency to eliminate critical thought is supported by universalising “higher education” whilst, at the same time, narrowing its manifest objectives and making success depend more and more on performance on multiple-choice tests which force people to behave as if they believed false knowledge and which offer no credit for original thought. The tendency is further supported by requiring lecturers, as a condition of tenure, to devote their time to producing publications which spuriously claim to be saying something new and to generating endless research proposals to compete for trivial funds, then rigidly censoring ideas expressed in the reports arising from those studies. It is strengthened by privatising the media in a way which has the effect of eliminating serious investigative journalism.
- vi. It creates an international ownership network which is very much harder for any national government to change, disband, or replace than the network of national companies which were nationalised in the late 1940s. This ownership network is not

just international. It also consists largely of pension and insurance companies. The future of the most powerful members of the middle-classes in all societies appears to depend on the success of these companies. It would therefore be very much harder to replace the current network of private ownerships than its predecessor by a genuinely socialised system providing worthwhile security and employment.

- vii. It creates a spiralling resistance to paying for public provision. To reduce taxes, we have encouraged those who can to do so to pay for the education of their children, their pensions, their health care, and nursing in their old age. This has led them to feel less inclined to pay taxes: Why should they pay for the provision of such things for the poor? Because tax revenues have fallen, we have let our cities and public services deteriorate. Those services that remain cost more and are less attractive, satisfactory, and efficient. This creates still greater resistance to paying for them and stimulates further attempts to purchase them privately. The rich get *proportionately* less from their taxes because they have to pay more to look after the growing numbers of unemployed. They naturally become still more reluctant to pay.

4) *Public Service Pressure for Privatisation Manufactures Work.*

i) *Market processes and the manufacture of work.*

We have already suggested that privatisation of insurance manufactures work and creates differentials which form an added inducement to participation in the system. Many of the same observations can be made about education. Even without privatisation, the “educational” system creates jobs for teachers, administrators, researchers, publishers, librarians, editors, test agencies, tax-inspectors, and builders. It creates and legitimises apparent differences in the “ability” of individuals whose competence, in reality, differs only slightly and it obscures the most important differences in their talents. Its use of norm-referenced assessments in which apparent “ability” is always *in relation to others* and not in relation to any fixed or objective standard of performance operates in such a way as to require more people to spend more time in the system competing for entry to the same occupational positions. The effect of privatising schools and colleges is to exacerbate these tendencies. It creates even more jobs for programme designers, salespersons, administrators, glossy-brochure designers, building re-modellers, advertisers, advisors, counsellors, and quality-assurance personnel. It leads to more student and parental pressure for “success” on single-talent criteria. It reduces the possibility of concerted pressure from educators for broadening curricula and the basis of assessment. It reinforces acceptance of the single criterion of merit. It leads all to accept the need to work harder at a useless task in order to succeed in competition with others. The system teaches the myths of market economics more powerfully than ever before.

The actual *process* of privatisation of state-owned enterprises - and to a lesser extent education - itself creates a flood of jobs for bankers, accountants, advertisers, share-issue writers, tax-gatherers, computer manufacturers and programmers, assessors, and advisors. Of course this, like the actual assets transferred to governments’ current accounts, is a once-and-for-all “benefit” which ceases once the assets have been sold. But it could be quickly re-activated by putting the privatisation process into reverse, re-nationalising the organisations, re-acquiring their shares, or otherwise re-organising them.

The overall effects of the job-creation process have been dramatic. Schor^{10.2} has shown that Americans individually work harder and longer hours than they did in 1950 and derive fewer

benefits from doing so. Far more wives and children engage in paid work. The net result of all this extra work is a marginal increase in the quality of life for some, and a marked decrease in the quality of life of many^{10.3}. It now requires many more people to do anything than it used to: Far more insurance companies, tax collectors, accountants, food packagers and advertisers, and car salesmen need to be involved. Many more people are “caught up” in the “educational” system with far more people - administrators, advisors, secretaries, psychodiagnosticians, social workers, and counsellors - supporting each one of them. Much of this extra work has been manufactured through an unholy alliance between the public sector and the marketplace. Millions of jobs have been created in services offering benefits which do not - and often, by definition (e.g. because of the norm-referenced nature of the system), cannot - materialise.

Let us look next at food production. The average quality of our food has improved very little. The discrepancy between the haves and the have-nots has greatly increased^{10.4}. What there has been is an enormous increase in the number of centralised warehousemen and stock controllers, lorry drivers, distribution outlet stock controllers, shelf-fillers, and check-out personnel, in the hours spent driving to and from supermarkets, and the hours spent maintaining cars and highways^{10.5}. This increase in the amount of work involved has largely been made possible only by a vast increase in energy consumption and expenditure on highway construction and transportation, but it has been greatly facilitated by market mythology.

Although the process often looks efficient, this has often been achieved by making other people pay many of the costs: Small firms pay for the discounts manufacturers offer to large ones, the community at large pays for the roads used by supermarket trucks and private hauliers, the warehouses get advance-“factory” tax concessions and grants, the property is traded at ever increasing values by pension companies to maintain their apparent profitability so that people will pay them premiums, shelf-fillers and check-out personnel are underpaid and employed on terms which deprive them of benefits. Eventually, as the pattern of shopping at supermarkets is established and takes over, there will be no small outlets to contribute to the costs and supermarket prices will increase disproportionately. But the competition will no longer exist.

What we see, then, is that mythology about the efficiency of the marketplace has facilitated a plunge into inefficiency - and that the system is maintained and advanced by a complex network of feedback loops which result in costs being paid by persons quite other than the purchaser and debts being accumulated for future generations to settle.

ii) Public service contributions to the manufacture of work through market processes.

We have argued that the market mechanism, while ostensibly being concerned with “efficiency”, actually provides the *least* efficient way of doing anything, functioning primarily to *create* work. We also know that public servants also create much useless work, especially paperwork. What we are about to see is that the public service, by seizing on terms like “privatisation”, “efficiency”, “competitiveness”, and “lame ducks” creates still more inefficient organisations which will create jobs but will also prevent those concerned thinking about the operation of society or taking action in relation to it.

The public service emphasises that solutions are needed quickly. This creates short-time horizons which prevent anyone doing anything except shift paper. It claims there is less

money available and asserts that it is therefore necessary to ensure that what money there is is used more efficiently: Shorter projects and more submissions are required. It asserts that to get better proposals one needs more competition and peer review. This not only creates still more work, it also ensures that researchers attack each other, do not have time to think about how the system works, and have no time or inclination to get together to try to influence the system. They have less time to think about the theoretical or social context of what they are doing or about the arrangements needed to do what they should be doing more effectively. Nobody has the time to think about these more general issues, whether scientific or organisational, because they are too busy fighting their own corner.

Then the public servants attack the “feather-bedding” of academe, attacking security of tenure with a view to “motivating” them, and making their continued livelihoods still more dependent on competing in the grant-getting and publication race. The result is that academics generate still more publications which, because there is little time to think or research, say less and less.

In the name of avoiding duplication of effort in publicly funded projects, the public service insists that everyone concerned must review - and preferably go and see - what everyone else is doing before they do anything themselves. This creates lots of conferences involving lots of travel. This creates a demand for airlines and hotels.

Finally, the public service makes sure that those concerned have no job security so that they have to spend most of their time applying for jobs and raising money. This creates employment for still more people advertising the jobs and checking the applications.

Other ploys for job creation include a shift to Value Added Taxes on the grounds that such a system penalises “lame ducks” more than those effectively adding value. The introduction of such taxes means that millions of people will have to spend much of their time keeping accounts of everything and filling up forms to claim back the taxes they have paid! Still more public servants and accountants can be employed to assist in this process and check on whether those concerned have abided by the rules ... and endless lawyers can be employed handling disputes.

In the name of promoting an efficient economy more jobs can be created by making cars and parking available free of charge to “high-level” personnel and those (e.g. salesmen) who are presented as playing a key part in the economy. This arrangement encourages them to live further from work, clutters up the roads, and lengthens the time required to get to work for everyone. It lowers the standard of public transport, and makes sure that there is a demand for road improvement and more cars. This in turn confirms that, as everyone knows, public provision is bad and must be improved by increased competition and tendering. It is then necessary to check on whether the privatised transport companies are acting in the public interest by establishing more QUANGOs - monitoring boards and integrating committees. This creates more and more jobs. The road accidents create a demand for insurance, hospitals, litigation, and more road building and planning.

Then there is international competitiveness and efficiency to be considered: the external threat or enemy. More scientists and engineers (to be produced by the educational system) are required to develop better defences more quickly. By making sure that weapons are outdated before they are commissioned and then producing stockpiles of them, endless work can be created.

Creation of lots of useless work under the banner of “efficiency” depends on a cheap energy policy. Given cheap energy, everyone can spend all day every day rushing around in their cars or transporting almost identical goods in opposite directions. This creates jobs for car manufacturers, road builders, gas station personnel, and car mechanics. By introducing toll roads - in the name of efficiency and making the user pay - still more jobs can be created. By ensuring that the roads are not properly constructed (“because there is no money”) more work can be created for more road-repairers, car manufacturers, and mechanics. Inexpensive transportation creates jobs for planners and for those who build advance warehouse accommodation, out of town shopping arcades, and suburban housing.

Cheap oil also makes for jobs in the “high tech” chemicals and plastics industry. It leads to - largely redundant - plastic packaging. It eliminates “dirty” industries based on mining coal and steel. What happens to its own by-products of manufacture is carefully concealed.

The lesson to be drawn out of these examples is that public servants not only manage the spending of two thirds of GNP, they can also use concepts of efficiency and others derived from market mythology - such as privatisation and competitive tendering - to create endless useless work and, in the process, prevent the public reflecting on the workings of the system in which they are trapped.

Summary

In the previous chapter we saw that the term privatisation has many overlapping meanings, and that, as a result, discussion of the topic is permeated by endless confusion. Some of the most widely touted benefits of privatisation were that it offered efficiency, responsiveness, and innovation. Yet none of these claims stood up to logical or empirical examination. The whole notion of a self-regulating marketplace as a means whereby inarticulate, widely dispersed, and disjunctive bits of information could be collated and enacted turned out to be unfounded.

In this chapter we have suggested something else: The covert, or concealed, functions of privatisation are perhaps even more important. Privatisation *creates* work, manufactures differentials which compel participation in the system, promotes those who are least willing and able to study how society works and take steps to influence it, facilitates the process whereby the leaders and managers of society can abdicate responsibility for their lack of managerial competence and lay the blame at the door of those least able to anything about it, enables the country to live off its capital by selling assets, enables the banks to own still more of the globe, and gives the *government* (as distinct from the client) more control than it ever had over what happens in society.

Notes

- 10.1 One implication of this is that, if Turnbull (1993) is to succeed in his aim of enhancing freedom by diffusing ownership, it will be necessary to introduce procedures to monitor what is happening.
- 10.2 Schor, 1992
- 10.3 In reality, it would be necessary to make separate calculations for: paid work as part of the official workforce, paid, black-economy work, voluntary, formal work, unpaid work around the house, including DIY, by all members of the family, before one could come to valid conclusions about the nature and effects of changes over time.
- 10.4 Raven, H. et al., 1995
- 10.5 Raven, H. et al., 1995