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Neoliberalism, consultants and the privatisation of public policy formulation: The case of Britain's rail industry

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ABSTRACT

This paper identifies the importance of private advisers, particularly consultants, in promoting neoliberal prescriptions in public policy formulation in the recent history of British Government. It examines a consultant-dominated attempt to reform British Rail in the 1980s and the fundamental contribution of advisers to the flawed fragmentation and subsequent privatisation of the rail industry. Concepts drawn from Latour's Sociology of Translation are adopted to examine the attempts by Conservative Governments and their private advisory allies to establish networks of support for privatisation. In each of the episodes along the path to privatisation the paper examines attempts to undermine opposition and gain acceptance of the proposed changes with the production of knowledge claims by consultants, that is Latour's process of purification, followed by the consequences for the rail industry. The paper uses critical financial analysis to contrast the knowledge claims made by consultants with the outcomes of rail privatisation, which include extensive, ongoing transfers from taxpayers to private companies. It concludes by highlighting the dangers ensuing from dogmatic and excessive neoliberal public policy formulation.

1. Introduction

One of the striking features of public policy over the past few decades has been the "emphatic turn towards neoliberalism", in countries such as Britain and the USA, and the restructuring of the public sector through the adoption of policies which have emphasised deregulation and privatisation (Harvey, 2007, pp. 2–3). For three decades after 1945 in liberal democratic states there had been a postwar consensus about the role and importance of the public sector, most notably Britain. Britain's Labour Governments of 1945–51 brought within the public sector important industries such as coal, steel, gas and electricity and rail and established the welfare state. In the face of market failures arising from inadequate investment by, for example, private rail companies, public enterprise was promoted as the way to develop an efficient industry which would benefit British capital and society.

The post-war consensus over the state's responsibility for providing core public services came under sustained attack from neoliberals in the 1970s as economies experienced rapid inflation simultaneously with faltering or negative economic growth, a phenomenon referred to as stagflation. Two important political beneficiaries of these economic changes were

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Margaret Thatcher in Britain and Ronald Reagan in the US, both of whom subscribed to the neoliberal New Right Agenda and highlighted the need to reduce state provision of services and state ownership in order to promote private ownership and encourage entrepreneurial freedom. Government was identified as "the problem" not "the solution" (Reagan, 1981, cited by McSweeney, 2009, p. 839). Margaret Thatcher concurred, but took a more overtly ideological approach than Ronald Reagan, even declaring Messianically that while "economics are the method", the "object is to change the soul" (Harvey, 2007, p. 23). Although their rhetoric varied, both leaders "took what had hitherto been minority political, ideological, and intellectual positions and made them mainstream" (Harvey, 2007, p. 62).

In Britain, the Conservative Governments of the 1980s led by Margaret Thatcher gradually developed a wide-ranging privatisation programme. Nationalised monopoly utilities such as gas, water and electricity were sold into private ownership through share flotations. Various motives lay behind the privatisation policy. Early debate was dominated by economic arguments about promoting efficiency through private ownership and market disciplines (Flemming & Mayer, 1997; Goodman & Loveman, 1991; Letza, Smallman, & Sun, 2004; Ogden, 1997; Shaoul, 1997). Later arguments focused on privatisation's role in reducing the role of government and raising revenue to reduce public sector borrowing (Letza et al., 2004; Ogden, 1997; Shaoul, 1997). Economic models and efficiency arguments were used to legitimise privatisations but, according to Shaoul (1997, p. 479), the ultimate result in each case was to benefit capitalism by "transferring wealth from the public at large to a relatively few individuals and corporate entities" in the private sector. Public policy in Britain and other advanced capitalist countries became dominated by the neoliberal agenda that has sought to fully privatise state owned enterprises, or to transfer activities to the private sector through various public-private partnerships (Edwards & Shaoul, 2003, p. 397). Following privatisation and public management reforms, a "third wave" of neoliberalisation reforms arose where members of central governments and public servants "increasingly think and behave like entrepreneurs" (Morales, Gendron, & Guénin-Paracini, 2014, p. 426).

This paper focuses on rail privatisation which has three unique features: it was the most complex privatisation undertaken by the Conservatives; it was followed by a continuing wealth transfer to the private sector through increased subsidy and, as a senior manager in the industry argued, it was unique in "that the nature of the new structure was not decided by the experts working within the industry but by people from outside such as consultants ..." (Green, cited in Wolmar, 2005, p. 58). Informed by concepts drawn from Latour's Sociology of Translation (Actor-Network Theory), the paper focuses on the knowledge claims provided by consultants and advisers in the formulation of public policy related to the reform and privatisation of Britain's rail industry. This paper responds to the need, highlighted by Christensen and Skaerbaek (2010, p. 543), for "further longitudinal study of cases" where consultancy outputs, often co-produced with the client, are influential in delivering controversial accounting changes in public sector organisations. It also answers Cooper and Robson's (2006, p. 434) call for studies of how "the translation of multiple issues to 'accounting issues' now gives enormous influence to accounting firms in ... economic and political life". Hence, the analysis focuses on a consultant-dominated attempt to reform Britain's nationalised rail industry in the 1980s, and the subsequent fundamental contribution of consultants to the fragmentation and privatisation of the rail industry in the 1990s. The analysis is longitudinal, examining the two key phases of public policy towards Britain's rail industry, and highlights the crucial influence of consultants in formulating and implementing public policy.

Consultants and advisers, drawn predominantly from the large accountancy firms, became key figures in the "neo-liberal alliance" that implemented privatisation (Martin, 1993, p. 6) through the transformation of contested values and claims. The advisory role of consultants, particularly accountants, was not simply "technical", for privatisation advice most importantly "becomes intertwined with economic and public policy decisions" (Arnold & Cooper, 1999, p. 133). Privatisation consultants play a strategic policy role advising, for example, on the need for neoliberal reforms to create an "enabling environment" for privatisation, and the necessity for pre-privatisation restructuring (Arnold & Cooper, 1999, p. 133). Economic and political factors were both important in the increasingly influential role gained by consultants. In the 1980s, there was a major change in the nature of accountancy work. Once the market for traditional audit services became full to capacity firms provided new services to increase revenue, the bulk of which came from providing consulting services (Suddaby, Cooper, & Greenwood, 2007, p. 340). In Britain, auditing fees now comprise under 40% of the revenue of the large accounting firms, compared to 70% in 1980 (Smith, 2013, p. 9).

Political factors were also important in creating a market for private sector advisory services (Arnold & Cooper, 1999, p. 135). Governments regarded private consultants as more likely to be sympathetic to the goal of privatisation than civil servants, thereby allowing governments to avoid the possibility that privatisation programmes might be undermined by opposition within state bureaucracies (Arnold & Cooper, 1999, p. 135). Further, the State was keen to use accounting's professional status to bring "an appearance of legitimacy and technical correctness" to privatisation, in order to reassure a public "concerned about the corruptive influences of market capitalism" (Arnold & Cooper, 1999, p. 134).

Although governments in Britain have increasingly resorted to using consultants there have been several highly critical reports on this process. Two National Audit Office (NAO) reports (2001, 2006) criticised the amounts spent on consultants, which averaged over £1 billion per year, and cast doubt on the extent to which value for money is obtained (see Appendix A for a list of all abbreviations used). The Select Committee on Public Accounts later concurred, arguing that government departments have a "poor understanding of what value they obtain" from consultants; they also criticised the dependency of some departments on consultants as "unacceptable" (Public Accounts Committee, 2010, paras. 1, 2, p. 5). The Transport Department, in particular, was criticised for spending £70 on consultants for every £100 spent on its own staff (Public Accounts Committee, 2010, para. 2, p. 5).