

Improving public services

Yesterday I gave my second lecture on the delivery of public services, following on from the All Souls lecture providing analysis of the different ways public service is delivered in the UK. Speaking at the IEA I reminded people of my main findings. Bread and circuses are as much public services as water and broadcasting, or health and education. The most common way of delivering public service in the UK is through numerous competing private sector for profit companies charging consumers the economic price of the good or service. The private sector plays a large role even in services that some think are truly public sector. The NHS for example has many GPs who are small business contractors, and uses medicines entirely supplied by for profit companies.

Speaking at the IEA I stressed the importance of choice or competition to achieving improvements in quality and reductions in cost. It was the introduction of competition into electricity supply that lowered prices following privatisation. It was competition which powered big improvements in service quality and technology in UK telecommunications. It is choice of free school places which helps progress in local schools and gives parents and pupils some leverage where a school starts to fail.

I wish to see competition introduced more widely in the water industry where it would encourage lower prices and better provision. I want to see more competition in the provision of rail assets and services. Newly united track and train companies could have to offer capacity to third parties wishing to run services on their lines subject to an independent arbitrator over terms, and more should be able to put in new capacity as a challenge to incumbents. Quality and efficiency are not enemies, but opposite sides of the same coin. Both are driven more effectively by competition.

Offering a service free is fundamental to the UK's NHS and to the provision of school places. We need to make sure, however, that the taxpaying user of the service is not powerless to require good performance or to change arrangements just because the state pays rather than the individual directly. There needs to be sufficient capacity to allow people to change school or doctor if they wish to do so.

In some other cases offering free public services can provide unfair competition to the private sector. The BBC website makes it difficult for competitors to charge for similar news and cultural output. Some Council leisure facilities prevent private sector competitors or damage private facilities already established.

Owning assets in the public sector has the advantage that the state has access to huge sums of capital at low interest rates. It has often in the past overspent on the assets and managed them badly, offsetting the gains from relatively cheap capital. There does need to be capital discipline when using the freedoms having your own printing press and bond factory allows. The danger is single channel decision making. If the state owns telecoms for

example, and makes the wrong call on technology, the whole country is affected. That is exactly what the nationalised industry did in its last decade, when it fell further and further behind the USA.