TOUCH
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PAMPHLET#7

Speaking up for Public Services

The vital role of the public sector in and beyond the recession

Britain's public services are a vital bedrock in sustaining local economies and communities both in good times and now, during the worst economic recession in living memory. They ensure essential investment in infrastructure and support for business and can mitigate the worst social and economic consequences of the downturn. But as public services come under increasing pressure to cut costs and jobs, *Speaking up for Public Services* challenges the view that spending cuts are the only option. For Britain to emerge successfully from the current recession in a strong position for the future, we need to strengthen and sustain our core public services.

About the authors
The Association for Public Service Excellence (APSE) is a not-for-profit local government association working with over 300 councils across the UK. APSE has active networks of councillors, officers and trade unionists. It carries out research on issues impacting on public services. Recent research publications include *Insourcing: A Guide to Bringing Local Authority Services Back In-House* 2009.

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More details of the online survey results are given at:
www.tuc.org.uk/touchstonepamphlets

TUC

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Foreword

by Brendan Barber, TUC General Secretary

We are starting to hear reports of 'green shoots' in the economy: the markets are up; banks are back to record profits; and bonuses are back in the financial sector. Some headlines have even triumphantly proclaimed that the recession is nearly over.

But the reality is that the recession is far from over. It is not over for the hundreds of thousands of people who have already lost their jobs, or who are fearful of being made unemployed. The recession is not over for those millions of young people who cannot find work. Tackling unemployment should be our number one priority.

Premature calls to reduce the public sector deficit are threatening to derail efforts to stimulate the economy and address unemployment. The political debate has somehow shifted from how we deal with the economic crisis to how to reduce the debt by cutting public spending and services.

We are told it is the public sector that will have to face the consequence of this recession that originated in the bank boardrooms. Those who depend on public services and public service workers did not cause this crisis, but they are being made to bear the brunt of the problem.

Slash-and-burn public spending cuts will do irreparable harm to our economy and society. Our vital services are necessary to help individuals, communities and businesses out of the recession and prepare for recovery. *Speaking up for Public Services* aptly demonstrates the real value of the public sector, particularly how it supports local economies and provides decent jobs. It also shows how cuts and pay freezes will take household demand out of the economy and inhibit recovery.

Attempts to reduce the deficit at this stage of the recession will make it worse. Of course, in the longer term, the deficit must start to come down. The best way to do this is through economic growth and a progressive tax regime that asks those who did well out of the economic boom times to contribute more than those who fared less well.

Our public services have undoubtedly improved over the last decade or so, thanks to extra investment in infrastructure, services and people. We cannot let this progress be damaged by knee-jerk calls for spending cuts, pay freezes and privatisation. *Speaking up for Public Services* demonstrates that our public services are too important for that.

Executive summary

As Britain faces up to a public finance crisis of unprecedented proportions, public spending has become a key political battleground. Over the last few months we have seen the debate turned on its head, shifting from how and when to reduce the public deficit to a general acceptance that there will be and should be substantial cuts in public spending and services. This has seemingly taken place without a full discussion of the alternatives or the implications of cuts to public services.

This pamphlet seeks to provide a different context, to question the urgency of calls to cut the public sector deficit, and to set out the case for the vital role played by the public sector during the current recession and beyond. Our premise is that sustaining public services is vital to economic recovery and the future prosperity of the country.

Recovery is the best way to tackle the public deficit in the long term, and that means planning for a budget deficit in the short term until the recovery is firmly under way. Cuts in public spending would only have an effect on future competitiveness and would impact on the most vulnerable and needy in society. As argued by David Blanchflower, respected economist and former member of the Bank of England's Monetary Policy Committee: "Lesson one in a deep recession is you don't cut public spending until you are into the boom phase."[1]

We know from history that, without effective government intervention, the cost of recession is borne hardest by those who lose their jobs and by the vulnerable and poor that depend most on public services. We also know the big mistake made in the late 1980s and early 1990s was to give priority to macro-economic policy to fight inflation over employment and welfare policies. After the recession, youth unemployment was two or three times higher than unemployment suffered by older people, was higher within cities, and was even higher for people of black and minority ethnic backgrounds. The impact of recession was felt hardest among young people, with a legacy that lives on today.

Britain is a wealthy country. Average pay is among the highest in the world, while marginal personal tax rates for the highest earners is low for a country with fully developed public services. Tax increases for the better off will not be popular but will be necessary and preferable to slashing those services on which the poorest and most vulnerable rely.

The UK loses up to an estimated £25bn a year through tax avoidance and evasion.[2] A restructuring of tax and a crackdown on avoidance and evasion is necessary to restore financial stability and to start to address the gap between the rich and poor.

Learning the lessons of history

Siren calls for a deflationary package of public spending cuts in order to 'balance the books' have no real understanding of the impact on front-line public services or indeed the potential to plunge the country into a 'double dip' recession. There is strong polling evidence that suggests the public is against such a strategy in any event. An Ipsos MORI poll conducted in June 2009 found that very few people agree there is a real need to cut spending on public services in order to pay off the national debt.[3]

We need a much clearer understanding of the relationship between the current high levels of public debt generated by the financial crash and the recession and the actual amounts spent on vital public services.

The total national debt at the end of July 2009 was just over £800bn, or 58.8 per cent of national Gross Domestic Product (GDP). Excluding the cost of financial sector intervention, public sector debt stood at £658.1bn, or 46.6 per cent of GDP.[4] The national debt rose from the very low level of 30 per cent of GDP in 2002 to 37 per cent in 2007, mainly due to increased investment in health and education. The sharp rise since 2008 has been caused by the recession in terms of lower tax receipts, higher spending on benefits and the cost of the financial bailout of banks and financial institutions. Even at the current levels it is below the national debt of Japan (194 per cent of GDP), Italy (100 per cent) and the United States (71 per cent). Indeed, it is worth bearing in mind that at the end of the Second World War, the national UK debt was 150 per cent of GDP. There is an obvious need to keep a clear perspective on the issue of national debt and its relationship with spending on public services.

Public spending cuts would only add to economic decline at this stage. Adding redundant public sector workers to the already swollen ranks of the unemployed will impose additional pressures on benefit budgets and further reduce spending power within the economy as a whole. The public sector is an important lynchpin not just in itself but also in terms of the wider economy. The involvement of private and third sector bodies in the delivery of public services, for instance, has continued to grow over the past decade, producing nearly 6 per cent of GDP and employing over 1.2m people. This interdependence of public, private and third sectors makes it difficult to consider public spending cuts without appreciating the impact upon the wider economy and those private and third sector organisations that deliver essential public services.

The wider economy would also take a hit from cuts to public expenditure through the inevitable impact on the £125bn spent annually on public sector procurement. Cuts may help balance the books in the medium term, but the impact on business, employment and essential services would only increase economic and social costs in the long term.

Building long-term economic stability through public services

The public sector represents an essential bulwark against continuing financial crises and the impact of the economic downturn. Whether it is sustaining employment, supporting businesses, mitigating the social costs of recession or underpinning training and education to provide the platform for future competitiveness, the public sector is the only cohesive force that can operate in the wider public interest.

The equation is straightforward: direct cuts in public spending lead to increased costs elsewhere. Paying people to be unemployed does not make economic sense. The cost of benefits was £169bn in 2008/09, almost the same as the entire public sector pay bill. It costs £8,000 per year for each unemployed person, which includes £3,000 lost tax revenue. The price of public spending cuts is greater inequality and social division, with all of the associated costs and consequences these bring.

Public services are major employers and purchasers of goods and services. They create jobs, provide decent pay and pensions and set a benchmark in terms of equal opportunities. There have been threats made to public sector pay and pensions on the grounds that public service workers must 'share the pain' with the private sector. The public sector pay target has been below inflation for the last three years. Further attacks on terms and conditions would not only reduce spending power in a key part of the economy, but also lead to a return to the recruitment and retention problems we last saw in the 1980s and early 1990s.

The social costs of fiddling while Rome burns

The impact of the recession would only be exacerbated by cuts in public spending. Unemployment is threatening to reach 3 million, and of this number approximately 40 per cent will be under 25. There is a danger of creating another generation of workless youth with long-term costs to both government and society.

There is evidence that every 3 per cent rise in unemployment leads to a 2.7 per cent rise in heart attacks among men aged 30–44 and increases of 2.4 per cent in murders and suicides in people under the age of 64. We also know that recessions and rising unemployment are a major source of the increase in poverty; 70 per cent of non-working families are poor compared to only 5 per cent of working families.

Lengthening the dole queues with legions of former public sector employees does not make any sense. Our own survey of over 2,000 public sector managers showed that 92 per cent think the recession is increasing the demand for public services. With the demands placed on personal social services, the NHS, police, social housing, leisure services, debt advice and employment services among others, it makes even less sense to rein in the public sector in order to satisfy the narrow constraints of fiscal prudence.

Public employment and public services act as an anchor in maintaining social as well as economic stability. Poverty costs the UK £25bn a year – a figure comparable to the projected costs of replacing Britain's nuclear deterrent Trident. Further reductions in public spending and the public sector headcount will only inflate an already heavy price for society as a whole.

Doing more with less

Contrary to the popular myth that the public sector is bloated and inefficient, there is strong evidence that the investment in public services made since 1997 has led to real improvements in services. Increased spending on health and education has resulted in huge reductions in hospital waiting times and increased educational attainment, while programmes such as Sure Start have resulted in important benefits to around two million families.

A key study undertaken by the Association for Public Service Excellence (APSE) shows that for every £1 of public money invested in public services through direct employment and through procurement of supplies and services a further 64p is generated in the local economy. The public sector is in fact a driver of economic growth through local multipliers of public spending. This helps to sustain more resilient local economies.

There is further evidence of an improvement culture within the public sector, engaging the energy, enthusiasm and support of public sector managers, the workforce, trade unions and service users. The MacLeod Review undertaken for the Government argued that better employee engagement could do more for the success of UK organisations "than almost anything else". Employees are not an afterthought: high-quality employment with good pay and terms and conditions, secure pensions and the provision of training and employee development are crucial to future competitiveness. If we want better and improving public services we need to invest in the workforce and set the benchmark against which other employers and industries can be measured.

Beyond the recession

This pamphlet sets out the positive case for public services and investing in those services during the recession. Investment in public services pays for itself in the long run – whether that is in improved public infrastructure, housing, transport, schools and hospitals or in education, skills, training and the provision of high-quality employment with all of the positive economic and social benefits that brings.

But we can't turn off the tap at the merest sign of the green shoots of recovery. Sustained investment and support for public services is the catalyst that will drive the economic recovery and our long-term economic, social and environmental well-being. The public sector is a fundamental part of our economic and commercial success. Public spending is not the cause of the national debt and if we are to build a strong, competitive and sustainable economic future then public services are part of the solution, not part of the problem.

Introduction

"We must lay hold of the fact that economic laws are not made by nature. They are made by human beings."

Franklin D. Roosevelt

The role of public services during an economic downturn

The UK economy, and indeed the world economy, is faced with a degree of downturn that may rival the Great Depression of the 1930s. For public services this has far reaching implications: rising unemployment and business failure are eroding the tax take and forcing up government indebtedness at a time when demand for services is increasing. The benefit bill rises as jobs are lost and incomes fall; demand for social housing increases as mortgage default levels go up; the police, the justice system and the prison service come under pressure from increasing crime levels; the health service copes with an increase in mental and physical ill health.

Faced with these twin pressures of falling revenues and rising demand, the Government is coming under pressure to pull back from its erstwhile commitment to expanding the range and quality of public services. There is a real danger that planned investment in new schools, colleges, hospitals and transport links will be reined in, in an effort to make the books balance. Moreover there are growing signs of a political backlash against the public sector, with threats to public sector pay, pensions and perceived job security.

With the impact of the recession dominating lives, public borrowing high and resources in increasingly short supply, the demand to reduce spending on public services grows day by day. Spending on the UK public sector has grown in the past decade, leading to a misconception that the public sector is somehow 'featherbedded' and a drain on resources.

This pamphlet challenges that misconception and demonstrates how a sustainable public sector is vital to underpin a strong economy, society and environment. Now is not the time to whittle away public services but to use resources in the most effective way to help mitigate the effects of the downturn and place the country in a position to emerge competitively in a new global economy.

The current crisis is an opportunity to reappraise the role of the public sector. To do so, we start by placing the current situation within a historical and global context, looking at lessons that can be learned from the past, so as to help guide policies for the present and future. Significantly, we put the case for public sector spending as an investment that will yield financial rewards. We show that the cost of shrinking public services at the time when they are most needed is immense; not just in social but also economic terms.

We argue that a new model is required that maximises the value of every public pound spent in financial, social and environmental terms. This long-term, considered perspective is what is required to take the UK not just through the recession but beyond it, in a way that ensures the skills, capacity, infrastructure and – most importantly – mindset are in place to create and make the most of opportunities that arise as the global economy recovers.

We are by no means suggesting that those who deliver the nation's public services are asking for an easy ride. We are arguing that much has been achieved by Britain's public services and public sector workers. What is required is the opportunity to build on these achievements and address the problems we face nationally.

To cut investment in public services at this stage can only add to economic decline. Adding redundant public sector workers to the already swollen ranks of the unemployed will impose additional pressures on benefit budgets and further reduce spending power within the economy as whole. Reduced levels of infrastructural investment will damage local economies by removing key contracts from private sector order books and cutting spend on local goods and services.

At a time when the private sector is shrinking, social and economic instability can be mitigated by an expansion in public employment. Given that the costs involved can be offset against savings in benefit payments and continuing income tax receipts, a policy of public sector expansion is an attractive proposition compared to the uncertainties of relying upon channelling government funds into more risky private sector investment routes.

What do we mean by public services?

The definition of what constitutes the public and private spheres and the inter-relation of the two is the crux of any debate on the appropriate role of the public sector.

The last two decades have seen a gradual blurring of the distinction between public and private. The involvement of the private sector in the provision of public services has been a central plank of Labour social policy. Other initiatives such as the Private Finance Initiative (PFI) do not fundamentally question the collectivist philosophy of the welfare state but rather seek to extend the reach of the service economy into the public domain. The headline drivers behind this are obvious; in the face of a huge and rapid reduction in manufacturing as a source of wealth generation, private economic interests have turned to services and the public proportion of the services market has inevitably been identified as a potential and highly profitable opportunity.

Politicians from all the main parties appear to have become convinced that the private sector offers innate benefits that should be encouraged in the public sector. A whole raft of policy initiatives has emerged to reflect this change in thinking. These ranged from the privatisation programme of the Conservative governments in the 1980s and 1990s that saw an end to state involvement in manufacturing, extraction and the utilities, through to early efforts to commercialise public service provision through Compulsory Competitive Tendering (CCT) in local government and market testing in the NHS and civil service.

Although the Labour Government began to adopt a less compulsory approach, it has nonetheless continued to promote the perceived benefits of private sector involvement. Public private partnerships including the PFI have grown in significance, the Council House Stock Transfer Programme has been accelerated and a whole new industry has developed around the provision of so-called 'back office' services to local and national government.

A further feature of the social policy jigsaw is the move towards an alternative approach as the state shifts its role to that of 'enabler' rather than 'provider'. This has been interpreted in different ways, with one version centred on a greater focus on shared responsibility between state and citizen, with individuals being equipped to meet their own responsibilities. This is exemplified by the way in which housing subsidy has shifted from spending on directly provided (council) housing to the payment of housing benefit. Another version of the 'enabling state' relies on contracting out, with reduced direct state control of the provision of public services, the use of markets and reliance on semi-independent or independent regulatory or audit bodies.

This paper sets out an outline case for maintaining and even expanding public service provision in its totality and for the positive impact of public spending upon private business. The definition of public spending for the purposes of this pamphlet therefore covers: all spending on infrastructure projects – roads, schools, hospitals; and spending on public services like education and health care, whether delivered by the public sector itself or contracted out to the private sector.

Context

Summary

- The current economic crisis originated in the banking sector and governments have responded by pumping unprecedented quantities of money into the economy. To have done anything else would have deepened and prolonged the recession. Recovery from recession is the overriding priority; paying off the national debt is secondary.
- Vital lessons can be learned from the recession of the late 1980s and early 1990s. The inadequate public and social response during the downturn and its aftermath intensified and prolonged the recession's social costs.
- Cutbacks in spending would damage the public sector's ability to respond to the recession and plan for economic recovery. It would also damage other sectors of the economy. Boundaries between the public sector and private third sectors in the UK have become blurred and the two are increasingly interdependent. A reduction in public spending would have a damaging impact on private and third sector organisations, the overall level of unemployment and spending power.
- The vital contribution of the public sector to the UK economy must be fully recognised and its role in helping mitigate the impact of the recession maximised.

"One of the problems we have is the paradigm shift in what we define as the public sector. The logic of using the phrase private and public sector is over… The private sector is running public services and the public sector owns banks."

David Clark, Director General, Society of Local Government Chief Executives

The historical perspective on public services

The ideas that dominated public policy from the 1930s until the mid-1970s were largely based on Keynesian demand management, designed to smooth the economic cycle in an attempt to create the stable conditions essential to avoid a 1930s-type depression and global conflict.

In the late 1970s the experience of rising inflation alongside rising unemployment (so-called 'stagflation') stretched conventional Keynesian thinking and opened the way for a neo-liberal approach to economics. This approach eschewed state involvement and emphasised the equilibrium between supply and demand that 'naturally' governs the operation of free markets. The Conservative governments of 1979-1997 raised interest rates and restricted public spending at a time when Keynesian conventional wisdom would have required increased spending and/or cuts in taxes – the so-called 'countercyclical approach' to demand management. At the same time, social policy was implemented that undermined the collectivist consensus and brought private providers into public service provision. This period coincided with momentous global economic and political upheaval, dominated by the collapse of European Communist economies and a general shift to free market economics.

Conservative Party policy was to give priority to macro-economic policy to fight inflation over employment and welfare policies, with the impact felt mostly by young people. After the recession in the early 1990s, youth unemployment was two or three times higher than unemployment suffered by older people, was higher within cities, and even higher for people of black and minority ethnic backgrounds.

The New Labour approach

New Labour has presided over an unprecedented increase in the size of the public sector at the same time as the adoption and, in many respects, the accelerating marketisation of public services. The growth of the public sector is part of a wider growth in importance of the service sector in the UK economy. Heavy manufacturing has shrunk to a fraction of its 1970s size and, while new knowledge-based industries have grown, it is the services sector that has taken up the slack in terms of employment. Financial services have been particularly significant but the Government's willingness to allow growth in the public sector, including private providers of public services, also played a major role in maintaining virtually full employment over the first 10 years of Labour rule. The significance of public services to the UK economy means they cannot be separated from their relationship with the wider economy.

Learning lessons from the past

During a recession, the economic imperative behind increased public expenditure centres on the positive impact of fiscal stimulus on aggregate demand. There are also equally important social and political reasons why public spending should be expanded during a downturn. While non-discretionary expenditure on items such as welfare benefits for the unemployed cannot be avoided, there has been and will increasingly be higher demand for social housing, health and personal social services. Other services such as public leisure and libraries are also coming under pressure from increased demand as a result of unemployment, while initiatives to assist with job searches and retraining are vital in assisting people back into work.

The UK Commission on Employment and Skills has also stated that the recovery from the 1980s recession was slow because of severe skills shortages.[5] This time, government training is more targeted on skills for recovery such as the £1bn Future Jobs Fund, which aims to create 150,000 jobs, primarily aimed at those aged 18-24 who have been out of work for a year or more. This intervention is vital and needs to be sustained during the recession and into recovery.

Beyond this, physical infrastructural investment may prove critical to economic recovery in a post-recession global economy where, for example, the state of roads and the availability of high-speed internet access may be critical to investment decisions. Similarly the availability of a well-educated workforce will be crucial to long-term competitiveness.

Placing the current debate over the future of the UK economy and public sector within the context of the past shows the critical stage the inter-relationship between state and civil society has reached. The public sector response to the recession should not just be a short-term stopgap, but should take in the vital role that public services play in a modern, post-industrial economy. The limitations of an over-reliance on market mechanisms – including financial deregulation, privatisation of public services and emphasis on home ownership – have clearly been shown to be flawed.

The dramatic implications of these limitations we are now witnessing makes it time for a new approach. Too often, an argument is presented that the public sector is purely a consumer of resources and does not contribute to the national economy. This is a fallacy and should be challenged. The true value of the public services as an investment in future prosperity and well-being requires careful examination.

Where we are now

To prevent the collapse of the banking and credit system and to stop the recession turning into a slump, the Government pumped unprecedented quantities of money into the economy, first to allow the banks to function again, then to stimulate demand and, through demand, to get companies investing, re-employing workers, and producing once more.

As the implications of this response and the impact on the public sector are beginning to be analysed and understood, economic forecasts are constantly being updated. Analysis from mid-2009 by the Organisation for Economic Cooperation and Development (OECD) predicted zero growth in the UK economy in 2010, with the UK budget deficit hitting 14 per cent of GDP.[6] This follows growth in global GDP in 2007 at five per cent – well above its historic trend – for the fourth year in a row.[7] While such predications will inevitably be revised as we better understand the situation, previous recessions may provide some clues. For example, economists Carmen Reinhard and Kenneth Rogoff of Harvard University show that, historically, banking crises dramatically weaken fiscal positions in both high- and middle-to-low-income countries, with government revenues contracting and fiscal expenditures expanding sharply. They show that three years after a financial crisis, central government debt increases on average by about 86 per cent. Thus "the fiscal burden of banking crises extends far beyond the commonly cited cost of the bailouts".[8] The argument for maintaining investment in public services can as such be seen part of the wider, ongoing debate about economic and financial regulation and the need to rebalance the shift to market mechanisms that has led to much of the downtown in the shape of financial deregulation, privatisation and emphasis on home ownership.

While public sector debt is inevitably increasing as a result of its response to the banking crisis, the UK is starting from a relatively low base. The Work Foundation has pointed out that the UK has "slightly more room for fiscal manoeuvre than other OECD countries".[9] It is important to recognise that although expenditure on public services has grown as a proportion of national income, this is from a relatively low level. While public sector net debt is anticipated to rise from 43 per cent of GDP in 2008 to 82 per cent in 2011, total government spending during the same period is only expected to rise from 40.5 per cent to 47.2 per cent of GDP in one of the worst economic downturns since the 1930s.[10] Gemma Tetlow of the Institute of Fiscal Studies says: "Around the rest of Europe the public sector has a bigger share of GDP – that is a political decision to determine what is an appropriate size of government."

Expansion of the service sector in general over the past decade has underpinned the growth of the UK economy and investment in public services has been a key part of the unprecedented degree of prosperity experienced. The benefits this has brought need to be built upon and the role of the public sector shaped to take the UK not just through the recession, but beyond. This is not to say that anyone should be complacent. The experience of recession and the resultant pressure on public expenditure demand that services are able to demonstrate efficiency and value for money. All of the interviewees in the qualitative survey our researchers conducted, regardless of their political perspective or whether they are based in the public or private sector, agreed that the efficiency imperative will continue to dominate public administration for some time to come.

The changing role of public services during the recession

The importance of the public sector in responding to the recession was reinforced by a survey of nearly 2,000 public service managers and trade unionists carried out as background research for this pamphlet. The box below summarises some of the key findings from this survey.

Results of APSE survey of public sector workers

A total of 78 per cent of respondents felt that the role of the public sector was changing due to the recession, and 70 per cent of respondents believed the public sector was becoming more important to the public during the recession and also becoming a more important tool in the economy.

Responses to the survey identified support for business, providing skills and training and supporting members of the public affected by the recession as being increasingly important functions for the public sector.

The survey responses support the view that the public sector provides a bulwark for the general public against the adverse impact of the recession.

Typical comments from respondents were:

"People are becoming more dependent on public services as the recession is affecting so many aspects of their lives."

"Keeping local people employed helps to maintain some economic stability."

"Businesses and local residents are seeking greater support and initiatives from the public sector."

"It's more vital than ever as an employer – fewer jobs means less tax means less buying power, and as things get tighter the public sector provides stability lacking elsewhere in the economy."

"The public sector is taking on greater responsibilities to ensure those adversely affected by the recession are able to stay in their homes, retrain for new employment and avoid the problems of below average income affecting not only themselves but also children and dependents."

"The public sector needs to perform what is now a very supportive role for local businesses and the public in this pressured time."

Public service managers are anxious about the need to provide greater support to local communities in the face of diminishing resources:

- 92 per cent think pressure on services has increased as a result of the recession.
- 52 per cent expect cuts to their particular service.
- 59 per cent say there is no room to make further efficiency savings without impacting on jobs and services.
- 59 per cent are anxious about security of employment.
- 67 per cent think the way in which they provide services needs to change in response to the recession.

Typical comments from public service managers who responded to the survey include:

"Greater emphasis on leadership in the local economy. Employment creation becoming a higher priority."

"The public sector is best placed to adapt quickly to local need and provide focused support; providing opportunities for training and apprenticeships and pathways to work. Lots more firms are interested in doing business with councils than two years ago."

"There is a need to give more consideration to using local suppliers where possible and to give greater support to local companies in economic development activities."

Interdependency of the public and private sectors

The public sector is an important economic lynchpin not just in itself but in its impact on the wider economy. A reduction in public spending would manifest itself in numerous and complicated ways. Some of the implications of cuts to public spending are fairly direct, such as reduced spending power of firms and individuals. Other implications are less obvious, such as the multiplier effect of public spending.

The multiplier effect refers to the idea that an initial injection of (government) spending into an economy results in an economic benefit greater than the level of the initial investment. APSE and its partner, the Centre for Local Economic Strategies (CLES), have led the field into research into the multiplier effect of council expenditure on local economies. In the examples studied each pound of spend resulted in an increased aggregate output of £1.64. In this case the multiplier is 0.64. This means that for every pound invested, an additional 64p is reinvested in the local economy. Public spending cuts would have an obvious impact on this virtuous cycle.

In addition to the knock-on effect on local economies, there is a significant level of private and third sector delivery of public services. This means that these organisations potentially have as much to lose from a reduction in public spending as the public sector. As Derek Stewart, Development Director at AMEY, points out: "Because of the downturn, the level of spending is likely to fall in the short term and we are internally preparing for that drop by as much as 20 per cent." However, it could be argued that, having benefited from the Government's commitment to diversity of provision in the name of service improvement in the good times, neither the public nor the private and third sectors are in a position to abandon it during the downturn.

Public services are major employers and to that extent are an efficient mechanism for getting public money into the pockets and purses of individual purchasers of private sector goods and services. There is a direct interdependency between the public sector and key parts of the private sector that is highly sensitive to levels of public expenditure. Public service providers also spend significant sums with private sector companies. The last decade has seen private provision of public services extend into areas of provision traditionally the preserve of direct public provision. For example, in some local authorities, 'for profit' service provision can range from refuse collection through to the management of education and in some service areas, such as care of the elderly, private sector provision has become the norm.

In a report for the Government by Dr DeAnne Julius, it was estimated that the 'public services industry' makes up around six per cent of GDP. Health constitutes the largest sector of PSI spending, totalling £24.2bn in 2007/8, followed by social protection (£17.9bn), defence (£10.1bn) and education (£7.3bn).[11] Whether or not one agrees with Julius' conclusions about the desirability of increasing private sector involvement still further, it is impossible not to conclude that any significant reduction in public spending will have a serious impact on what has become an important sector of the private economy.

TUC analysis shows that a notional 10 per cent cut on 2007–08 spending levels would lead to a reduction of around 200,000 public sector posts. And since around 29 per cent of public sector expenditure goes directly to the private sector, a 10 per cent cut in these budgets would mean a reduction of around £16.8bn in private sector investment from public funds. This would have an inevitable impact on private sector as well as public sector employment.[12]

This situation would also impact directly on the ability of public service providers to respond to cuts in funding. Many privately delivered public services are subject to long-term contracts that effectively ring-fence funding for periods of anything up to 35 years. Making cuts to these services may not be contractually possible, so restricting the flexibility of the public sector to respond to budget constraints. A key area is the Private Finance Initiative (PFI), where the ring-fencing of payments to PFI providers could effectively mean public bodies paying for buildings they are unable to staff due to revenue cuts. Conversely the long-term nature of these contracts could lead to the distortion of priorities with the result that, for example, cheaper and often more popular non-PFI hospitals may have to be sacrificed to create throughput for PFI hospitals regardless of the needs of patients and communities. Many would now argue that PFI should be abandoned as unaffordable in the face of ever greater pressure on public expenditure.

The way forward

Many commentators agree that bold leadership is needed to help the country through the recession and beyond. The Work Foundation, for example, argues that the Government must use monetary policy, fiscal policy, public procurement and regulatory interventions to address the downturn. It favours sustaining existing programmes such as the London Underground extension and Olympics developments and bringing forward public works projects, particularly small-scale labour-intensive construction such as social housing, schools and transport and makes a strong case for investment in social housing.[13] It reiterates the idea that the public sector is “a stabilising force”, employing some 8.5m people nationally and accounting for up to two-thirds of the workforce in some cities, for example Liverpool, Newcastle, Hull and Brighton.

The historian Eric Hobsbawm argues that a shift from free market to public action needs to be bigger than politicians grasp in order to address the crisis faced globally.[14] He argues: “A progressive policy needs more than just a bigger break with the economic and moral assumptions of the past 30 years. It needs a return to the conviction that economic growth and the affluence it brings is a means and not an end.” He recommends: “Public decisions aimed at collective social improvement from which all human lives should gain. That is the basis of progressive policy – not maximising economic growth and personal incomes.”

A fundamental reappraisal and new appreciation of the role of the public sector is most certainly required. The importance of maximising the stabilising impact of the public sector upon the economy will be explored in the next chapter. The key question of the affordability of maintaining a vibrant public sector will also be addressed.

The stabilising effect of the public sector

Summary

- The public sector can be a stabilising force in the boom and bust economic cycle.
- Public sector employment in particular can play an important role in mitigating the impact of the downturn and job losses would only further deepen the recession by taking demand out of the economy.
- Unemployment and poverty have a multi-billion pound cost to the country; in the short term through redundancy payments and lost revenue and the long term scarring of individuals and communities.
- The alternative to cuts in spending on essential public services is an acceptance of a sizeable budget deficit during the downturn, with an understanding that taxes may need to rise once recovery begins. This means the cost of recession is shared across the economy, with those least badly affected contributing more than those most seriously affected.
- Maintaining a vibrant public sector is a more affordable option in the long term than squeezing public spending. Public services and public service workers can lay the foundations for recovery and a brighter future by helping to provide educated, healthy workforces, the infrastructure and environment needed to generate economic growth.
- Investment in high-quality public services can place the UK in a more competitive position internationally when emerging from the recession.

"The public sector is not getting recognition for benefits it can bring to the economy. One of the advantages of having a large public sector is that it gives you stability through the downturn. Our view would be that it is better for the Government to spend a bit more and have people in employment providing a service than unemployed. We roundly welcome the job creation measures in the latest Budget."

Tony Dolphin, IPPR chief economist

In the previous chapter we looked at the interplay between the public and private spheres and considered the vital role of the public sector in underpinning the UK economy. Here we put the case for maintaining a vibrant public sector to provide economic stability during the recession. We also set out how this could be an affordable alternative to cuts in jobs and services, which would accelerate the spiral of decline.

The APSE publication *Towards a Future for Public Employment* sets out the strategic case for public employment and identifies the five main ways in which public employment contributes to local economies and communities: providing effective leverage in local economies; shaping places; managing costs and transactions; sustaining democratic networks and accountability; and realising the potential of the local workforce. It also argues that public sector employment should be a 'benchmark'; setting standards for other employers and helping to address skills and training requirements of businesses.[15] This valuable role of public sector employment in providing economic and social ballast has become increasingly apparent since the economic downturn.

APSE's position builds on solid academic foundations. For example, Keynes' critique of capitalism as an inherently unstable system because of "its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes"[16] now seems particularly relevant. The American post-Keynesian economist Hyman Minksy was strongly in favour of government acting to maintain a high level of employment. Minsky showed that speculative bubbles, and the financial collapses that follow them, are an integral part of modern capitalism and a recurrent feature of economic life once the financial system is deregulated.[17] His abiding contribution to the debate is the idea of direct job creation by government – the 'Employer of Last Resort' model – as a plank of any policy to combat unemployment, poverty and inequality. The Future Jobs Fund, to a certain degree, draws on this notion by inviting bids from "local authorities, sub-regional, city region and local partnerships, or by national or local public sector and third sector bodies" in order to create extra jobs for long-term unemployed people.[18]

This perspective is gaining ground among a wide range of stakeholders and commentators assessing modern UK policy alternatives. The Work Foundation, for example, argues that policies of the Hoover administration in the USA from 1929–31 and of the UK national government from 1932 onwards "almost certainly exacerbated the problems of the Great Depression", while Roosevelt's New Deal from 1933–35 "almost certainly improved the economic prospects of ordinary Americans and avoided a descent into fascism".[19] A National Endowment for Science, Technology and the Arts (NESTA) report on the role of innovation in fighting the downturn shows how Finland's economy was transformed from a situation in 1990 where 20 per cent of people were unemployed and the state budget deficit was 70 per cent of GDP to annual productivity growth of 30 per cent in the following decade. This was achieved through strong governmental stimulus, which coupled technological innovation with social measures, education and training to underpin its transition to a knowledge-based economy and increased social inclusion in the process.[20]

Chris Leslie, Chief Executive of the New Local Government Network, puts the case for a Keynesian approach in the current UK context: "When the economy is in time of trouble that is exactly the time when the public sector should be keeping people in work… If you inflate the public sector to counteract the deflation in the private sector you have a chance of recovering more quickly."

The Improvement and Development Agency (IDeA) point specifically to the potential of local government. As well as supporting communities and businesses, it argues that local authorities can support local economies through their employment role: "Councils cannot be portrayed as looking after their own to the detriment of others, but at the same time the interests of council staff are very important because they form a significant active part of the workforce in many areas and they themselves need to be helped during the downturn."[21] IDeA has also explored ways in which the public sector can develop opportunities as a way of tackling unemployment. It included case studies, such as a programme for people from black and minority ethnic groups in Liverpool, which resulted in 111 trainees moving into employment within the council between 2005 and 2008.[22]

Before the Liberal Democrat Party began to call for "savage" spending cuts,[23] its deputy leader and shadow chancellor, Vince Cable, made some encouraging points about the importance of the public sector. He said: "The simple, common sense point is that it is more sensible for the Government to pay people to work than pay them not to work. It is more sensible to use government funding for creating long-term assets, which may yield an income stream – like social housing or railways projects – than ephemeral, uncertain giveaways like the temporary VAT cut. In any event, the Government has no alternative but to shoulder the burden of funding capital expenditure when infrastructure development is grinding to a halt because of the collapse of the PFI model and when other focus of co-financing – like social housing financed on the back of private development – have dried up."[24]

The significance of the public sector to the economy as a whole is clear. It is public services that provide the educated, healthy workforce required to generate economic growth and it is public services that can mitigate and ameliorate the impact of economic downturn. A fully developed public sector is essential at all stages of the economic cycle.

The case against cuts

From the summer of 2009, the debate gradually shifted from one centred on how to reduce public expenditure to more fierce arguments about how to cut spending, with a host of politicians, commentators and thinktanks lined up to state the need for more and more extreme public spending cuts. PriceWaterhouseCoopers warned that public spending has to be cut more drastically than planned in the 2009 Pre-Budget Report, saying that the Government must act to fill a £43bn gap in the public finances by 2013/14.[25]

The Conservative Party, meanwhile, has abandoned its pledge to maintain Labour's medium-term plans for public expenditure should it come into government. The Conservatives argue that the plans are no longer affordable and that attempts to stimulate the economy via fiscal expansion will be counterproductive. It is argued that eventually taxes would have to rise and that this will damage competitiveness and therefore recovery, in the medium to long term. These arguments are clearly

being heard by the public sector. Our own survey of 2,000 public sector managers revealed high levels of job insecurity and fears of reductions in the services for which they are responsible; despite increasing demand for those very services.
At the time of the Budget, a deficit of £175bn was forecast in 2009–10, with a similar figure forecast for 2010–11. The Budget also committed the Government to halving the budget deficit in the four years from 2010/11 by reducing the rate of public spending growth and tax increases. Meanwhile, opposition parties and other commentators describe the level of government debt as a major crisis facing the Government that should be tackled as a priority. Yet all major economies, including France and in particular Germany, have pumped public money into attempts to halt the collapse of financial institutions and to prop up key manufacturers. It is also likely that these economies will allow public expenditure to rise – if only to meet the increasing demand stemming from the recession itself. As Will Hutton pointed out, "the 'runaway' increase in public spending and borrowing has been a central plank in avoiding a slump".[26]

Some of the people interviewed as part of the background preparation for this paper have predicted that third and private sector delivery of public services will step up in pace. It is always important to explore different approaches to service delivery to establish the most effective and cost-effective approach. But it is nonsensical to suggest that a shift to third sector or market provision in itself constitutes a saving to the economy. Such a shift does not in itself achieve efficiencies; the only way in which the aggregate cost to society of health, education and so on can be reduced is if services to some or all recipients on the one hand, or purchasers on the other, ceases.

The case against pay and pensions freezes

With the head of the Audit Commission leading a series of calls for across-the-board pay freezes, public sector workers have been caught in the crosshairs in the debate about public finances. Steve Bundred, Chief Executive of the Audit Commission, argued that "a pain-free way of cutting public spending would be to freeze public sector pay. This is especially true if real wages in the private sector are still falling". He went to state that "health and education will not be immune from pay restraint, partly for reasons of fairness to others, and because ministers will correctly assume that as public sector workers have done well over the past decade, they will tolerate some modest real reduction in earnings".[27] John Philpott of the Chartered Institute of Personnel and Development also weighed in, arguing for an overall constraint on the total pay bill.[28]

Chancellor Alistair Darling judged that public sector pay had to "reflect prevailing conditions" and the need to "be fair with regard to people who work in the private sector, many of whom have seen their pay conditions tighten".[29]

The argument that public sector workers should share the pain with private sector workers is difficult to square. Respected pay analysts Incomes Data Services forecast that pay freezes, which have accounted for about a third of settlements for much of 2009, would start to fade from January 2010 onwards as companies started to recover and inflation rose. In any case, the argument that the public sector has benefited from the 'years of plenty' and that its workforce should be able to tolerate a reduction in earnings is unfair. The last two decades have been characterised by boom and bust in the public sector, with pay falling behind the private sector, followed by efforts to catch up. Most notably between 2000 and 2004, more workers were recruited and pay levels were raised. But since 2005 pay has been falling back again, with below-inflation pay awards across most of the sector.

Low-paid public service workers have seen their pay fall behind increases in average earnings in recent years and now is not a time to give up on fair pay. Rather the opposite – lifting the pay of low- and middle-income workers would stimulate the economy and help shorten the recession. A wage freeze is a blunt instrument that would create more inequalities and ongoing difficulties for public service delivery.

The other major target is pensions, with critics painting public sector pension schemes as unaffordable, unreformed and gold-plated. These attacks often present estimates of the future cost of unfunded public pensions over decades as if they were a bill that has to be paid now, rather than a continuing and affordable part of public spending. As explained in a TUC report, "expressing the cost of future pensions promises as if they all had to be paid today is a favourite device of critics as it produces frighteningly large numbers, but makes as much sense of expressing the cost of the next century of the NHS as a bill that has to be paid all at once".[30]

It is wrong to say pensions are unreformed. The Government and trade unions have negotiated various reforms to public sector schemes in recent years. The reforms were made mostly in response to higher demands from increased life expectancy, with schemes now sharing the risk of members living longer.[31] Nor are public sector pensions schemes gold-plated. The mean average public sector pension stands at around £7,000, but the majority of public sector pensioners have pensions of less than £5,000.

Critics are right to say that public sector staff now get better pensions than private sector staff, but this is because of the collapse of pension provision in the private sector. The challenge is to provide decent pensions for all by levelling up private sector pensions, not cutting those in the public sector.

Arresting the spiral of decline

This paper argues the case for increased levels of investment in public infrastructure and for the continued provision of quality, value-for-money public services. This is a crucial mechanism in the struggle to arrest the spiral of economic decline that the recession could become in the absence of effective government intervention.

It is not yet clear whether the Government's approach to shoring up confidence in the finance sector and the UK economy has worked but in any event the impact of the banking crisis is now felt in terms of a global recession. Despite interest rate cuts to historically low levels, reflation of the UK economy has not been achieved at the time of writing and there is a pressing case for the implementation of alternative approaches to stimulating economic activity.

Where is the money coming from?

In examining how public services and employment can be resourced, it must be remembered that unemployment, social exclusion and poverty have a massive cost to the public purse. According to the Institute for Fiscal Studies (IFS), in 2008–09 the £169bn bill for benefits expenditure was almost the same as the public sector pay bill. Professor Paul Gregg of Bristol University is among those experts who consider it likely that the unemployment count in the UK will reach three million over the current recession. He estimates the cost to the Treasury of unemployment to average around £8,000 per unemployed person per year – a figure that includes lost tax revenues to government (around £3,000 per person per year) – as well as the direct costs of unemployment and other benefits. He also estimates that long periods of unemployment reduce life-time earnings by around 10–12 per cent, as many unemployed individuals resume employment in low-pay jobs with less secure tenure.[32] Analysis from Richard Murphy of the Tax Justice Network reveals that 92 per cent of the cost of cutting public sector jobs when we have less than full employment is paid by the state, making it counter-productive economically.[33]

A reduction in public sector unemployment would clearly contribute to these problems. As Professor Colin Talbot, special adviser to the Treasury Select Committee, told us: "If too many public sector jobs are lost that will have political implications. The savings you make from losing jobs in the public sector are far less than the amount you pay out because that then shows up in rising ill health and extra benefits payments."

According to the IFS, total public spending has fluctuated between 35.9 per cent and 49.9 per cent of national income since the Second World War. In 1996/97 public spending as a share of national income was 40.6 per cent, and in the first three years of the new Labour Government it fell to 37.7 per cent – the lowest since 1960/61 – but since then it has increased, reaching 41.2 per cent of national income in 2004/05. Government spending was projected to rise to 42.2 per cent of national income in 2007/08 and, although greater than the amount over the last 10 years, it was still lower than during the recession of the early 1990s.[34] The impact of the credit crunch and the financial crisis could potentially see public sector net debt climb to around 80 per cent of national income, according to the IFS.[35]

During a recession, falling profits and unemployment inevitably reduce the flow of income to the Exchequer, which will inevitably increase government debt. Keynesian thinking suggests that governments should be prepared to operate on this basis in the expectation that recovery will bring a concomitant increase in tax receipts and a fall in non-discretionary spend, thus ultimately allowing the books to be balanced. More radical approaches, such as that of Minsky, specifically call for the public sector to mop up unemployment during recession through public sector job creation schemes. These approaches put the maintenance of full employment at the top of the economic agenda.

There is a clear divide between economists, politicians and commentators on the Keynesian side of the pitch and those who advocate an approach reliant on allowing the economy to 'self correct'. The Keynesian belief that governments face a long-run trade off between unemployment and inflation that can be resolved in favour of full employment is rejected by those who argue the case for spending cuts.

The experience of recession in the 1980s and 1990s, however, tells us that an approach based on budget cuts results in significant and possibly permanent increases in inequality. For Keynes these were exactly the outcomes of unregulated capitalism that he blamed for the instability of the economic system that would perpetuate the boom and bust cycle and lead to highly undesirable and unpredictable political outcomes.

The alternative to cuts in spending on essential public services is in fact an acceptance of a sizeable budget deficit during the downturn, along with an understanding that taxes may need to rise once recovery begins. Under this model the cost of recession is shared across the economy with those who are least badly affected contributing more than those who are most seriously and in many cases, devastatingly, affected.

The issue of how to pay for essential public services is thrown into relief by the economic downturn but is at the heart of political debate. The debate is also set against a context of an economy where an estimated £25bn in taxation is lost through avoidance and evasion per year and is marked by growing inequality, with the gap between rich and poor growing year by year.

A TUC pamphlet explores the picture of income distribution in the UK, concluding that "in just 30 years Britain has moved backwards from a diamond- to an onion-shaped society".[36] The issue is not whether the UK economy can afford public services per se: it is more about the balance of taxation against public expenditure and is ultimately a political choice between spreading the pain of recession across the whole of society or allowing it to be borne disproportionately by those who are its front-line casualties – higher taxes for the well-off few, or joblessness and financial hardship for the less well-off many.

There is a very strong case for at least maintaining public services at their current level during the recession. The alternative is to withdraw support from the poorest and most vulnerable of our citizens at the point when they most need it. The experience of mass unemployment, rising homelessness and high levels of crime and disorder that accompanied the 1980s downturn should be enough support the argument for a more proactive government response to the current economic crisis. However, it is also necessary to consider what the Government should do once recovery begins.

The interviews carried out as research for this paper indicate that some are already advocating, and many others expecting, swingeing cuts in public sector expenditure to avoid the need to increase taxes over the longer term. The fear is that a sudden and large increase in tax will halt recovery and lead to a second downturn – a W-shaped recession.

Whether increased taxes would have a greater negative economic effect than a sudden reduction in public expenditure is a moot point, given the marked and demonstrable multiplier effect of the latter, which is discussed elsewhere in this paper. In any event, the Government should plan to balance its books over a period that will allow for recovery to fully take hold before taking any action that will have the effect of slowing economic growth.

Other than for the very wealthy, this includes no major increases in income tax as well as cuts in services. For the sake of clarity this paper does not advocate the raising of revenue from flat or regressive taxes as this would only lead to greater inequality and long-term instability. In the short term the Government should plan and make the case for a substantial budget deficit and increased public sector debt. This is not to say that attention should not continue to be paid to maximising the economic benefit of every public pound spent. Efficiency and quality should go hand in hand in service delivery but savings from, for example, a better use of technology should be channelled into the continual improvement of front-line services.

If the boom and bust cycle is not to be repeated it will be essential to reverse the trend towards greater inequality that has characterised the last 30 years. This demands recognition of the role that public services play in the delivery of a more equal and therefore stable, as well as just, society. A progressive tax system and high-quality public services are the essential foundations of such a society. The case for increasing the tax take from the wealthiest members of society is not just about the need to balance the public finances, it is also about creating greater equality.

Affordability

The choice is stark: we either accept the argument that public services need to be cut to reduce the debt burden or we see public services as one of the principal means by which we can overcome recessionary forces and support the economy and society in emerging from the recession.

We have set out the case in this pamphlet for a fundamental mutuality between a thriving modern economy and a fully developed public sector. A successful economy of the future will depend upon the availability of a well-educated workforce capable of competing with the best in the world. This not only implies a need for a well-resourced, effective public education system but also for decent housing and effective health care. All elements of the public realm play a part in the delivery of a successful private and public economy. From passenger transport through to the sweeping of the streets, public services are instrumental in the creation of a public infrastructure that can support modern, clean, sustainable industries.

We cannot, however, escape the issue of affordability. The UK is one of the richest countries in the world – it can afford modern, effective public services. Indeed it cannot afford not to have them.

But in our view the key question is how services are paid for, rather than affordability. Public provision is more efficient than private provision and has the added benefit of bringing about an element of income redistribution that leads to a reduction of inequality. Indeed, the pursuit of equality is itself a political goal that should be at the heart of public service delivery.

As the economy emerges from recession some elements of the public sector will naturally contract as more people get back to work. At the same time the overall tax take will increase and the benefits bill will fall. The need for tax increases to fund 'safety-net' type services will therefore be mitigated by recovery itself. In the early 1980s the Government attempted to force this process by cutting public expenditure before levels of employment had begun to respond to the recovery. At the same time tax cuts for those who were employed created inflationary pressures leading to higher interest rates. High interest rates impacted in turn on those who were already struggling, resulting in a two-speed economy where those in work enjoyed the benefits of the recovering economy while others continued to suffer the consequences of recession. The abandonment of demand management and the pursuit of full employment meant that unemployment remained high throughout the decade. Even at the height of the boom in 1989 there were 1.6m people out of work.

Despite a marked improvement in employment levels from the mid-1990s onwards, the legacy of this period is still reflected in higher levels of inequality and consequent pressures on some public services. When recovery takes hold at the end of the current recession it needs to take the whole of the UK population with it. It is vital that public services are maintained and therefore that levels of personal taxation are raised to facilitate this. The effect of increasing income tax will be to ensure that the cost of recession is spread fairly across the whole economy and does not fall disproportionately on those who can least afford it. At the same time, raising tax will dampen inflationary pressures and avoid the need for sharp rises in interest rates which also impact disproportionately on the least well off.

Although we argue that the UK cannot afford to make cuts in essential services without delaying recovery and damaging future prosperity, current levels of personal taxation provide scope for increases without posing any significant threat to competitiveness. Amongst OECD countries with developed public services, the UK has relatively low rates of income tax. Such comparisons are difficult to make because of the number of variables such as levels of indirect taxes but at average earnings the UK marginal direct tax rate of 38.8 per cent compares with 54.2 per cen in Germany, 52 per cent in France, 60 per cent in Austria and 68.5 per cent in Belgium.[37] At the same time the UK gross average wage is the second highest, in terms of purchasing power within the OECD. Only Germany, which also has higher rates of taxation, has a higher average gross wage.[38]

Average gross wage refers to the mean average, which at £33,473 is significantly more than most people earn. The April 2008 Annual Survey of Hours and Earnings (ASHE) survey showed the median to be £24,908 for full-time employees, i.e. £479/week. The growing gap between median and mean incomes is one measure of growing inequality, which lends support to the notion that Britain has become far more unequal over the last 30 years.[39] A more progressive approach to personal taxation would not only spread the cost of the recession more fairly but would also begin to close the gap between the majority, whose earnings are well below the mean and the minority whose earnings are above it.

Having put the case for high-quality public services delivered by a well-motivated workforce and demonstrated that this could be an affordable option, the next chapter will show how that alternative of paring down the public sector could have catastrophic social and long-term financial consequences.

The social cost of recession

Summary

- The public sector provides an important social and economic anchor for most communities, as individuals, businesses and other organisations look to public services for support during and after the recession.
- The economic downturn risks the livelihoods of many and threatens to further entrench social inequalities in Britain. The clamour to balance budgets by cutting back on vital public services and protections just as they are needed most must be resisted.
- Unemployment costs the Treasury around £8,000 per unemployed person per year, while long periods of unemployment reduce lifetime earnings by around 10–12 per cent, since many unemployed individuals resume employment in low-pay jobs with less secure tenure.
- Unemployment and poverty also have a cost to the public purse in terms of social breakdown, crime, education, housing, family problems, health inequalities, damaged life chances and aspirations, educational attainment and community cohesion.
- Lessons can be learned from previous recessions in the UK, which show that unemployment can double the risk of premature death within 10 years.
- The current recession is already leading to increased physical and mental ill-health, suicide and premature deaths.
- Recessions exacerbate social inequalities. Unequal societies are bad for almost everyone within them, including the well-off as well as the poor.
- Maintaining public services is more necessary than ever to minimise both the social and economic impact of the recession for generations to come.

"The public sector helps us be a civilised society. In order to deal with short-term financial crisis we end up cutting things that do long-term damage to society... There is a real danger that the combination of big cuts in the public sector mean inequalities could get even worse when we are pretty low down the international league table already. That is not a bleeding heart argument;

it costs to have people unemployed and locked up. There is a real danger that we end up repeating what happened in the 1980s when a whole generation was unemployed long term."

Professor Colin Talbot, Manchester University Business School and Member of the Treasury Select Committee

In the previous chapters we put the case for maintaining and expanding the public sector as a way of underpinning the economy during a time of crisis and showed how, given the political will, it would be possible to find resources to do so. Here we look at the impact of the recession in social terms and the knock-on financial impact this could have for generations to come. There is a chance to minimise the impact of the economic downturn on people's lives and on the long-term economy and to avoid mistakes of previous recessions, for which we are still paying as a nation. But this requires a new perspective.

The most important aspect of the recession is undoubtedly unemployment and there are important social as well as economic factors at play. A Treasury Select Committee report predicts that unemployment is likely to rise above 3 million at its peak in the current downturn and approximately 40 per cent of those will be under 25.[40] As shown in various studies, it is certain that this will have far-reaching implications for the UK economy and population. A study by Oxford University and the London School of Hygiene and Tropical Medicine shows that a 3 per cent rise in unemployment is linked with a 2.7 per cent rise in heart attacks among men aged 30–44 and increases of 2.4 per cent in murders and suicides in people under the age of 64. Deaths from alcohol abuse rise substantially by 28 per cent.[41] The mental health charity Mind also presents evidence that the recession is having an adverse affect on mental health. Mind's You Gov survey conducted in May 2009 found almost 40 per cent of men were worried or despondent, with the top three issues playing on their minds being job security, work and money.[42]

Unemployment increases the risk of ill-health and death, and recession also increases "the distance between rich and poor", according to Professor Danny Dorling of Sheffield University, who expects to see health inequalities increase as the result of the downturn.[43] There is also mounting evidence that more unequal societies are bad for almost everyone within them – including the well-off as well as the poor. This has been exposed most clearly by sociologists Richard Wilkinson and Kate Pickett, who show in their book *The Spirit Level* that almost every social problem common in developed societies – reduced life expectancy, child mortality, drug abuse, crime, homicide rates, mental illness and obesity – has a single root cause: inequality.[44]

It is well documented that failure to tackle poverty has long-term social and economic effects. Kate Green, Chief Executive of the Child Poverty Action Group (CPAG), says: "The poorest families are likely to be most reliant on good-quality public services. In particular it would be regrettable if excellent strides in funding childcare were to go into reverse. Schools investment should not be undone. Quality of life in neighbourhoods start to decline and services are under pressure if there are not enough staff, which is demoralising for people who may have a lot of interactions with officialdom. The long-term scarring effect of losing skills is well documented." According to her: "By acting decisively now, we can avoid the failure to protect family security in the 1980s recession when job loss and the collapse of traditional industry left a legacy of intergenerational poverty that still costs us billions today."

CPAG has looked at what lessons can be learned from previous recessions in order to prevent a similar rise in poverty to that seen in the 1980s. It shows that 70 per cent of all non-working families are poor compared with 5 per cent of working families, and increased unemployment in past recessions has unsurprisingly been the major source of increase in poverty, as confirmed by study after study. This means preventing unemployment must be a major strand of anti-poverty strategies. Social security cutbacks of the 1980s "further depressed demand, adding to the problem of unemployment".

In the 1980s the risk of unemployment increased faster for lower-paid workers than for the better off. The average number of people claiming benefit and out of work for a year or longer reached its peak at 1.3 million in 1987. The different risks among ethnic minority groups was also marked. Cutbacks in the service sector, where women are more likely to be working, mean they will suffer more. When people are progressively marginalised from the employment structure, it has a 'scarring effect' as well as the economic cost of lost tax revenue and paying benefits.[45] Professor Mel Bartley of the Economic and Social Research Council told a conference on Recession, Health and Happiness of her research findings based on census evidence, which show that people who were unemployed in 1981 had twice the risk of long-standing illness by 1991 than counterparts in jobs.[46]

Oxfam sets out a major challenge for UK social policy to prevent a "precipitous" rise in poverty in the current recession. It says: "There is also a risk that, as in previous recessions, immediate damage to people's lives can lead to long-term scarring of lives and communities. This makes it particularly important that the Government does not give in to the temptation to balance budgets by cutting back on essential public services and protection just as they are most needed." It argues that: "The recession presents an opportunity to make a step-change, ensuring that actions taken also help build a fairer, more sustainable society in which poverty is ended in the long term". [47] Its recommendations include: a more progressive taxation system; investment in infrastructure, including comprehensive energy efficiency, high-quality child care and social care and a social house-building programme; the introduction of an emergency increase in out-of-work benefits; enforcing existing employment rights; and greater commitment to equality, anti-discrimination and community cohesion.

The cost of not investing

The impact of economic contraction is obviously felt most keenly by those who lose their jobs. Unemployment is a trapdoor to the full range of social problems associated with an economic system that produces losers as well as winners. Advocates of universal public service provision see mitigation of the worst effects of being an economic loser in a recession as a desirable end in itself.

The moral case for intervention to support the most disadvantaged in society is indisputable. The form, nature and extent of intervention may be hotly debated but in the UK there is a general consensus around the desirability of providing for those who are unable to work or whose income is too low to meet their basic needs. The provision that is made for these people can be regarded as non-discretionary expenditure and there is little serious political resistance to the view that in aggregate it must be allowed to increase during a recession. This is not to say that budgets will not be put under pressure or that all elements of welfare provision are universally regarded as necessary or even desirable, but it is possible to identify areas of expenditure that will increase as a direct result of the downturn. These will include: out-of-work benefits; council tax and housing benefit; and low income benefits.

It is also possible to identify services that will come under pressure as an indirect result of the recession. These include:

- personal social services
- health, including mental health, services
- policing
- criminal justice
- social housing
- return to work
- leisure services
- debt advice
- jobsearch support.

It is axiomatic that the more the state is able to do to minimise the increase in joblessness, or at least to mitigate the financial and social consequences of joblessness, the more it will be able to avoid having to increase expenditure on other areas such as the criminal justice system. As shown in previous chapters, the public sector is a large part of our economy and delivers essential services upon which the most vulnerable in society rely the most. There is a danger that the recession will compromise the quality of our public services as demand begins to outstrip supply, and those in greatest need will suffer the most.

APSE survey results

The survey of 2,000 public sector workers conducted during research for this pamphlet showed 92 per cent think the recession is increasing demand for public services.

Typical comments from respondents include:

"Services such as benefits payment are in greater demand while the NHS takes the toll of unemployment-related stress and ill-health."

"We need to provide care and support, signpost opportunities that might not have been considered, provide training, help develop employment opportunities; improve the environment so there is not a downward spiral in the confidence and aspirations of our communities."

Public employment and services act as an anchor in maintaining social and economic stability. Cuts in the public sector will have a negative impact on key social objectives such: as reducing health inequalities and improving life chances; improving educational attainment; addressing social exclusion and poverty; and creating more sustainable communities. Ensuring resources are targeted to prevent the knock-on consequences of unemployment, ill-health, rise in crime, social breakdown, homelessness and the cycle of poverty this creates will provide better value for the public pound in the long term than reducing services at a time when they are most needed. The support, advice and assistance to businesses provided by public agencies can be a significant factor in whether they survive the economic downturn, while further and higher education institutions provide a vital role in education, research and skills development.

A minority of interviewees during the background research for this pamphlet suggested the current economic downturn could mean a change in the nature and eligibility of public services. There is, however, evidence to show that not providing services to those who need them can have a huge economic cost as well as the obvious impact on vulnerable people and on communities.

The cost to society of allowing unemployment and poverty to increase has been calculated. As referred to in the previous chapter, Professor Paul Gregg of Bristol University estimates that unemployment costs the national coffers around £8,000 per unemployed person per year and that long periods of unemployment reduce lifetime earnings by around 10–12 per cent, as many unemployed individuals resume employment in low-pay jobs with less secure tenure.

The Joseph Rowntree Foundation (JRF) has shown that poverty costs the UK £25bn a year. JRF research shows clearly that children from low-income families experience disadvantage in education, health and family life. This requires extra spending, for example on social services, to help overcome these circumstances. It can also trigger extra spending on law and order because the pressures of poverty and disadvantage can contribute to poor family functioning which, in turn, is associated with a higher rate of antisocial behaviour. JRF also estimates the longer-term economic cost of the damage inflicted on those who grow up in poverty; as adults, they have a reduced chance of working and an increased likelihood of being in low-paid jobs.[48]

The most disadvantaged groups of society would take the brunt of cuts to public spending, but even those further up the social scale may find themselves faced with having to pay for services they can little afford as the state withdraws from provision. The inevitable end result is growing inequality and, arguably, economic, social and political instability.

Public services are therefore more important than ever as a result of the recession and we need to take stock of what we have done to improve those services during a period of relatively high growth and what we need to do to sustain services and support people through the economic downturn. The next section considers whether increased investment over the last decade has resulted in improved public services and examines the way in which a strong public sector can be a building block for moving beyond the recession.

Building on progress

Summary

- Increased investment in public services over the past decade has yielded rich dividends in terms of improving the quality and performance of our public services. A continued commitment to the improvement of public services, with stakeholders involved in the design and delivery of services, will ensure greater public value for every pound spent.
- Investment in public services over the past decade has resulted in better public services, as shown in improved health, education and social outcomes and performance assessments.
- As well as direct outcomes, public services also help to sustain and support communities and families, preventing long-term social costs that would inevitably impact upon the wider economy.
- Research shows that every pound spent on local public services generates an additional 64p of spending in local economies. This virtuous cycle of regeneration would be threatened by cuts in public spending.
- The public sector has a wide reach in terms of the procurement of goods and services, supporting local employment markets and supply chains. Investment in public services can therefore provide maximum value for every public pound spent by making best use of its influence, for example by embedding skills and apprenticeships requirements into public sector contracts.
- A focus on continuous improvement of public services, with the engagement of staff and service users, is more sustainable than an approach reliant on competition and marketisation.
- In turn, this requires a better appreciation of the full range of social, economic and environmental costs and benefits of the demand for and delivery of public services. A narrow focus on short-term financial gains and the holy grail of efficiency savings risks the neglect of long-term social and economic outcomes.

"It is about doing more with less. And that means that as well as striving to deliver 'more' – stretching available resources as far as possible – we also have to embrace the 'less'. We have to start loving making savings and, as public servants, see that as a key part of our raison d'être."

Steve Freer, Chief Executive, The Chartered Institute of Public Finance and Accountancy (CIPFA)

In previous chapters we have set out the case for the vital role of a strong public sector in mitigating the impact of the recession. With demand on services peaking and resources potentially plummeting, there is undoubted pressure on public services to make the most of every taxpayer pound.

Taking stock of what has been achieved as a result of public sector reform and investment in the past decade strengthens the case for building upon improvements in services in the future rather than destroying them.

Have public services got better?

The Government's record in spending on health since 1997 has seen a doubling in real terms in health spending, bringing Britain close to the European average. It will rise to £104bn per year by the end of the current spending round in 2010/11. Similarly spending on education has increased by an average of five per cent in real terms since 1997. Spending will grow to £51.3bn a year at the end of the current spending period in 2010–11, an increase of 2.8 per cent a year in the current three-year period that began in 2008–09.

This has also led to real improvements in services. For instance, the number of patients waiting over 13 weeks for inpatient admissions in England has fallen from around 700,000 in 1998 to less than 40,000 in 2009.[49] In education, the percentage of 15-year-old pupils in all schools in England achieving five or more GCSE and equivalent grades A* to C increased from 43.5 per cent in 1994/95 to 64.8 per cent in 2007/08. [50]

The Government's record in investing in public services has been impressive; however it has been suggested that this increased investment has not resulted in improvements in quality and productivity. In 2007 the Atkinson review set up by the Government to define a methodology for the measurement of government output and productivity for the national accounts delivered its final report.[51]

In refining the methodology developed, the Office for National Statistics (ONS) has suggested that value for money in public services fell by 3.2 per cent between 1997 and 2007 – an annual average fall of 0.3 per cent. However, the ONS acknowledges that the methodology used to measure the productivity of the public sector is "experimental" and "cannot measure everything" (BBC News, June 2009). The falls were at their worst in 2002 and 2003, but the last two years of the survey – 2006 and 2007 – show improvements in productivity. This suggests that big spending increases take time to bed down and produce results.

We need to be careful in interpreting data on productivity in the public sector. It can be seen, for instance, that increasing class sizes in schools may lead to perceived greater productivity by individual teachers, i.e. the ratio of teachers to schoolchildren. But most intelligent commentators would doubt the wisdom of increasing class sizes and question the impact that this would have on the quality of a child's education overall. But there is evidence to show that there have been qualitative improvements in public services and that much of these improvements have been driven by the public sector itself. The key point is that standard definitions of public sector productivity are a poor measure of 'public value' and it is more important to look at efficiency, performance and outcomes to assess whether increased investment in public services has resulted in improved services.

In addition, spending on public services has a catalytic effect in terms of the wider economy, which cannot be underestimated – particularly during an economic downturn. For instance the New Economics Foundation (nef) has undertaken research on the social return on investment (SROI) on three services: a children's centre; early intervention around family support; and a crisis intervention project. In residential childcare SROI found that for every additional pound invested in high-quality care, there is a £4–6 additional social value, for example the extent to which someone feels their behaviour has changed and the impact on society in terms of reduced crime or demands on mental health services, or time spent with social services. A simple calculation of inputs to outputs in measuring value for money in the public sector does not tell the whole story in measuring the wider benefits of public spending.

The Government's Sure Start programme was introduced between 1999 and 2003 in some of the most disadvantaged areas of the country. The Government has now opened around 2,500 Sure Start Children's Centres, with around two million families benefiting from a range of services including early learning and childcare, parenting advice, health services and help finding work or training. A national evaluation study in 2008 carried out by the Institute for the Study of Children, Families and Social Issues at Birkbeck College found a whole range of beneficial impacts on children and their families from the investment in pre-school support.[52]

This has wider social and economic benefits, from improving parenting skills to greater levels of immunisation for children and helping parents to find gainful employment. Without this level of investment there would be other costs to the public purse that would be unavoidable and have long-term implications in terms of ill-health, social care, poor skills and training and long-term unemployment. Public services provide the glue that binds society together; they can help to sustain and support communities and families and prevent long-term social costs that would inevitably impact upon the wider economy.

After taking into consideration pre-existing family and area characteristics, comparisons of children and families living in Sure Start Local Programme (SSLP) areas with those living in similar areas not receiving SSLPs revealed a variety of beneficial effects for children and families living in SSLP areas, when children were three years old. There were positive effects associated with SSLPs with respect to seven of the fourteen outcomes assessed. SSLP children showed better social development, exhibiting more positive social behaviour and greater independence/self-regulation than their non-SSLP counterparts. Parenting showed benefits associated with living in SSLP areas, with families in SSLP areas showing less negative parenting while providing their children with a better home learning environment. The beneficial parenting effects appeared to be responsible for the higher level of positive social behaviour in children in SSLP areas. Also families in SSLP areas reported using more services designed to support child and family development than did families not in SSLP areas.

Public services and the improvement agenda

There is some sound objective evidence that a range of public services are delivering value for money and that services are improving. The Department of Communities and Local Government (CLG) has pointed out that, following the 2004 spending review (covering the period 2005/06 to 2007/08), all parts of the public sector were required to achieve 2.5 per cent annual efficiency gains as part of the Gershon efficiency drive. In fact local government significantly exceeded this target, achieving more than £3bn by 2006/07 a year ahead of schedule. "These gains represent real improvements to the way that councils do business – and the services that local people want."[53]

Further evidence of improvement in the local government sector can be drawn from bodies such as the Audit Commission. In its final report on the impact of the Comprehensive Performance Assessment of local government for 2002–2008 the Commission found that between those years:

- excellence increased, with 42 per cent of councils judged to be in the highest category of performance by 2008; an increase from 15 per cent in the first year
- weak performance became rare, with no council receiving a zero star rating in 2008 and only four at the next level, compared with 34 councils rated as 'weak' or 'poor' in 2002.[54]

The Association for Public Service Excellence (APSE) holds over 10 years' worth of data on a whole range of frontline public services in terms of their service performance through its benchmarking service Performance Networks. In parks, open spaces and horticultural services, for example, the headline cost per hectare of maintained land has decreased from £5,708 in 2006/07 to £5,664 in 2007/08, despite inflationary pressures. Over the longer term, from 1999/2000 to 2007/08, the figure has increased from £4,809 to £5,664. The average actual cost remains lower than the cost would be if an inflationary increase were applied to the 1999/2000 base figure (£5,867).

It is possible to point to many examples of solid evidence of improvements in efficiency and effectiveness in the UK public sector, which contradicts the usual mood music that public services are inherently inefficient and high cost.

Transforming public services

Public service delivery has been transformed over the past decade, in part stimulated by the reform agenda but also by releasing the skills and innovation of public servants to deliver better and more discreet public services. Examples include: improved GP surgeries and drop-in health centres (NHS Direct, which was launched in 1998, currently handles more than 500,000 calls from patients per month, thus relieving the pressure on GP surgeries); Sure Start children's centres and 24-hour online access to public services; integrated public realm and street scene services tackling local environmental issues and improving the quality of roads, streets and public open spaces; the setting up of vocational training centres such as the training centre established by Preston City Council, Preston College and the Learning and Skills Council to tackle the pre-NEET ('not in employment or training') generation of 14- to 16-year-olds by encouraging them into vocational training in the construction sector with a view to future apprenticeships and employment in building and construction.

APSE survey results

A recent example of public service reform and transformation driven by political leadership, employee involvement and trade union engagement and campaigning can be found in Newcastle City Council's City Services – the local authority's in-house IT and related corporate and back office services provider. Faced with the threat of outsourcing in 1999, the local UNISON branch and staff in the services affected campaigned with the city council to allow an in-house bid supported by management and staff. In 2002 the council accepted the in-house bid against competition from the private sector and a year later the new city services organisation began work.

The services provided have been transformed through business process re-engineering, intelligent investment, collaborative working with the private sector and the involvement of staff and the trade unions at all levels of the organisation. The services use new IT systems, CRM and streamlined back office processes to reduce waste and inefficiency and deliver better services to the council and the public.

The story of Newcastle City Services is told in a book by Hilary Wainwright and Mathew Little, which recounts how a public service was energised and transformed through the local democratic process involving shop stewards, employees and citizens and provides a model of public service transformation and improving public services at a time of scarce resources and massive technological change that threatened hundreds of jobs and the privatisation of council services.[55]

There is no great secret to improving the quality and effectiveness of public services. It is always a process of continuous improvement with strategic leadership and vision shown by public sector managers and politicians; the active involvement and engagement of citizens, public service users, staff and their trade unions; and a willingness to embrace change and innovation and to challenge the status quo and inertia. Improving the public services during a recession will require the harnessing of all of these ingredients.

Public services reform is the dominant political narrative of the age. All the main political parties are committed to improving public services through reform of public services. This dominant narrative is given a much sharper focus not only as a result of the recession and, as we have seen, the greater demand for services, but also because of the necessity for those services to be more effective in meeting the needs of citizens.

In 2008 the Cabinet Office Strategy Unit published a report called *Excellence and Fairness: Achieving World Class Public Services*,[56] which is driven by three main strands:

- citizen empowerment, with stronger relationships between service users and professionals
- new professionalism, with a commitment to achieving world-class performance by all within a decade
- strategic leadership, with Government providing strategic leadership of the system and addressing market failures, not micro-management.

It is encouraging that, in contrast to previous Strategy Unit reports, the Government has apparently shifted to an approach based more on co-operation than on competition. However, in practice there is still a fundamental contradiction at the heart of public service reform that continues to advocate the opening up of public services to a range of private and voluntary sector providers.

Achieving maximum value for every public pound

While investment in public services over the past 10 years has undoubtedly provided improvements, pressure is mounting to prove that maximum value is achieved for every public pound that is spent.

The survey of 2,000 public service managers and trade unionists conducted as background research for this pamphlet found that:

- 52 per cent expected cuts to their particular service
- 59 per cent said there was no room to make further efficiency savings without impacting on jobs and services
- 67 per cent thought the way in which they provide services needs to change in response to the recession.

Commentators across the board agree on the need to do more with the funding that is available in terms of long-term outcomes as well as short-term outputs. For example, York University professor of health economics, Alan Maynard, told us: "The major challenge is how to defend what is there when there will be increased demand: ageing population, new approaches, new techniques mean a one to two per cent increase in demand with less resources."

Undoubtedly, the challenge facing public service providers is to maximise the benefit of every pound spent both in terms of delivering improved public services and also in ensuring that there is a much wider benefit to local communities and the economy. The dangers inherent in reducing spending on public services is that such a contraction will impact adversely on local economies already hard hit by the recession. Fewer public servants spending money in local shops and businesses depresses consumer demand; and less support for local and national supply chains through procurement spending weakens economic multipliers. It is therefore worth considering the wider ripple effects of direct public spending on local economies.

The power of local economic multipliers

We have tried to show that spending on public services has an important role to play in terms of wider economic benefits. Tracking the knock-on impact of public sector spending is a way in which the tangible results can be measured.

The wider procurement and employment benefits of public spending and its cumulative impact on local economies have been the subject of further work by the New Economics Foundation (nef) into local economic multipliers:

> *"The Local Multiplier 3 (lm3) tool enables you – whether you are a community organisation, business leader, or government official – to measure how much your organisation or initiative impacts on the local economy. And more importantly, lm3 helps you work out where you need to make changes to improve that impact."* [57]

Research published by APSE has shown that through local economic multipliers public spending, in terms of employment and procurement, has a significant impact in sustaining and supporting local economies. In 2007 APSE and the Centre for Local Economic Strategies (CLES) examined the impact on the local economy of Swindon Commercial Services (SCS), Swindon Borough Council's direct service provider. Using the lm3 methodology pioneered by nef, the research looked at three rounds of spend by SCS. The research findings proved that the public sector has a positive effect in terms of its 'local economic footprint' and demonstrated the flexibility to shape local supply chains through procurement.

Over 30 per cent of suppliers had a Swindon postcode and around 32 per cent of spend was on suppliers within the local authority area. In terms of employment, 96 per cent of SCS employees lived in the local authority area, with the large majority of employees living in the most disadvantaged wards in the borough. Taken in the round, 53p in every pound was re-spent by employees in the local economy on shopping, transport and socialising, etc. A further 31p in every pound was re-spent by local suppliers in the local economy. In total, for every pound spent another 64p is reinvested in the local economy.[58]

Proving the value of the public pound in Swindon

Public services account for 18.7 per cent of jobs in Swindon. The research focused on Swindon Borough Council Commercial Services and revealed strong local employment and supply chains.

Commercial Services is the in-house direct service organisation covering street scene, refuse collection, recycling, street cleansing and maintenance of parks and green spaces, as well as recreation, building and highways maintenance. It is a key employer in the town, with 1,021 staff. Strikingly, 977 of these live within the council boundary, which meant £9m in wages paid locally in a six-month period. Commercial services invested £12m in local suppliers over that period.

Low skill levels are an issue in Swindon, and Commercial Services has a number of upskilling initiatives. The street scene service employs a high number of staff from the most disadvantaged parts of the borough. Street scene staff were asked to keep diaries recording how they spent their earnings over a set period. This showed that a surprising amount of their cash stayed local.

A 'multiplier effect' was then calculated by using the New Economics Foundation's LM3 model. Summing up total spend, spend upon local suppliers and local employees, and the re-spend of employees and suppliers in the local economy and dividing by the initial investment, the multiplier for the street scene service area is £1.64.

- For every £1 invested in the street scene service area, an extra 64p is generated in the local economy.
- 96 per cent of Swindon's commercial services staff live in the borough.
- These employees re-spend 52.5p in every pound in the local economy.
- 34.4 per cent of the service area expenditure upon suppliers goes to local companies and organisations.
- Local suppliers re-spend 30.8p in every pound in the local economy.

These findings are further corroborated by additional 'local economic footprint' measurement research carried out by APSE and CLES with West Lothian Council, which showed that the multiplier for West Lothian Operational services was a ratio of 1:59. That is, for every pound, a further 59p is reinvested into the local economy in terms of employee spend and local suppliers. When this was applied to West Lothian Neighbourhood Environment Team (NET) and land services, a sub-division of West Lothian Operational Services, the ratio increased further to 1:71.

According to the Centre for Cities, between 1998 and 2007 69 per cent of the jobs created in UK cities were as a result of public sector activity. In some cities like Birmingham and Nottingham, the public sector has provided nearly all of the growth, soaking up the impact of private sector decline.[59]

Understanding the interrelationship between local economies and the public sector is critical to building resilient places able to withstand the shock of global forces and economic recession. There is interdependency between the public, commercial and social economy that is often poorly understood. Councils and other public bodies have a strategic role in responding to skills shortages and tackling unemployment. Public sector jobs usually provide a benchmark for stable employment, terms and conditions and creation of opportunities for staff. Using the 'local economic footprint' approach enables wider strategic responsibilities to be considered alongside decisions about purchasing of goods and delivery of services. It means a virtuous cycle of spending can be developed that provides high-quality employment, promotes local businesses and social enterprises and encourages investment and innovation while benefiting the wider sub-regional economy. By better understanding the role of the public economy within the wider economy it is possible to maximise the wider economic benefits for every pound of public spending as demonstrated by the lm3 calculus.

Using procurement leverage

Targeting resources effectively means making best use of the public sector's procurement role. Total public procurement is estimated to be worth £175bn a year. A guide from the Department for Innovation, Universities and Skills points out that this offers an opportunity to invest in the nation's skills and build a more productive workforce.[60] The guide provides practical advice to those responsible for letting publicly funded contracts on how to embed skills training and apprenticeships in all aspects and stages of the procurement process. It covers all types of public contracts for products and services, from facilities management and IT to construction.

While mounting evidence shows public services have continued to improve and provide good value for money, there is a need to be able to measure non-financial inputs and outcomes as well as financial factors. Politicians, public sector managers, unions and workers are becoming increasingly aware of the importance of taking into account the full range of social, economic and environmental costs and benefits of the demand for and delivery of public services. As the public sector faces both rising needs and constrained resources, achieving the best return for communities, the environment and society is crucial.

Traditional cost benefit analysis does not go far enough in measuring the real 'public value' benefits of public procurement spending. There are important social, economic and environmental gains that should also form part of the equation in the form of wider community benefits in terms of, for instance, employment, training and local supply chains. This is often much simpler to achieve where public services are delivered directly since there are fewer procurement hurdles to overcome. The EU Procurement Directives as translated into UK law often make it much more difficult to secure community benefits through procurement such as supporting Small and Medium Enterprises (SMEs) and creating local employment, due to the non-discrimination provisions of the legislation. However, all public procurement should be measured in terms of the broader community benefit it achieves.

New approaches to improvement in public services

Encouragingly, new approaches to the way in which public services are commissioned and their impacts are measured are being explored.

A previous TUC Touchstone pamphlet challenges the prevailing market approaches espoused by public management theories.[61] It shows how the public value model involves staff and service users working together to promote accountability and develop strategies for improvement. *A False Economy*, the second in a series of reports from nef's *Measuring What Matters* programme, reveals how market approaches in residential care are in effect 'trading' the futures of our most vulnerable children, by prioritising short-term cost savings.[62] Using Social Return on Investment (SROI) principles, nef's research suggests that the Government and some local authorities are claiming to endorse a 'child-centred' approach while making cuts that betray a lack of understanding of what young people in care really need and value. And, as nef's research shows, this lack of understanding will inevitably lead to long-term social and economic costs.

The report presents recommendations that would, if implemented, provide a new public benefit model for investment in care, one that recognises the outcomes delivered (rather than 'outputs') as the key to improving services. *A Better Return*, which was commissioned by the Cabinet Office, also argues that a narrow focus on unit costs in public services commissioning is missing opportunities to maximise public benefit.[63] It demonstrates that such an approach to commissioning is inconsistent with the Treasury's own guidance on value for money. This guidance stipulates that such assessments should be based on not just costs but also a consideration of the full range of social, economic and environmental costs and benefits and on the suitability of the services to the people that use them.

Jody Aked, project manager at nef, says: "The public sector should invest in what works and have the evidence of that. There has to be some kind of reconfiguration of how we deliver services for long-term benefit."

Balancing public spending between more visible, vote-winning public services (such as roads and refuse collection) and less visible ones (such as residential care) are choices that go to the heart of what we value as a society. It is important that we understand the full costs and impacts of our public services. Yet as public services come under ever more intense pressure to deliver efficiency savings, there is too limited a focus on narrow short-term financial gains rather than long-term social and economic outcomes. That is not to say that the eye should not be taken off the need to ensure value for money and minimise waste and we advocate an approach that considers value for money in terms of equity, sustainability and quality as well as price. Too often, a narrow focus on short-term efficiency gains can overlook long-term considerations.

For example, the union Unite has identified wastage in the health service as a result of marketisation.[64] The NHS has amassed a record £1.7bn surplus according to summarised accounts published by the House of Commons Public Accounts Committee and ministers have been urged to pump money from the surplus into frontline services.[65] Gail Cartmail, Assistant General Secretary at Unite, says: "There is a waste of precious resources in transition and admin costs brought about by continuation of internal markets. We could be more proactive and it is less expensive in the long run to deal with prevention than when someone presents at the acute end of the spectrum."

There are tried and trusted methods of improving public services and maximising the benefits of public spending that should be at the core of policy thinking about how we maximise the value from our public services in the medium to long term. These methods are all related to best value and to continuous improvement as illustrated by the example of Newcastle City Services (see above).

APSE has considerable experience in public sector improvement and concludes that there is no great secret to the approach which involves: understanding the objectives and purposes of a service; carrying out a baseline assessment of existing provision and the gaps in that provision; assessing and benchmarking service performance against peers; looking at all of the means of service delivery and appraising the options; and putting in place a service improvement plan over a three- to five-year cycle, with periodic progress reviews to monitor the effectiveness of implementation. The continuous improvement cycle should involve all the key stakeholders throughout the process including management, staff, trade unions, partners, service users and the wider public in determining the best means of improving services, taking into consideration the economy, efficiency and effectiveness of all elements of the service. This approach has been advocated and implemented in many organisations by APSE since 1997, with a great deal of success leading to more integrated public service delivery; a reduction in transactions and processes; greater efficiency; and a clearer focus on the end user of the service. It requires commitment, management capacity and an ability to bring together and work collaboratively with a range of stakeholders – but it works.

Putting the workforce at the heart of public service improvement

According to the MacLeod Review, better employee engagement could do more for the success of UK organisations "than almost anything else" and harnessing the full potential of employees would be crucial for surviving the recession and making the most of the upturn.[66]

All public service organisations are under pressure to deliver cost savings, and it has been proved that employee and union engagement improve productivity and stimulate innovation. Engaging the workforce and their representatives in service transformation is key to improving services and achieving value for money. Public sector workers are at the frontline – dealing with the effect of the recession, dealing with local and national emergencies, providing the vital services the country needs – and they need to be part of the debate.

Public service workers are also needed to lay the foundations for recovery and a more prosperous future. Yet we have public sector skill gaps and shortages that need to be addressed now, through workforce planning to ensure services have the right number of staff that receive good training and development. There are serious challenges ahead that require public sector strategies, including an ageing population and a commitment to improving the UK's skills base. Responding to these challenges will require continued commitment to training and development in the public sector, including an expansion of public service apprenticeships.

Public services are major employers and purchasers of goods and services. They create jobs, provide decent pay and pensions and set a benchmark in terms of equal opportunities. The threats made to public sector pay and pensions are therefore hugely wrong sighted. Cutting terms and conditions will lead only to a return to the recruitment and retention problems we last saw in the 1980s and early 1990s.

This pamphlet has shown the importance of maintaining a vibrant public sector in underpinning the economy during troubled times and mitigating the social impact of recession. We have put the case for building upon progress that has been made in reforming public services and suggested models for maximising value for money yielded from public investment. In the conclusion we will draw these arguments together and show how a strong public sector can help the UK emerge competitively from the recession while meeting social and environmental challenges.

Conclusion: a new perspective for a new economy

1. Public services under the microscope

The past decade has seen unprecedented levels of investment in our major public services. Health and education spending has risen at a time in which the economy has been booming and employment levels were at an all-time high. After years of neglect, new schools and hospitals have sprung up across the UK and a concerted effort has been made to tackle the enormous £19bn backlog of repairs to much of the nation's council and social housing stock. Improvements in our public services have, however, often come at a high price, with the increased involvement of the private sector in delivering services and the use of 'off balance sheet' private finance to fund infrastructure investment. The continuous revolution that is the public service reform programme and increased public scrutiny has brought public services into a much sharper public focus. High-profile public service tragedies such as the death of Baby P in Haringey have increased public awareness and criticism of public services. But at the same time the magnificent response of our public services to the 7/7 terrorist attacks in London has shown how much we rely on those same public services for security, dealing with major emergencies and providing the essential services that support a civilised society.

However, our public services are coming under increasing pressure at a time that has seen the UK economy sink into recession on a scale not seen since the early 1990s – some would argue not since the great crash of 1929 and the subsequent depression. But, as the demand for public services grows to meet the economic and social costs of recession, the political debate has centred upon who pays for the recession and the failures of the financial system that led to it. It has become an accepted article of faith that public expenditure will have to be reined back some time from 2011 onwards in order to avoid Britain sinking further into the red and swingeing tax rises imposed on every citizen to meet the bill.

All the main political parties use the language of public priorities in future spending plans. Health and education will be protected along with other spending priorities in national security and essential infrastructure investment. But behind the language of priorities is the ominous threat of cuts in so-called non-priority areas. Public sector pay and pensions are already seen as potential sacrificial lambs; the pace of public sector reform is to be increased, which to many on the receiving end is merely a euphemism for more outsourcing to the private sector and ever greater budget cuts and job losses for what remains.

2. Challenging the orthodoxy

But if public services are not to pay the price for a recession that is not of their making, how do we square the circle of servicing the burgeoning national debt, while at the same time maintaining world-class public services and keeping the burden of taxation on the majority of the population at a tolerable level? There are, of course, no easy options, but given the parlous state of the country's economy and the public finances, it is certainly an opportune time for a rational debate about how we pay for our public services and what we should expect in return. It is time to challenge the orthodoxy of laissez faire free market fundamentalism, which has been so instrumental in the current crisis, and to set out a new narrative that puts public services at the heart of our efforts to manage the adverse impact of the recession and to build a competitive and resilient economy for the future needs of the country. We need to stop seeing public services as a drain on the economy and, instead, to use the term coined by sociologist Anthony Giddens, to create an "ensuring state" that has the capacity to ensure that economic interventions and programmes designed to maintain economic competitiveness actually 'join up' with the social and environmental well-being of communities.

As George Orwell once famously noted, there may be no new ideas under the sun, but one thing is certain: continuing to resort to the ideas that have led to the current sorry state of affairs in our national accounts will not get us out of the hole we have dug for ourselves. We need a new paradigm based around the wider social, economic and environmental benefits of public services and their ability to act as a catalyst for change and improvement and to create the opportunities to lift Britain out of recession and to develop a platform for future growth.

3. Investing in the future

While there is disagreement as to how long the current downturn will last, there is no doubt that the economic landscape will have changed dramatically when recovery happens. The limitations of free market approaches have been revealed and the need to build a more balanced and sustainable economy has become apparent. A vibrant public sector is key to achieving that.

This pamphlet has demonstrated the inter-dependence of the public and private sectors and that efficient, high-quality public services are crucial to surviving the downturn. We have put the case for maintaining public services to mitigate the impact of the recession, using public employment to underpin economic stability and building upon progress in service delivery and also suggested that new models could be implemented to deliver long-term value for every public sector pound. Well-targeted public sector investment, building upon all of this, can help the UK emerge competitively beyond the recession.

Investment in public services has been a key part of the unprecedented degree of UK economic stability and well-being during the last decade. In the absence of a strong manufacturing base, continued support for the sector can be the foundation for future growth once the recession comes to an end. Investment in a well-trained and well-motivated public sector workforce as well as viable transport and infrastructure is money well spent that will enable the UK to emerge from the recession in a competitive position internationally.

There is agreement among commentators on the sectors that can draw upon on the UK's existing strengths, offer growth potential and also help address long-term environmental and social challenges. Intelligent investment of every public sector pound in infrastructure and workforce to ensure the UK makes the most of new opportunities – in particular the knowledge economy, the green economy, social housing and health and social care for an ageing population – will enable us to deal with the downturn in a way that brings long-term social and environmental as well as economic advantages.

There have been signs that the Labour Government has started to grasp the nettle; with the Future Jobs Fund and measures in its Building Britain's Future strategy such as an Innovation Fund, promotion of green technologies and resources for building new affordable housing. However, critics have argued that this is too little too late and it is undermined by threats to existing public services, pay and pensions. Views as to the appropriate scope and level of expenditure on public services and how these are paid for will be the defining factor in policy debates in the run-up to the next General Election.

Any major retreat from public investment that undermines key factors such as the availability of an educated, skilled workforce or an efficient transport network could do lasting damage to future competitiveness and leave the UK at a disadvantage once the recession is over. Expenditure on these services can and should be viewed as essential investment in future innovation and enterprise. Investment in public sector housing for example, essential at a time when many face the loss of owner-occupied accommodation, can also serve as a catalyst to the necessary upskilling of the construction workforce that will ensure private sector competitiveness in the low-carbon building industry of the future.

It should be made clear that some industries and even some large individual employers are of such high strategic significance that their failure would have politically and economically unacceptable implications. In these cases government intervention in the form of cash injection may be entirely the right approach; but it is also possible that the provision of advice and assistance through public sector agencies could make the difference between survival and collapse. At a strategic level the economic development functions of government agencies and local authorities can plan, provide and co-ordinate funding and expertise to create the right conditions for successful business start-up as well as existing business survival.

But a thriving economy must go hand in hand with promoting equality and social progress. Hyman Minsky advocated a 'social vision' underlying direct job creation by government as a key plank of any policy to combat unemployment, poverty and inequality.[67] Former World Bank chief economist Joseph Stiglitz points out that economic success requires getting the balance right between government and the market and that "Keynes actually did more for the capitalist system than all the pro-market financiers put together". It is possible, in his view, to have sustained economic growth coupled with "different societies, marked with better healthcare and education and less inequality".[68]

If properly thought through, a new economic vision, underpinned by a robust public sector, could yield positive social and environmental as well as economic outcomes. The public sector can act as a catalyst for new industries to address key challenges around social and environmental sustainability. But this requires a confident and coherent long-term vision; as opposed to short-sighted attacks on public services and the workforce delivering them.

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