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NCIA Inquiry into the Future of Voluntary Services

Working Paper 4

The Ideological Context

Dexter Whitfield

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info@independentaction.net

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Foreword

This paper has been produced as part of the NCIA Inquiry into the Future of Voluntary Services. The Inquiry is specifically concerned with those voluntary organisations that deliver *services* in local communities, especially those that accept state money for these activities. These are the groups that have been particularly affected by successive New Labour and Coalition Government policies regarding the relationship between the voluntary and statutory sectors, and attitudes and intentions towards the future of public services. In this and other papers we refer to these as Voluntary Services Groups or VSGs.

It has long been NCIA's contention that the co-operative nature of these relationships has been damaging to the principles and practise of independent voluntary action. The nature and scale of the Coalition Government's political project – ideologically driven - to degrade rights, entitlements and social protections, and to privatise public services that cannot be abolished is now laid bare. This has created new imperatives for VSGs to remind themselves of their commitment to social justice and to position themselves so that they can once again be seen as champions of positive social, economic and environmental development.

Our Inquiry is a wide-ranging attempt to document the failure of VSGs, and the so-called 'leadership' organisations that purport to represent them, to resist these shackles on their freedom of thought and action. But it is also an attempt to seek out the green shoots of a renaissance that will allow voluntary agencies to assert their independence and reconnect with the struggle for equality, social justice, enfranchisement and sustainability.

This paper is one of a number that has been produced through the Inquiry and is concerned to sketch out the wider ideological context in which the UK voluntary and community sector operates in the early 21st century. In particular, it examines the changes brought about by the adherence of successive governments to the principles and practice of neoliberalism. We believe that it is only by reference to this bigger picture that the changes occurring within UK VSGs can be properly understood and strategies for opposition formulated.

This paper has been prepared for NCIA by Professor Dexter Whitfield, to whom we offer grateful thanks.

For more information on the NCIA Inquiry please visit our website – www.independentaction.net.

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1. Introduction and structure

Neoliberal ideology has dictated economic policy and public sector transformation for more than three decades. It is rooted in the belief that free trade and competition should determine the supply of goods and services and the superiority of markets to allocate resources and organise the economy. Minimum regulation of markets, economic development and the environment is intended to permit the free flow of capital, goods and services globally to create new opportunities for accumulation. Neoliberalism requires the state to be reconfigured so that it commercialises and outsources services, develops markets, and creates a flexible labour market with a pro-business climate.

Neoliberalism prioritises individual needs over collective responsibility and the public interest to minimise opportunities for collective action. It allows the state *"…to relinquish moral obligations"* (Judt, 2010).

The purpose of this paper is to examine the impact of neoliberal ideology in the transformation of public services and the welfare state and the consequences for the voluntary sector. It is divided into three parts:

- Neoliberal ideology and objectives
- Neoliberal transformation of public services and the welfare state
- Impact of neoliberal ideology in the voluntary sector

2. Neoliberal ideology and objectives

Neoliberal ideology has five core objectives that embrace free trade, competition, markets; deregulation; increasing the power of business in public policy making; reducing the role of the state; and the cost and power of labour - see Table 1.

Table 1: **Neoliberal objectives**

Neoliberal objectives

- Free trade, competition and markets to allocate resources and deliver services and state control of money supply
- Deregulate to create new opportunities for accumulation
- Deconstruct democracy to a partnership between state and finance/business and consolidate corporate welfare
- Reconfigure the state to reduce its role and taxation
- Reduce the cost and power of labour

This section examines each of these objectives in more detail.

Free trade, competition and markets to allocate resources and deliver services, and state control of money supply

The IMF, World Bank, OECD and development banks have extolled free trade, competition, deregulation and markets for several decades and imposed them through structural adjustment, development strategies, Public Private Partnerships, financial aid and bailout policies. A similar ideology underpins the European Union's Single Market project to enable the flow of trade, capital and labour across national boundaries.

Free trade agreements similarly commit nation states to deregulation, labour market reform, marketisation and privatisation policies. Several free trade agreements are currently being negotiated that will extend the austerity agenda through further deregulation, procurement and privatisation together with new corporate powers for big business (see below).

These agreements and neoliberal ideology are planned to embed and enhance corporate welfare and business benefits. They range from direct financial aid in the form of grants, subsidies, tax breaks and guarantees; market-making and outsourcing which promotes a shared client/contractor ideology, values and vested interests in which the state outsources an increasing range of services, functions and infrastructure provision; to regulatory concessions to reduce 'red tape' and the ostensible costs of doing business. Business-led partnership models of governance reduce democratic accountability, participation and transparency and lead to the marginalisation of issues such as social and economic inequalities and environmental sustainability.

States maintain control of the money supply by central banks, such as the Bank of England, raising or cutting interest rates. If interest rates are already very low, the only option is for the central bank to pump money into the economy by buying government bonds from financial institutions. They in turn have 'new' money in their accounts, which boosts the money supply. This is known as quantitative easing. The Maastricht Treaty prohibits member states from printing money to finance their public deficits, but they can do so as part of monetary policy to prevent deflation.

Deregulate to create new opportunities for accumulation

Financial markets, financial institutions, financial elites and financial values, have had an increasing influence over economic policy, accumulation and redistribution (Harvey 2005, Palley 2007, Crotty 2007). Deregulation also extends to liberalising planning and development, environmental, employment, and health and safety regulatory frameworks.

Fewer national and international rules and regulations increase the flow of capital and resources to exploit and profit from new markets, economic change and development.

Deconstruct democracy to a partnership between state and finance/business and consolidate corporate welfare

The Transatlantic Trade and Investment Partnership (TTIP), currently being negotiated, aims to roll-back any financial reforms gained since 2008, buy-local rules, tax breaks for alternative fuels, food and product safety standards, data privacy protections and limit negotiations to reduce healthcare costs. It could significantly increase corporate power through extra-judicial tribunals to protect investor rights (Corporate Europe Observatory, 2013 and Public Citizen, 2013a).

The draft Trans Pacific Partnership (TPP) has similar objectives and includes the US and eleven Pacific Rim countries, such as Australia, Canada and Japan. The TPP is primarily a US *"…geo-political exercise with a dual purpose: to construct a trade and investment bloc which reflects U.S. commercial interests and regulatory norms, and to counter the growing dominance of China in the Asia-Pacific region"* (Sinclair, 2013).

The TTIP has a similar *"…investor-state enforcement system, which elevates individual corporations to equal status with sovereign nations in order to enforce privately a public treaty by demanding compensation from governments before panels of private-sector attorneys for government actions that undermine expected future profits"* (Public Citizen, 2013b).

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) will also liberalise trade and procurement.

Despite the political consensus on increasing localism, there is increasing evidence that it is little more than a fig leaf to mask increased centralisation of decision-making. Many 'localism' projects, such as community budgets, are tightly defined and constrained by national rules and offer a minimum degree of local control. The five core neoliberal objectives require international and national policies, financial programmes and implementation strategies to ensure they are firmly embedded in economies. Genuine local control would severely limit the scope and effectiveness of neoliberalism.

Reconfigure the state to reduce its role and taxation

Reconfiguration of the state involves organisational and operational changes to increase competition between public, private and voluntary sectors and within the public sector, for example between schools and between NHS hospitals. The state adopts an enabling role in national and local economic development by providing public money to business-led organisations and an increasing array of public-private joint ventures, but with limited democratic accountability and oversight.

Reducing the role of the state in the economy and delivery of public services is claimed to reduce the cost to taxpayers and create the conditions for tax cuts. However, there is substantial evidence that the overall cost of outsourcing is not reduced (Whitfield, 2012). Furthermore, there are wider economic changes that affect taxation, such as the increasing costs of corporate welfare, large cuts in corporate income tax rates (they fell from an average 35.3% in 1995 to 23.2% in 2013 in EU-27 countries) and the falling labour share of national income in the UK and most other developed countries (Whitfield, 2014).

Reduce the cost and power of labour

Labour market reform has been widely promoted by international agencies and is conditional for financial aid and bailout funds. This takes three forms:

- Measures to cut the cost of labour by reducing or eliminating employment protection legislation, to enable employers to shorten notice periods required for dismissal and reduce severance pay;
- Reforms to improve the responsiveness of wages to labour market conditions by reducing terms and conditions and weakening the scope of collective bargaining;
- Reform of unemployment benefit by reducing benefit rates, their duration and/or imposing conditions on their extension (OECD, 2013).

These measures lead to a further reduction in the labour share of national income and reduce still further the power of trade unions.

3. Neoliberal transformation of public services and the welfare state

Neoliberal transformation of the public sector and welfare state consists of four processes – financialisation, personalisation, marketisation and privatisation. Transformation is intended to create new markets and extend private wealth creation in the provision of public services. The four processes are inter-dependent and sequential with each stage contributing to the next culminating in privatisation. There is, of course, very strong opposition to this approach to 'transformation' and large parts of the public sector remain in-house.

Table 2: **Neoliberal transformation of the public sector**

Neoliberal transformation of public services and the welfare state
• Financialising • Personalising • Marketising • Privatising

Financialising

The financialisation of personal income – increasing the penetration of formal finance into the transaction of ordinary life: housing, pensions, insurance, consumption and so on. The financial crisis revealed the extent to which contemporary finance relies on drawing profits directly from the personal income of working people and others across society (Lapavitsas, 2008).

The overriding priority is to change the individual's relationship from a service user to a customer-market relationship. Individuals must access, or buy, the service from competing providers, and if they do not like it, either challenge or change the provider. The objective is to atomise, or fragment the user relationship and to have it prescribed by market relations. *"Neoliberalisation has meant, in short, the financialisation of everything"* (Harvey, 2005).

Financialisation is intended to widen the scope for banks and other financial institutions to fund and profit from peoples' everyday needs and the provision of public services and the welfare state. Insuring against risk requires increased use of insurance, saving and pension schemes operated by financial institutions; increased outsourcing by the public sector widens the scope for loans and financial services to private contractors; the Private Finance Initiative (now PF2) and Public Private Partnerships (PPPs) are designed to rely on private investment to fund public infrastructure and services enabling that financial markets to provide new loans, additional securitisation, new Special Purpose Vehicles (SPVs) and new opportunities for profit. New and increased charges for services, tuition fees and tolls make payment a condition of access and are another method of financialising services.

The capitalisation of income streams and the securitisation of assets (mortgages, credit card, student loans, and even car loans) have enabled banks and financial institutions to transfer some risks, to profit from these transactions and to create new markets.

Personal budgets are an example of how public services are simultaneously financialised and personalised. Currently, a personal budget can be taken as a direct (cash) payment with each person purchasing services; as an account held and managed by the local authority with decisions taken by the user; as an account held by a third party provider and called off by users; or as a mixture of these approaches.

There is wide support for people receiving on-going care to have more control over the design and delivery of long-term, high intensity services. However, programmes designed to benefit those most in need of public services, such as 24-hour care, are being adapted and extended to special needs education, support for children with disabilities, long-term health conditions, adult social care and other services. The continued financialising of health and social care via personal budgets and higher education via tuition fees has profound longer-term implications for the welfare state.

Payment-by-results is intended to incentivise contractors, with payment conditional on the completion of agreed outputs or outcomes and may include achievement of savings targets, with the benefits shared between client and contractor. This attempt to increase the transfer of risks to contractors is not without its risks because they can resort to gaming, concentrating on easy wins or 'cream skimming' and disputes can arise over the cause and effect of change, which determines the level of payment.

Personalising

The design of choice mechanisms to give service users the freedom of choice over which consultant or hospital and which school their children should attend have been an important part of the personalising agenda. Choice is important, but it has frequently focused on opting out of public provision into the private or voluntary sector. Furthermore, recent governments have re-directed substantial sums of public money from the public sector into profit and non-profit academies and free schools.

There is increasing political interest in 'behaviour change', which assumes that changes in the delivery, organisation and management of services have reached their limit, and better services and bigger savings will only come about by changes in service users' values and behaviour. Advocates of this approach claim that the emphasis must shift to reduce the demand for services by eliminating 'over provision' and 'unnecessary/excess demand'. Whilst the case both for citizen involvement and for prevention strategies has been widely advocated for decades, public service demand-reducing strategies are full of pitfalls and ideological manipulation.

The offer of an individual budget, direct payment and/or vouchers/credits for users to buy their own service is another method of personalising services (and simultaneously financialising them). This process transfers the risk and responsibility to individual users by forcing them to select their own service provider and be responsible for supervising the arrangement. It atomises collective provision because individuals are encouraged to make decisions based solely on their own circumstances and interests. Trading restrictions placed on public sector providers helps to expand private provision, whilst creating the conditions for public provision to wither on the vine and to avoid direct privatisation involving redundancy and/or staff transfer costs.

Consumerism and market research have been synonymous with personalising services, but have been limited to attracting users to use complaints systems and participating in market research interviews that have a narrow perspective of service and community issues. They are trumpeted as increasing 'community participation', but do so only to a very limited extent.

The concept of 'co-production' has been promoted as an alternative way of improving public services (Compass 2008, NEF 2009, Needham and Carr 2009). However, it is fundamentally flawed because service users cannot 'co-produce' as they do not have an economic role in the production of services in the sense of financial, legal, employment, management or statutory powers, nor do they have a political mandate. Citizens, service users/community organisations and staff/trade unions must be involved in the design, planning and delivery of public services and infrastructure projects, but it is an illusion to believe this is 'co-production'. In fact it can have negative consequences if communities are led to believe they are co-producing services. Some providers may even perceive co-production as a means of mediating frontline concerns and issues, thus believing this could reduce or replace the need for advocacy.

In practice it is extremely difficult for community organisations to secure genuine meaningful basic participation in decisions that directly affect their neighbourhood, or in the services in which they are users. Most participation is designed with limited objectives and frequently to 'tick a box' to prove it has been carried out to meet policy or statutory obligations. There will be little fundamentally positive change until service users and community organisations are more powerful and new approaches to the management of public services changes the attitudes and skills of public sector staff.

Marketising

Marketisation creates the conditions whereby full privatisation becomes inevitable. Competition and contestability impose commercial values and operational systems on in-house services, often resulting in the sale of direct service organisations. It encourages public sector arms length companies and trusts to expand and diversify, become more independent of state control, which in turn is used to legitimise 'greater freedom' and full privatisation. Marketisation establishes a culture where the public sector assigns prices to functions and services, but reduces their wider economic and social value.

Market forces are imposed in different ways at different speeds in different services. Markets do not evolve naturally, nor do they emerge through self-regulation. States create the conditions, regulations and financing, and provide the legitimacy to create and sustain markets in public services. This is a political decision as much as a technical or organisational process and has five key elements (Whitfield, 2006):

- *Commercialising services* – users are treated as consumers and purchasers; services are quantified and organised so they can be readily specified and packaged in a contract; operational values are remoulded to meet commercial criteria; risks are identified and quantified so they can be priced; public agencies replace grants with contracts; and market research and soft market testing enable the private sector to influence the scope and packaging of services;

- *Commercialising labour* – tasks, working practices and jobs are standardised, routinised and reorganised to increase productivity, reduce the cost of labour and assist transfer to another employer. New working methods are accompanied by changes to job descriptions and restructuring of the workforce to increase deskilling and 'casualisation'. Management will seek to renegotiate agreements or impose changes;

- *Restructuring the state for competition and market mechanisms* – client and contractor roles are separated with public bodies becoming 'commissioners' rather than providers; market mechanisms are introduced such as public money following patients and pupils; options appraisals, soft market testing, business cases and the formal procurement process increasingly dominate management of public bodies;

- *Restructuring democratic accountability and user involvement* – services and functions are transferred to quangos, arms length companies and trusts with separate governance structures that undermine traditional structures of democratic control; participation and disclosure is limited to consultation because of 'commercial confidentiality';

- *Embedding business interests* to enable them to become more deeply involved in the public policy making process; trade bodies promote a free market in services and the liberalisation of public services.

Privatising

Once the scale of privatisation reached a threshold where further sales were complex or politically untenable, the emphasis moved to different forms of ownership and control. New ways of financialising, personalising and marketising services have been developed to speed up the 'transformation' of public services to encourage new providers and the growth of quasi markets. Policies and projects that fracture the public sector are branded as 'innovation' and receive substantial sums of public money whilst 'social entrepreneurs' receive royal honours.

Privatisation was never intended to be solely about selling assets to increase government revenue in order to minimise taxation, or to improve economic efficiency. Private ownership was a means of marginalising democratic accountability, and reducing the cost of labour and the power of trade unions. Commodified services and markets with minimal regulatory oversight ensured profits and transferred risk. New forms of privatisation were needed to outsource public goods.

Privatisation has thus mutated and there are currently seven new pathways:

- Community rights to own, challenge, contest, manage, bid, build, buy and transfer and limit council tax increases through the Localism Act 2011;
- Transfer of services and functions to arms length companies, trusts and social enterprises - this is a form of privatisation, despite protestations to the contrary;
- Social investment projects funded via Social Impact Bonds;
- Directly outsourcing services to private and voluntary sectors;
- Public Private Partnerships and joint ventures (may include voluntary sector as subcontractor);
- Personal budgets, which require service users to select a service provider, usually outside of the public sector (see above);
- Choice frameworks in which service users are given choice of service provider – academies and free schools as alternatives to direct public provision.

Commitment and ability to fulfil public service principles

Public sector principles and values should be regarded as what all providers of services strive to achieve, although the ability to fulfil them varies considerably between public, private and voluntary sectors (see Table 3). They clearly conflict with neoliberal objectives. They can be used to assess the degree of drift or gap between public, private and voluntary sector practice.

Table 3: **Public sector principles and values**

Public sector principles and values
• Democratic accountability, participation and transparency with user/employee involvement in the planning, design, delivery and policy-making processes. • Social justice to eliminate discrimination and to eliminate or mitigate adverse impacts and inequalities. • Good quality integrated, responsive and flexible services that meet social and community needs. • Solidarity and collective responsibility through universal provision for health, education, welfare, transport and the environment. • Sustainable development to take account of economic production and supply chains and conserve natural resources. • Climate change policies to reduce emissions, prioritise renewable energy, retrofit homes and infrastructure. • Quality employment with good terms and conditions, pensions, equalities and diversity, training and the right to organise. • Evidence-based policy making with economic, social, health, equalities and environmental impact assessment and cost benefit analysis. • Public goods, infrastructure and services be designed, financed and delivered by skilled in-house staff

4. Impact of neoliberal ideology in the voluntary sector

This section examines how the five main neoliberal beliefs, together with neoliberal transformation strategies, impact on Voluntary Services Groups (VSGs).

Table 4: **Neoliberal objectives and impact in voluntary sector**

Neoliberal objectives and impact in voluntary sector
• Commissioning, competition and markets
• Contract culture and corporate business values
• Corporatisation of voluntary organisations
• Reconfiguring role and erosion of advocacy role
• Reorganising and reducing cost of labour

Commissioning, competition and markets

VSGs are likely to be drawn into the commercialisation and marketisation of public services in three ways.

Firstly, by suggesting ways in which the scope of contracts can be extended to increase an organisation's competitive advantage and secure a market or niche position.

Secondly, seeking to maintain voluntary sector reputation for 'innovation' could lead to VSGs initiating proposals for new ways of delivering services, the provision of enhanced or new services with the express purpose of outsourcing.

Thirdly, by building cooperative 'partnerships' with commissioners, which seek the status of a trusted and reliable contractor. This could involve collaborative work designed to prepare services for procurement, which had not previously been considered within scope and/or identify services that could be transferred to the third sector.

The participation of VSGs as sponsors or contractors in the emerging social investment market and the use of Social Impact Bonds provides an additional opportunity to identify with so-called service innovation, and to diversify and consolidate their role in the outsourcing of public services. The social investment market extends the financialisation, personalisation, marketisation and privatisation of public services to activities and functions hitherto not considered politically acceptable for outsourcing and privatisation.

Social investment projects involve the financialisation and commercialisation of selected services to the poor and most vulnerable in society and legitimate profiteering from their needs with a relatively high 7% - 13% annual rate of return of investors. Although much is made of attracting 'social investors', banks such as JP Morgan and other promoters of Social Impact Bonds and social investment have made the case that these projects will be attractive to mainstream private investors.

The social investment project process also requires project managers, social finance arrangers for the sale of bonds, private and voluntary contractors, lawyers and impact assessment consultants. Just as government promotion of social enterprises has led to a mushrooming of advisers and consultants, a market is growing with the expansion of social investment projects.

Social investment projects are very similar to PPP/PFI projects because they are ultimately entirely funded by the public sector. The private investment is only upfront funding, but at a cost significantly higher than the cost of public finance. Projects are only viable if they achieve savings that are larger than the cost of the project, private finance and profit, and the transaction costs. The method of comparison and evaluation is crucial, particularly when the performance of social investment projects is compared with unimproved public services. This is fundamentally flawed, because there is no like-with-like comparison and there are very significant difficulties in determining the cause/effect of outcomes. Furthermore, accountability, contract management and oversight are similar to PFI/PPP projects, which are rarely acknowledged.

Contract culture and corporate business values

Commissioning, competition, procurement and outsourcing are sustained by a set of beliefs and values outlined above. But they also create a ‘contract culture’, which reinforces the beliefs and produces negative consequences for public and voluntary sectors. Aspects of this culture include:

- Public/voluntary sector language is replaced by a language of the marketplace – competition, contestability, contracts, procurement, making markets, mixed economy, level playing field, business, brokers, and soft market tests – language which is intended to change attitudes, priorities and embed the idea of marketisation in the public sector (Whitfield, 2006). Contractors are often called ‘providers’ in an attempt to reduce the distinction between the private, voluntary and public sectors. Service delivery is described as the ‘offer’ – another term steeped in commercial ideology. Global firms of management consultants are frequently claimed to be ‘independent’ when they are not. ‘Insourcing’ is increasing used to describe the alternative to outsourcing, but this establishes the principle that there should always be an options appraisal or procurement decision to decide who provides services (also a more politically neutral term than ‘re-municipalisation’);
- Public service principles and values are eroded as business practice and commercial values increasingly dominate service delivery;
- Staff are treated and valued as ‘contract employees’ (and likely to respond in turn) with a lack of job security and threat of transfer to other employers, fear for continuity of terms and conditions, pensions, training and career development and possibility of wage cuts being imposed in the bidding process;
- Different and often conflicting interests and priorities arising from the client-contractor split (such as a contractor’s vested interest in increasing income on profitable work, different views on the speed of completion/quality of work, conflict over the method and frequency of monitoring and financial penalties for defaults);

- Bidder ideology and assumptions are required in selecting which contracts to bid for and the strategies needed to 'win'. Nor can VSGs ignore the economic realities of contractor cherry picking, cross subsiding contracts, loss leader strategies, imposing wage cuts to win contracts and the use of gaming tactics to take advantage of market forces and gaps in regulatory regimes;
- There is wider use of management consultants, legal and technical advisers as contracts get larger and more complex. This is not only costly, but reduces the capability of in-house services and ultimately leads to more privatisation;
- There have already been attempts to outsource commissioning itself, which is the logical next step if the commissioning and contestability policy is accepted. This will involve private consultants and contractors assessing needs and services, writing specifications, selecting outputs and outcomes, carrying out options appraisals, managing the procurement process, evaluating bids from other private contractors and monitoring their performance;
- A greater focus on financial, operational and reputational risk in the organisation.

Corporatisation of voluntary organisations involved in outsourcing

Legal restrictions on trading by charities and non-profit organisations and the need to financially and operationally contain trading activities often results in the formation of profit or non-profit companies. This introduces dual, and potentially conflicting, objectives, operating practices and governance arrangements between VSGs principal activities and its contracting or trading company(s). In effect, one part of a VSG could be operating to one set of principles and values whilst its contracting section is increasing embedded in the contract culture.

Reconfiguring role and erosion of advocacy role

A degree of collusion with the state has emerged in that participation in markets and procurement exercises means that the financial viability of VSGs is directly linked to winning contracts. Therefore, they are unlikely to challenge government policy except to maintain and/or increase the scale of services subject to procurement. Similarly the likes of Capita, Serco and G4S do not oppose further marketisation of services, but are vociferous if the state plans to withdraw services from procurement, for example to invest in increasing public sector capability to retain services in-house.

Equally, VSGs as contractors are likely to be circumspect if other parts of the organisation wish to be involved in organising or participating in alliances opposed to government policies affecting the sector. They will inevitably want to maintain their reputation as a 'partnership' contractor.

Reorganising and reducing cost of labour

If VSGs separate trading and non-trading activities it may lead to increased power and/or operational freedom of officers involved in managing the procurement process, commercial confidentiality and contracts. Many organisations are likely to respond to competitive pressures by reducing terms and conditions in order to retain or win contracts. These same pressures are likely to lead to the erosion of public service principles and values, such as social justice and democratic governance, and being replaced by commercial values.

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Dexter Whitfield is Director, European Services Strategy Unit and Adjunct Associate Professor, Australian Workplace Innovation and Social Research Centre, University of Adelaide.

dexter.whitfield@gmail.com