The limits of institutional convergence: why public sector outsourcing is less efficient than Soviet enterprise planning

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Introduction

There is an argument in IPE that says firms, public agencies and third sector actors are converging on a new set of liberal cultural norms. (Boli and Thomas, 1997; Meyer, 1996; Meyer et al., 1997; Meyer et al., 2009; Fuenfschilling and Binz 2019). John W. Meyer contends that individuals globally have acquired a sense of equal agency through the liberalization of the social world, the worldwide expansion of education and the diffusion of scientific and social scientific thought. (Meyer 2010:4-8).

Meyer and Bromley conclude that these changes in the self-understanding of agents has created a world-wide impetus towards more reasoning, reflexive 'organizations'. The result is an individualized social order stabilized by science. (Bromley and Meyer 2013:366; 2017: 940). While Meyer admits there are likely to be gaps between the actual and potential capacities of remade organizations in any given instance he expects these gaps to drive further progress: 'The individuals and organizations so created now with the standing of agentic actors, commonly act on behalf of the great principles that empower their agency.' (Meyer 2010: 14).

There are clear affinities between these arguments for institutional isomorphism within an emerging 'world society', and the 'Third Way' political sociology of the 1990s from Anthony Giddens (1991, 1994) and Ulrich Beck (1997). Not only do they share an interest in the empowering cultural scripts of individuation. Meyer echoes Giddens' expectation of a new 'life politics' under-postmodernity in which a reflexive democracy will be brought into every sector of life and all its institutions.

I argue here that such generalized optimism is unwarranted and that to evaluate this process we need to do more than identify narrative convergence: we should investigate the qualities of the narratives themselves and the practices supposed to follow from them. To this end I take the principle observation of scientific rationality and turn it into a variable. Convergence theorists have sought to establish that scientific rationalism is an extensive development, so when we acknowledge that the quality of science varies we can add a qualifying condition to these claims. I suggest that scientific rationalism cannot be said to be in play without the application of the scientific *method*. This is not just a process of narrative discovery but one of justification through evidence. Unless agents engage in inductive review and refine their theories based on empirical evidence we are not in the world of scientific rationalism in any strict sense. Indeed, there is a huge potential to confuse science with ideology if we simply accept that the assertion and institutionalization of an interpretative narrative *per se*, in particular one that lays claim to be 'scientific', is proof of scientific rationalism. It is at best a thesis that stands on the water's edge of science. At worst it is the abuse of scientistic language for purely political ends.

As we will see this risk is also present in the social sciences when we lose sight of the contingent nature of any rationalist scheme that we might choose to apply. The presumption that a single form of universal rationality is in operation may lead to a fatal representational gap between the assertions of the given rationalist theory and the actual phenomenon that are the subject of study (Loasby, 2003: 290). If we look at the world through a single keyhole and forget that that's what we're doing then the world will start to look keyhole-shaped.

To demonstrate how much the quality of a science will matter for the institutional functions supposed to follow from it I explore the performance of UK public sector outsourcing.

Bromley and Meyer cite the New Public Management (NPM) reforms begun in the 1980s as tailor-made to enable the multi-directional social learning between state agencies, businesses and third sector organizations most likely to produce liberal rationalist convergence (Bromley and Meyer 2017: 945). NPM reforms themselves were often justified in these terms, particularly by the New Left. Public sector outsourcing was supposed to combine the best of states, civil society and markets so it offers a critical test case for these claims.

What the history that follows suggests, however, is that if there is institutional convergence at work here it is with Soviet enterprise planning. Far from empiricist scientific rationalism the neoclassical economics that justifies public sector outsourcing is a utopian script that bears more affinities to Leninism than to empirical political economic science, and this has real institutional consequences. Under both doctrines the state designs policy on the assumption that a welfare-optimizing and consistent economic rationality will operate in the governance of enterprises. In reality, however, all governmental systems in practice are made and evolve through the complex making of selective connections. It is the incompleteness of those connections that lets government adjust and innovate when they operate in dynamic and open-ended, *i.e*. social environments (Loasby 2003: 285). It follows that when we impose a closed-system rationalist doctrine on an open institutional system we are bound to create unanticipated consequences. Whether it is acknowledged or not, theoretical and policy-based representations of phenomena are always subject to Knightian uncertainty.

The story so far…

The repeated failure of public sector outsourcing in complex goods and services is not news, but a comparative economic systems perspective can help us understand why this strategy leads to chronic systemic rigidity and crises of governability. There are multiple forensic accounts of failure in particular services or by particular agents, for example Allyson Pollock's work on health system reform and Gill Plimmer's monitoring of corporate governance failures at the *Financial Times*. Using multiple case-studies Andrew Bowman and colleagues have demonstrated that outsourcing has enabled unjustifiable profit-taking on mundane contracts, egregious profit-taking in complex contracts and financial extraction and poor performance from internally incoherent outsourcing conglomerates driven by ceaseless mergers and acquisitions. They also show how the gaming of permissive accountancy rules enables the acute financialisation of public service industry (PSI) firms (Bowman et al. 2015 Chapter 1).

Bowman *et. al.* draw on Middlemas (1979) to explain the resilience of outsourcing policy through the deepening co-dependence between the state and PSI firms. The latter can game the institutional framework and dominate a relationship in which the state is forced to play catch-up as things go wrong (Ibid. Chapter 2). They also explain how even major outsourcing fiascos are immunised from criticism because the supply-side policy logic dictates that the answer 'is always more intelligent government and more competitive markets' (Ibid: 29-30). Their conclusions that structural dependency is thus deepened represents my starting point, since my argument is that the origin of these ideas in utopian economics is both the source of this dysfunction and completely disables the process of empiricist review and reform: the opposite tendencies to those promised in the theory of liberal institutional convergence.

Dexter Whitfield also shows how outsourcing has expanded in the face of a consistently high failure rates in short term and long-term, single service and multi-service strategic partnership contracts. Whitfield's empirical research spans a wide range of supply-side reforms in Europe and the result is a powerful materialist explanation for their tenacity, as NPM remakes the state in the interests of capital. For Whitfield ‘the process is designed so that each stage establishes the ideological, organisational and operational framework for the next element.’ (Whitfield, 2010:99-100). In this view policy resilience is explained by the powerful coalition of the political right with capital.

To this I would add that this entrenchment does not have to be intentional to nevertheless occur because the dynamics of entrenchment are rooted in the closed-system logic of neoclassical economics. It is in the DNA of the narrative that the only ideologically coherent response to failure is acceleration: to double-down on the institutional project on the basis that the more ‘pure’ the regime the more its virtues must emerge. This liability is *intrinsic* in utopian economic ideologies that insist on dependable laws of motion within a closed system ontology of the economy. The implication is that these systems become unspooled only once only once the disorder they create has spread to every dimension of their activity: when the entropy is total.

Through the lens of comparative economic systems we can see that when it comes to the practical mechanics of government Leninism and neoliberalism justify a nearly identical methodology of output-planning, quantification, forecasting and target-setting. But such dependence on quantitative techniques (as distinct from their ecumenical use) only makes sense in a closed-system, machine world of consistently rational agents, calculable risk and dependable laws of economic motion. It follows that when you combine the target-setting world of the state under NPM with the outsourcing contract as the junction of instruction, control and reward, public sector outsourcing recreates many of the pathologies of Soviet enterprise planning, but now in a capitalist form. It is not simply that the state is forced to play catch up: the neoliberal state gets locked into bargaining games with enterprises it can never win as it waits in vain for the promises of doctrine to kick in.

By focusing on the underlying economic ontology behind these reforms my aim is to shed more light on the power of ideas in this process. As the Brezhnev era showed, the more determined the embrace of a closed-system orthodoxy in the face of its failure the more dysfunctional the new institutional arrangements, the more powerfully embedded the new interests, the more startling the unanticipated consequences are bound to become. My thesis is that there is a ratchet effect of sharpening contradiction between methodology and reality on the application of policies that derive from a closed-system ontology of the political economy. It follows that neoliberal reforms of the state are not sustainable as a case of liberal institutional convergence based on scientific rationalism.

When you strip away the liberal-technocratic rhetoric around NPM, tax-payer funded outsourcing requires the central planning of private business or third sector actors. Moreover, the state does not wither away as the ‘organizational’ universe of convergent players expands. On the contrary, the added complexity that has come with the techniques of NPM has caused the state to become more complex and expensive than it used to be (Dunleavy et. al. 2006: 470). Outsourcing has accelerated across advanced capitalist economies but an assessment across 15 EU states found no association with reduced public sector expenditure or employment (Alonso, Clifton and Díaz-Fuentes, 2013). The following sections try to explain why.

Three of the most important insights that come from historical institutionalism are that political conflicts matter; that organization structures the mobilization of interests, and that there are path-dependencies in institutional reform (Hall and Taylor 1996). In what follows I apply each of those lenses to show how, as in Soviet enterprise planning, outsourcing builds in a ratchet effect of policy failures. These flow from the lack of empirical basis in the neoclassical theory behind these reforms, from the effective suppression of political conflict and critique under the bipartisan consensus for the New Public Management, and from the inhibition of policy-learning that follows from the circularity of neoclassical argument.

This is ideology not science

The policies associated with the New Public Management are built on a utopian not a scientific basis. Neoclassical economics is a grand ideological theory: it provides a view of what human beings are like, a view of how society works, and in the constitutional economics that has sprung from it, a view of an ideal world (Edwards, 2007). It is founded on hypothetical-deductive assumptions about reality not based in observable fact. Mirowski records how the new neoclassical economists lifted wholesale the axioms of late nineteenth century energy physics onto a terrain where they had no such empirical foundation.

The only model of human motivation simple enough to fit the borrowed mechanical metaphors from the start was that of ‘utilitarian man’ (Mirowski, 1989; Lawson, 2013). Its appeal was not as a theory of mind but as a pragmatic solution to a technical difficulty. To assert mathematics as a scientific system of economic analysis the neoclassicists needed an economic agent with consistent and reliable properties. Without a ‘homo economicus’ it would be impossible to build dependable axioms about economic behaviour. They could equate what they called utility with the formalisms of energy and thereby ‘portray the market as deterministic and as law governed as the rolling of a ball to the bottom of a bowl.’ (Mirowski and Nik-Khan, 2017: 25).

To establish predetermined rules of the economy neoclassicists had to depict it as a sealed, predetermined, isolated system: a closed system ontology. As Veblen had warned however, economists who deployed these methods could address neither systemic complexity or change in real, open-ended political economic systems (Veblen, 1898). This approach has long been criticized as unrealistic both by the more skeptical wing of neoclassical economics, with its acknowledgement of bounded rationality, informational asymmetries and market failures, and by those heterodox schools that reject the closed system ontology altogether in favor of an historical-processual understanding. But even 'second-best-world' neoclassicists who at some level recognize that social reality is open-ended remain critically hamstrung so long as they prefer the deductive mathematical approach and the closed-system ontology on which it depends (Lawson, 2013). What second-best-world neoclassicists call 'market failure' is always a failure to complete the full set of connections that is presumed to ultimately pertain (Loasby, 2003: 291). In practice however, you can mend as many points of market failure as you like but outside of a small-world, unchanging and isolated market you can never close a complete circle of connections. Moreover, the focus on micro-economic connections to the exclusion of empirical analysis around interests, ideas and institutions is likely to draw your attention away from the more obviously dysfunctional imbalances in institutional powers now underway.

Neoclassical economics as a practical reform blueprint thus places fatal constraints on representation and hence on the scope for adaptive learning and correction following the processes of trial, error and review: the scientific method. As Fleetwood explains, the process of abstraction is necessary in any kind of model but 'it involves focusing upon certain causal mechanisms without assuming the non-existence, or non-influence of other mechanisms *not* in focus at this stage of the analysis.' Moreover, while causal mechanisms can be idealised they must not be fictionalized. 'If this occurs, then claims, concepts, ideas, theories, or conclusions drawn at an early stage might become null and void at a later stage.' (Fleetwood, 2017: 1.4). As our case will show, when neoclassical assumptions are applied without acknowledgement of their utopian roots then policy-makers are in for some serious surprises.

To understand why, under the New Public Management, you will create many of the worst potential pathologies of government and business it is helpful to register the circularity of the first-best-world variant of the neoclassical doctrine behind it. This says that if multiple utopian conditions, including fully rational, utility maximizing and fully informed economic actors operate in pure competitive markets under the auspices of a neutral, 'night-watchman' state *then* you will maximize efficiency. The promise is that by implementing supply-side strategies the political-bureaucratic state will become more retractable as markets 'regain' their supposedly automatic efficiency. That assumption that market efficiency rises as the taken out of the way is derived from the general equilibrium, unique and stable, presumed to ultimately pertain: a scenario demonstrated to be formally impossible, let alone practical by Sonnenschein, Mantel and Debreu already in the 1970s. Indeed, the story is fundamentally incoherent, since 'making contracts like making markets, is a process of forming selection connections and is therefore, incompatible with the notion of a system which is already fully connected [hence] there is no role for markets within a general equilibrium' (Loasby, 2003, 292).

From the perspective of comparative economic systems the neoclassical approach has more in common with Leninism than with the political economic doctrines of the post-war era. Keynesianism, Rehn Meidner and Ordoliberalism all accepted Knightian uncertainty and imperfect rationality as givens and combined deductive and inductive reasoning. The affinities between the supply-side economics of the last forty years and Leninism are rooted in their common dependence on a closed system, machine model of the political economy and on the hyper-rationality, be it socialist or utilitarian, on which their analyses are built. Indeed in the socialist-calculation debate the socialist economists from the 1930s had claimed the Soviet system was the Walrasian auctioneer made real (Bockman and Eyal 2002). Public sector outsourcing offers a window into how these affinities play out, and the remainder of this paper draws from the UK experience as a leading 'market' in this field.

The effective suppression of political conflict

Historical institutionalists worry that the focus on cultural change in sociological institutionalism can make it 'politically bloodless'(Hall and Taylor 1996: 21). And both Meyer and Giddens tend to ascribe the decline of the old institutional order to a spontaneous emanation of a changing society in an era of global cultural rationalization (Meyer 2013: 369; Giddens 1994: 12). In practice supply-side reforms were induced through a series of highly contested and radical government decisions on the institutional ground and those decisions were rooted in utopian political-economic ideas. New Public Management reforms at their broadest have drawn from multiple schools (Gruening 2001). However, its key policies - for the disaggregation of large public sector hierarchies, for competition among providers and for pecuniary incentivisation (Dunleavy et al. 2006: 470) - were all rooted in the public choice diagnoses and free-market prescriptions of the Virginia and Chicago Schools of neoclassical economics.

Public choice theory claimed the capitalist crises of the 1970s and 1980s were caused by state failure as a monopoly supplier of goods and services and monopsonist purchaser of other goods and services (Hindmoor, 2006). This critique was based on the neoclassical methods that until the late 1950s had been applied only to decision-making in markets. Carrying the methodology across to political decision-making drove devastating conclusions about the state that are actually artefacts of the method itself. To answer their questions around why the state had grown in the post-war era, public choice theorists simply asserted that politicians, bureaucrats and their voters are self-interested economic actors like any others in a marketplace. By declaring that public officials no less *homo economicus* than economic agents in the 'private' sector the New Right could reconceive of democratic politics as a process in which politicians are entrepreneurs who compete to gain control over the resources of a monopoly: the state. To increase their fiefdoms self-interested politicians and bureaucrats will generate policies most likely to appease self-interested voters in the market for votes. By this logic democracy is doomed to crowd itself out. The demand for state privileges by self-seeking voters will never be satisfied until the state becomes totalitarian. Bureaucrats, as in any monopoly firm, will tend only towards exploitative price-making and general budgetary greed. A responsible politician will strip the state of its powers to intervene in a 'free' market: the only 'honest' mechanism in a rationally selfish world.

The micro-foundations behind this thesis are philosophically extreme. They assume a society of individuals who deploy a cold calculation of the costs and benefits of their actions and do so with perfect information about their options. The diagnosis insists we are super-humanly rational around our immediate interests but witless about social or constitutional considerations and unmoved by ethics as distinct from material gain. It assumes a voting population unable to tell the difference between the NHS and communism. It engages an antidote fallacy in pitching the failures of democratic politics understood as a market for taxpayer-funded privileges against the alternative of presumptively perfect market for private, impure and public goods. The metaphor of the state as monopoly firm is a fictional rather than an idealized representation: where a failing firm enforces a limited reallocation of labor and capital a failing state collapses the historically effective mechanisms for democratic representation, the stability of capitalism, social integration and public order as such (Christensen and Shaxson 2015).

Following the neoliberal turn of the 1980s the promise of liberal organizational convergence thus became a useful political idea. For the New Left in particular the hybridization of public service provision provided a progressive version of the new economic orthodoxy. To combine the equity virtues of the public sector with the efficiency virtues of the private sector through the experimental marketization of the state suggested 'lesson-learning' by a left forced to defend its aspirations against this new critique of democracy. The 'Third Way' hybridization of organizations promised consensus rather than the radicalism of the New Right, which put outright privatization and public spending cuts to the fore. The Clintonite New Democrats followed by Blairite New Labour rejected the post-war interventions in capitalism in favor of its 'taming'. They determined on a technocratic modernizing project that would render the supply-side revolution more socially inclusive. They sought to increase investment in technology and experiment with the new NPM by introducing it piecemeal into the welfare state, most notably in education and health. In this they failed to recognize that neoclassical economics was a grand narrative booby-trapped by utopianism.

The supply-side reforms that followed, from the bipartisan acceleration of public sector outsourcing to the agencification of the civil service to privatization, all assumed that if you shrank the state and brought business practices into what remained of it you would get the best of states and markets: a lean and more efficient bureaucracy and an innovative, productive and socially conscientious enterprise culture. ‘Competitive’ provision through outsourcing promised increased user choice and equal access guaranteed through taxpayer-funding. It promised an escape from unsustainable public debt and, in the construction of a whole new public service industry, a spur to employment and economic growth. Party political competition in supply-sider states would henceforth focus on disagreements from *within* the neoclassical narrative. At its most critical the New Left considered how to mend individual market failures to complete the purely hypothetical set of connections in a system that only presumptively tended towards a stable equilibrium in production and allocation.

Many scholars have shown how neoliberalism consequently tended to shut down effective economic choice and representation in electoral politics and with it, the vitality of the party political system (*e.g.*, Andrew Gamble, Thomas Ferguson, Colin Hay, Peter Mair, Chantal Mouffe, Lia Ypi, Jonathan White, Paul Pierson, Jacob Hacker, Jonathan Hopkin and Mark Blyth). Mouffe in particular has focused on the delusion of social consensus under neoliberalism: on the complacency of the idea that a comfortable retreat into a privatised politics was a universal option. She argued that the vision of a ‘post-political’ future failed to acknowledge the inescapable reality that conflicting interests under capitalism could only be reconciled through an active politics.

Mouffe called out this complacency as demonstrating quasi-religious faith in individual rationalism. As such it differs strongly from the belief in the scientific method that characterised classical liberalism and social democracy. It likewise overturned the Burkean emphasis on precaution and practical learning in one-nation Toryism. Indeed the explicit aim of those who drove the new orthodoxy was ‘the establishment of a world “beyond left and right”, “beyond hegemony”, “beyond sovereignty” and “beyond antagonism”’ (Mouffe 2011:

Introduction): in essence, beyond critique. These were undoubtedly democracies and not totalitarian states, but bipartisan consensus over the idea that the market was morally and functionally superior to the state created a tenacious analytical monoculture.

The adoption of the neoclassical narrative was a political act. It cannot be compared (as it has been in the constructivist case), with the scientific method as adopted by environmental NGOs, for example. In the environmental sciences and organizations committed to environmental protection, operational actions and ethics are constantly calibrated against new empirical data. Not just practice but underlying theory are constantly reviewed and revised. In the meantime the neoclassical theory behind the most important supply-side reforms, from tax competition to financial market deregulation, originated in extreme-end-of-theoretical-spectrum economic models too reductively stylized - too fictionalized - to be calibrated against social reality at all. While the hypothetical-deductive method is productive for the methodological sciences like logic, mathematics and statistics, to use nothing but deductive reasoning to define real-world problems and draw analytical conclusions for policy from *that* is a recipe for trouble, and so it has proved. (McCloskey 2005: 90). Outsourcing is a pillar of neoliberal state reform, so how has it performed in the UK, a pioneer of the supply-side revolution for over forty years?

The mobilization of resources

UK developments started in earnest with the introduction of Compulsory Competitive Tendering in local governments in the late 1980s. The Local Government Acts of 1988 and 1992 began a government strategy that grew from the buying in of simple goods and services to the system-wide outsourcing of complex public goods and services by central and local government (‘outsourcing’ hereafter). Outsourcing since the 1990s progressed through competitive tendering, partnership working (particularly in the uses of Public Finance Initiatives), strategic-commissioning and prime-contracting (Bovaird, 2016). Central government outsourcing accelerated under New Labour, from £37bn to £67b, and nearly doubled again to £120 billion under the Conservative-Liberal coalition of 2010-2015. Since the ‘legitimate use of force in a given territory’ is the classic Weberian definition of ‘the state’ the post-2010 rise of outsourcing in justice, welfare and defense indicates the profound character of these changes (Plimmer 2015).

The coalition government also eased the process: private sector companies who took over public sector staff were no longer required to hire employees on the same terms after 2010. In October 2013 it was made easier for public servants to carry their pensions over to the private sector as tens of thousands of staff were transferred to private sector management. The acceleration after 2015 made the UK the world’s second largest outsourcing market after the USA. This had been propelled by the Confederation of British Industry’s Public Services Strategy Board, whose 2011 ‘Open Public Services’ White paper proposed government open as many public services as possible to private provision. It promised that by opening up £280 billion of services, efficiency savings of 11 per cent would save government £22.6 billion (Plimmer 2015). Acceleration was not a spontaneous emanation of grassroots cultural change.

The National Audit Office estimated that by 2014-2015 UK government was spending £242 billion on private sector contracts: some £50 billion in finance capital for the funding of ongoing PFI contracts with the remaining £192 billion split in half between outsourcing contracts for provision and standard procurement. This amounted to 31per cent of total government spending (NAOa, 2016). By 2014 the UK public service industry accounted for

6 per cent of GDP and 1.6 million staff: over three times the number of Whitehall civil servants (Wilks, 2014).

Dixon and Hood have established that over the last thirty years reported UK administration costs have nevertheless *risen* by 40 per cent in constant prices despite a third of civil service numbers being cut over the same thirty year period. Total public spending over the same period doubled while the indicators for quality and fairness in service delivery deteriorated. Complaints and judicial challenges soared and running costs were driven up in outsourced domains in particular (Dixon and Hood 2015: pp.70-79). A 2014 parliamentary Public Accounts Committee inquiry into outsourcing was damning.

> Government is clearly failing to manage performance across the board and to achieve the best for citizens out of the contracts into which they have entered...So far, the contracting out of services has led to the evolution of privately-owned public monopolies, who largely, or in some cases wholly, rely on taxpayers' money for their income. The state is then constrained in finding alternatives where a big private company fails (HC777, 2014).

Lively competition was meant to drive up quality, but 73 per cent of procurement spending had been awarded to public service industry multinationals (HC884, 2016). In 2014 more than £4bn was spent on four companies alone and this raised National Audit Office concerns that firms like Serco, Capita, Atos and G4S were 'too big to fail', despite their repeated dereliction in service delivery. Outsourcing also undermined democratic accountability as it moved public spending behind the cloak of commercial confidentiality. So how should we account for the ongoing failure and intensification of outsourcing even in the face of critical review? What are the path dependent dynamics that play out once the policy is implemented? And what role do neoclassical ideas play in protecting the newly vested interests in this process even as their performance remains poor?

The analytical sins of omission

In the liberal convergence thesis the public service goals of the state become constitutive cultural components of the new public service 'organizations'. The 'paternalist' post-war bureaucracies are replaced by an individualized, client-centered organizations in which providers and clients see themselves as equal agents in the universalist image. The argument says the service ethos is not threatened through these reforms, merely 'stateness'. The neoclassical case for outsourcing says market-based solutions generate better outcomes than public systems because the governance of private organizations is more transparent, flexible and disciplined to seek efficiency by competition. So where does outsourcing go wrong? The contention here is 'at the start': at that fundamental point of disagreement in contemporary economics discussed earlier.

The basic fallacy is the neoclassical assumption that an efficient public services market can be achieved through competition between informed actors. Under perfect competition in neoclassical thought all firms sell an identical product, all firms are price-takers (they cannot influence the market price of their product), all players have complete information about the product being sold and the prices of all other firms, resources are perfectly mobile and firms can enter or exit the market without cost. Even under the neoclassical understanding of imperfect competition the implication is that market failures can be resolved to complete enough connections to make a public services market operate more effectively than a non-market system.

As in Leninism the dependence on rationalism is total but the requirement for perfect informational capacity is now situated at the individual level. Each rational actor will know past, present and future prices or accurately approximate these over time in a second-best world, (whereas under Leninism the prices are administered via the central planning agency). This is the machinery that gets us to ‘general equilibrium’: the theory that Sonnenschein, Mantel and Debreu established collapses with the addition of anything approaching complexity and hence realism to the model (Ackerman 2002).

Even within its own terms this scheme is less internally coherent than Leninism. At the equilibrium point in which supply exactly matched demand then firms logically make *zero* profit, which begs the question of why a utility-maximising firm would ever bother to achieve it. Perfect competition is obviously impossible but the idea is made more plausible because second-best-world neoclassical economists use it as a heuristic device to allow them to explore how it fails. But the implication that those missing connections can be restored in practice to any kind of stable and fully efficient completion is precisely as erroneous as the first-best version of this story. The ideological benchmarks for supply-side policy are nevertheless set. It is supposed that all firms need to create high economic performance are to the greatest degree possible, good information, complete mobility of resources, including labour and capital, and minimised costs of market entry or exit. Regulation and state interventions, including tax, are understood as an external cost burden or ‘distortion’. Liberate the factors of production and the automaticity of the market will supposedly transpire. It follows that the more the state ‘gets out of the way’ the lower the competitive, informational and social points of friction.

To sustain the mechanical omnipotence and approaching automaticity of the market in this view the firm as an organization - as an institution - must be impotent by default. As Lazonick points out its nearest real world approximation is the sweatshop. This construction rewrites the actual history of capitalist development backwards both in relation to the state and the firm. It wishes away the history of inescapable market failures in the production of public and impure public goods and the uploading of their provision to the public sphere over time. In relation to the firm, as Lazonick explains, developed markets in products, finance, labour and land are the *outcomes* not the causes of development. The idea of competitive product markets and by extension, of competitive public service markets, simply presumes the existence of businesses with the capacity to produce products of a quality that people want at a price consumers - in this case the state - are willing to pay. How such firms actually emerge and innovate is something economic history teaches us requires the active investment of households that invest in the wellbeing and education of children, of states that invest in education and health beyond the limits of the household budget, along with scientific and engineering research, physical infrastructure, transport, communications, energy systems etc. This investment triad also requires the active engagement of businesses themselves, in people, equipment, new technology and design (Lazonick, 2017). The supply-side revolution thus drives the state into retreat in exactly those areas where it has played a historically critical role in development. And yet, as the coalition Prime Minister, David Cameron, put it in 2011: 'From now on diversity is the default in our public services…instead of having to justify why it makes sense to introduce competition…the state will have to justify why it makes sense to run a monopoly' (Cameron, 2011).

The contradictions arise as soon as you consider the prospective market for collective goods because it has significant differences to the theoretical market for private goods. In most commercial transactions around simple goods and services it is relatively realistic to assume a clear customer and a clear supplier, though there are significant challenges around management and scale economies even here. Nevertheless, in a theoretical market for simple private goods the product or service is poor the consumer can move on. Performance can be effectively assessed by consumer satisfaction with the service and its price. But in 'public service markets' there may be the following difficulties, as neatly summarized by the Institute for Government:

- Lack of clarity about who the customer is – there may be a range of parties with conflicting needs (to take the probation service, is the customer the offender, the victim, the government, the courts, the society?)
- Few (or no) providers with a track record in supplying that service, and barriers to entry may be high (e.g. training costs, lack of experience)
- No established way of determining a fair price (what's the outcome to be priced? Reoffending rates, inspection ratings, feedback from users?)
- No easy way to measure performance (causes of reoffending rates, for example, are complex, but an important measure of performance,
- All markets have to contend with competition and company law, but public service markets also need additional regulation to reflect the public interest and often complex statutory obligations around a given service.
- If performance is poor, a lack of alternative suppliers makes it difficult to switch provider. (Institute for Government a)

So what happens when government outsources its multifaceted and dynamic service tasks regardless? The operative conceptions of state, market, firm and customer all prove to be fatally unreal in the prevailing ‘governing science’. The question of ‘who the customer really is’ encouraged theoretic analyses (e.g. Le Grand, 1991) and commissioning models to focus on non-choice versus choice environments for end-users of services. Insofar as the state existed in these models it was depicted as an abstract sovereign, single-shot ‘setter’ of a theoretic-deductive game within which the dynamics of choice and competition would play out thereafter, somehow autonomously. In practice the only actual *market* relationship here is that for outsourcing procurement, in which the state or state agencies remain not just the sole customer (Crouch, 2015), but also the ultimately liable party for service delivery, failures and their costs. Representation of the state’s continuous role is missing in the theory and when we recognize that the state is the real market customer here and not the end users we then have to recognize that the state is not a standard economic agent.

So what of the representation of ‘the market’? Advocates argue that the potential for outsourcing to reduce costs and improve performance emanates from the high-powered incentives for efficiency provided by market competition plus the discipline of the capital market, where owners require transparency and high performance (Jensen and Stonecash, 2005:768; Osborne and Gaebler, 1992). In practice however, given that the outsourced work is frequently to run public assets or to provide and manage teams of essential personnel, the economies of scale mean that only large businesses will tend to be eligible. Further barriers to market entry for SMEs include lack of experience with government contracting on this scale and the punitive costs of low-chance competitive tenders for smaller or social enterprises. As a result public service markets are characterized by oligopoly or monopoly: indeed if SMEs can get involved it tends to be at the mercy of practically monopsonist multinational public service industry firms who delegate tasks.

Within this context of weak market competition the further challenges that all need resolving around the values of the service, its pricing and performance measurement, around company law, contractual regulation and switching provider all depend on the quality of the outsourcing contract and its oversight. For outsourcing to work this agreement between the state as customer and the public service industry contractor needs to operate as the effective junction of instruction, control and reward. When you unpack the asymmetries in the bargaining and monitoring positions between these contractual ‘players’ and the misalignment of their respective incentives however, it becomes clear that even an application of second-best-world neoclassical reasoning leaves none of the first-best-world promises intact.

Complexity and incomplete contracts

Transaction cost and contract theory tend to agree that complex and dynamic contracts are unavoidably incomplete (Williamson, 2002: 174, 188; 2017): as such both fields are dominated by second-best-world neoclassical analyses. Both fields tend to agree that complex contracts are incomplete by reason of bounded rationality. This means that each actor wants to act rationally (understood as making informed cost-benefit analyses of their options), but they are necessarily constrained by the uncertain, contingent, complex or unquantifiable character of the task at hand. Both tend to conclude that the higher the complexity and contingency of contracts the greater their incompleteness and risks of ‘satisficing’ behavior on the contractor’s part. In contrast to government procurement for standardized goods, most public service tasks carry some and frequently all of these characteristics.

Both fields would duly note that incomplete contracts understood as ‘promises to behave’ are hardly self-enforcing because of opportunism. Moreover, the possibility that courts could resolve conflicts after the fact is limited by the same non-verifiability issues that cause the buyer's problems in the first place *i.e*. the fact that most of the behaviors within these tasks are unobserved and difficult to codify (Williamson, 1993: 93). Once such an incomplete contract is signed, however, a government hands its control typically to a monopoly business, often for many years, with the moment of contracting the single, fleeting moment of market 'competition' (Crouch, 2015).

When any unforeseen contingency arises the government will have to approach the contractor to renegotiate. This gives profit-seeking companies the opportunity to raise their price. (Williamson, 1976; Schmalensee, 1979). The switching costs around government services are also likely to be prohibitive, assuming an alternative provider is even available (Jensen and Stonecash, ibid 775). The same risks attend un-negotiated cost overruns. In theory these could be penalized by loss of contract but in practice the financial and organizational, not to mention the political cost of changing provider are typically prohibitive. The upshot is that the state has a low credible threat of exit. The government-buyer will find itself over a barrel in the face of contractors who rationally operate according to a plain text reading of the contract. Such leverage is likely to make financial savings at the beginning of the contract disappear over time, to be replaced by significantly higher costs (Williamson, 1976).

Even from the 'second-best-world' neoclassical perspective therefore it is clear that 'market failures' in outsourcing are rife and likely to prove insurmountable. Public service markets prove naturally dominated by monopoly or oligopoly firms left relatively immune from the presumptive disciplinary mechanisms of market competition. Chronic information problems arise from radical uncertainty or complexities in requirements, and from asymmetries around who holds accurate information between buyer and seller. 'Hold-up' problems arise because relationship–specific investments encourage the contractor to exploit the loss of bargaining power. Last but not least, the negative spillovers that emerge are exceptionally socially damaging. Difficult to codify tasks often intrinsic to a given public service are rationally sloughed off by private providers and families, volunteers, charities and other public services are left to pick up the pieces. As interdependent services come under satisficing corporate performance systemic failures become inevitable.

When we step away from the closed-system promises of neoclassical economics the illusion disappears that even a partial completion of market failures *must* amount to a systemic efficiency gain because even critical neoclassical accounts can tell little us about the system-wide redistributions of political-economic power that come with these policies. Apply historical institutionalist insights about how reforms create new institutional path dependencies however, and we can start to represent that bigger picture. When we do this it becomes apparent that outsourcing offers a close replay of Soviet enterprise planning, including its tendency to create a ratchet effect of systemic failure. The isomorphism is rooted in the establishment of an asymmetric power relationship between the state and the enterprises managed by it and in the hegemony of a closed-system economic ideology that inhibits critical analysis of the dynamics that ensue. Both systems create vested institutional interests that are highly socially dysfunctional; co-pendency between state and enterprise and the creation of firms too essential to the state to fail. This is a tried and tested recipe for chronic rent-seeking at the public's expense.

The reinvention of Soviet enterprise planning by other means

In practice public service industry firms as 'firms' bear a marked resemblance to Soviet state owned enterprises. Like Soviet SOEs they operate in a doom loop of low incentives for consummate performance, high incentives for satisficing performance and a lack of effective disciplinary mechanisms. Central oversight is disabled because of contractual incompleteness, no, or at best weak competitive pressure and because the necessity of unbroken production gives firms leverage over the procuring state agency. The isomorphism is not exact: Soviet planning issues were primarily about private goods and complex outsourcing primarily concerns impure and pure public goods. The affinities between PSI firms and Soviet SOEs are nevertheless extensive and concentrated in the relationship between the managerial state and the enterprise. Both systems depend on imperative planning and top down evaluation criteria that create perverse incentives around innovation and the quality and cost of production (Ellman, 2015: Chapter 2). Both systems are characterized by asymmetries in information in the planning contract at year ‘t’. The state is then dragged into bargaining games that it cannot win in years t+1, t+2, *ad infinitum* because bargaining power is only increasingly in the enterprise’s hands. Governments who outsource complex work are duly beset by what the critical economics of communism called ‘soft budget constraint’.

As Janos Kornai explained in *The Socialist System* (1992), ‘The concept of ‘budget constraint’ is familiar from the microeconomic theory of the household: the sum available to a decision maker places a constraint on the consumer's spending that he or she can choose to incur.’ So what happens, asks Kornai, if a state-owned firm’s spending exceeds its budget constraint? And what happens if this is a regular occurrence (as it is highly likely to be under incomplete contracts)? Kornai identified four forms of regular assistance, for which we can identify the functional equivalent in public sector outsourcing.

Firstly,

> *'Soft subsidy.* The adjective 'soft' implies that this is not a case of a state subsidy at a level expressly laid down for a longer period. The amount of the subsidy is the subject of bargaining…Negotiations are made either in advance, before the amount of subsidy has been laid down, or during and after the period covered by the subsidy, to improve on the sum promised in advance.

In outsourcing permissive bargaining is the most likely response towards uncodifiable contingencies and contractual overspend within incomplete contracts, at least until those costs become a source of political scandal or prove financially unsustainable, at which point the same problems are likely to begin with another provider and after high switching costs. Bowman *et al* identify multiple instances of significant direct and indirect subsidy in major UK contracts (Ibid. Chapters 3 and 4).

- 2. *Soft taxation.* 'Soft' does not imply that the amount of net income the firm is obliged to pay in (the 'tax') is low. It means the amount is subject to prior and/or subsequent bargaining. The more possible it is to 'beat down' the firm's taxation by pressure or pleading, the softer it is.

Tax-avoidant 'tax planning' is the likely primary route for large companies to soften their liabilities within 'competitive', that is to say low and lax corporate tax schemes, another plank of the supply-side revolution. In 2012, for example, the PSI conglomerates Atos and G4S apparently paid no corporation tax at all, owing to 'tax planning' (Bowers, 2013). However, bargaining is again undoubtedly part of this picture. Under its policy of jurisdictional competitiveness the UK government introduced selective discretion into the tax authority. The shift from the convention of strict enforcement to one of 'partnership' with large corporations increased the regulator's discretion but only in one direction since there were simultaneously deep cuts in agency capacity. (PSCU and TJN 2015). For supply-siders this was an active ideological choice whereas for the Soviets soft taxes were a feature of the demoralised 'bargained socialism' of the Brezhnev years, when Soviet governments had all but abandoned hope in an efficient planning system. Soft taxation is also matched by a capitalist version of…

- 3. *Soft credit.* On the one hand under the Soviet system, 'soft' refers to the situation where the credit contract with the bank does not follow general, uniform principles, but a firm in trouble can 'whine' for credit that actually includes a veiled grant.

The functional equivalent for large PSI firms in private financial markets is that credit is achieved without innovation or value-creating development but simply to gain new incomes streams via mergers and acquisitions. UK PSI firms have made massive use of debt financing to expand through M&A activity enabled by highly permissive tax write-offs against borrowing. This occurs even though the increased gearing ratio for the company (the ratio of debt to shareholder equity) makes it more vulnerable to changes in discount rates, growth rates and cash flow forecasts. Not only that, but the tendency of the stock market to cheerlead for mergers and acquisitions drives conglomerates to enter new sectors where they lack competence and knowledge (Bowman Ibid. 58).

In a world of notably elastic accounting rules, as Leaver has pointed out, large PSI firms are also increasingly levering up against the future either by securitizing their future income streams, using special dividends to holding companies in tax havens or by overoptimistically booking profits based on forecasts and estimates. This last strategy was particularly available to outsourcing companies involved in long term contracts as they could book current profits on the basis of total forecast profits, adjusted for which stage they could demonstrate they were at in the contract cycle. As an accounting trick this 'pulls income from the future' which may not reflect the actual cash-flows paid in the contract. If firms get these forecasts wrong and book a large impairment which destabilizes their business, the government is demonstrably likely to bail them out or adjust the contract to the benefit of the company (Leaver, 2018).

This reliance on forecasting is itself an artefact of a closed system ontology of the economy and the embedded concept of ergodicity: the idea that the past is a reliable statistical shadow of the future (Davidson 2007). As such it repeats the forecasting and taut planning failures long suffered through the Soviet enterprise system, but now with added financial incentives to do so. There is an additional opportunity for creative accounting in large infrastructural projects, like hospital trusts. As Hellowell and Vecchi have shown, payments to the private operator are likely to be indexed in the contract to the Retail Price Index that is typically higher than other measures such as the GDP deflator. This means that simple indexing charges in most years will provide a real terms increase in the unitary charge (Hellowell and Vecchi, 2015, 529).

Finally, Soviet firms could benefit from what Kornai called 'soft administrative pricing'.

- 4. *Soft administrative pricing…* A significant proportion of prices in a classical socialist economy are set administratively. These seem to be prices dictated bureaucratically to the firm, but, in fact, they can be 'softened' by vertical

> bargaining with the price authorities. There is advance bargaining: the goal of the firm, branch directorate, or ministry is to make the pricing authority ‘acknowledge’ the costs in the price, however low the efficiency of production. There is subsequent bargaining also. A price rise is sought if extra costs have been incurred. In some other cases a disguised price rise is made. The quality assumed when the price was set is lowered, or a good material is substituted by an inferior material, or certain finishing processes are omitted (Kornai, 1992: 141-144).

This scenario plays out within public service industry outsourcing where prices and processes are set by the valuation of target indicators priced ‘administratively’. The risk of price softening to the corporate advantage is high where the state has invested heavily in the contract or there are big costs attached to any disruption of the service, or high cost for supplier substitution (given the new opportunity for hold-up): that is to say, under the typical conditions.

Between their initial operating conditions and the state’s lack of effective disciplinary measures over time PSI firms and Soviet SOEs have far more in common with each other than with the competitive enterprises of the neoclassical imaginary. The outsourcing contract operates as a form of imperative planning instruction and not as an ‘indicative plan’ to be considered; prices are predominantly administrative and soft; contracts are typically long, incomplete and exit is punitively expensive both financially, organizationally and politically; the continuation of production is essential, hence government operates under chronic soft-budget constraints. The relationship is intrinsically politicized: in the light of chronic contractual failures in the UK the Cabinet Office now operates as the direct interface with major outsourcing companies (HC777, 2014, EV2). Demand for the good or service is typically guaranteed. Under doctrinaire governments PSI firms likewise benefit from an ever-increasing list of products to be produced. There is a nevertheless an important distinction: money is anything but passive within the outsourcing production regime.

From the taxpayer's perspective the contemporary outsourcing architecture is *more* dysfunctional in how it sets up corporate incentives than the Soviet system. Soviet SOEs had poor incentives to fulfil targets because wages were flat, political motivation was weaker than required and further undermined by corruption, and as workers if you fulfilled your target you were guaranteed a higher target the following year without reward (Myant, 1993:17). Under outsourcing, PSI firms are incentivized by their stock-holding executive pay structures and by the incompleteness of contractual specifications to sweat their contracts for profit, since beyond creative accounting measures their profit margin resides in fulfilling their contracts on the narrowest possible reading. At the same time these firms operate under powerful financial market incentives to maximize shareholder dividends even at the expense of productive reinvestment in the firm: the intense financialisation identified by multiple authors. Exceptionally sheltered from competition as they are public sector industry firms have proved more prone to financialisation than those more exposed (Haslam and Tsitianis, 2018).

The tougher any government tries to be in contract pricing the more damaging the consequences from margin-seeking by the firm are likely to prove. The 2018 collapse of the PSI multinational Carillion was not so much a freakish case but typical of PSI multinationals acting rationally under the prevailing incentive structure. Carillion's management misjudged when the capital market would call 'time' but as Plimmer, Leaver, Haslam and Tsitianis have shown the entire sector has long tended towards deepening debt, self-cannibalizing payout ratios and poor service provision so permissiveness in an expanding market has rather been the rule. Another conglomerate, Interserve, went into administration in March 2019.

The standard defense of monopoly is that reputational effects discipline dominant firms against satisficing behavior. But with doctrinaire governments structurally dependent on the survival of dominant firms the reputational damage to poor providers is evidently nil. A Public Accounts Committee investigation found that Serco and G4S were awarded fourteen new contracts by five Departments worth £350 million even as they were investigated by the Serious Fraud Office for defrauding the Ministry of Justice. This happened though the Justice Minister, Chris Grayling, had committed to make no awards until the case was resolved: the MoJ was among the five (Plimmer and Neville, 2014). Interserve put out profit warnings in May 2016, October 2017 and November 2018 and was awarded £665 million in public contracts through 2017-2018 (GMB 2019).

Sins of commission

It is in the nature of a utopian and circular doctrine that orthodoxy is hard to recant in part, as the history of failed attempts to reform Leninism proved. Accept the realities of epistemic uncertainty and ontological indeterminacy and the micro-foundations of neoclassical economics fall apart. Once collapsed the concepts of power and interest must come flooding back in to a degree that would challenge the supply-side project as a whole. Reject general equilibrium and the chaos of the market returns, with all that implies for the necessary interventions of democratic politics and non-market institutions. Under neoliberalism as under Leninism the misapplied language of science must forestall application of the scientific *method* and the recalibration of theory based on evidence because the political stakes are immediately high. What happens instead is the commission of increasingly paradoxical solutions.

Following its highly critical 2014 inquiry, the cross-party Public Accounts Committee concluded that government should tighten the negotiation and cost component of contracts and improve the commercial and corporate expertise of the state. It also said that contractors needed to demonstrate a higher standard of ethics (HC777, 2014): a polite request that PSI firms become the purely honorable value creators of the Chicago school imaginary. These solutions failed to address the misconceptions of the basic model and hence the inescapable incompleteness of contracts for complex services, the financialisation and low competitiveness of PSI firms and the state's dysfunctional structural dependency.

However, if we stay within doctrine and consider what it would actually take to create competitive service markets and sustain them against their historical tendency to fail, or to somehow construct a bureaucratic analogue of a functioning market, the necessary administrative effort would make Brezhnev blush. The Institute for Government is a UK think tank that works closely with Whitehall on administrative reforms. To tackle the higher complexity of public service markets the Institute designed a 'market stewardship framework' and it is worth reviewing because it sets out what the most critical, *i.e.* second-best world neoclassical economics could say about how to improve the situation. The IfG notes that whereas 'Commissioning models often focus on understanding user needs and choosing the right providers market stewardship takes a broader perspective, considering how to set the rules of the market so that competition between those providers works effectively'. As such it seeks to complete the supposedly complete-able circle of market connections. Their framework requires the following:

- Determine the outcomes you are looking for, balancing the needs of all those affected by the service
- Ensure there is enough money to pay for the services required
- Ensure users have good information on which to base their decisions
- Decide how to encourage new entrants into the market
- Decide the criteria to use for selecting providers
- Decide how to monitor performance, reward high performers and punish poor performers
- Decide the process for switching providers if performance is not acceptable, while maintaining service continuity and standards (Institute for Government b.)

While these remedies are consistent in theory they are extraordinary in their practical implications. In the first place, the requirement to ‘determine the outcomes you are looking for’ while ‘balancing the needs of all those affected by the service’ is driven by neoclassical logic more than by any realistic chance that this is possible. In the uncertain, complex and dynamic world in which we live the more government tries to comprehensively anticipate and quantify outcomes the more bureaucratically rigidified they are bound to be. Even without attempts to build ‘complete’ outcome indicators, contract theory has warned that where any agent has to perform a number of different tasks the effort will be allocated to the task most easily measured and hence rewarded. Increased productivity may duly come at the expense of output quality (Holmstrom and Milgrom, 1991). Around the problem of measurement Hart, Shleifer and Vishny (1997) modelled how, in a world of incomplete contracts, the private sector’s incentive to reduce costs may overwhelm the incentive to improve quality if quality is difficult to measure (*i.e*. it is non-contractible). These are the risks *before* you add contemporary financial market pressures for firms to pay out ever higher dividends. But the Soviets had identified these problems many decades before.

The combination of cash limits and targets under communist planning created perverse incentives against innovation or performance optimization. Indeed, so long as the objective was to fulfil the agreed plan target there was no incentive to reach any level of output, sales or profit defined away from the sphere of bargaining (Myant, Ibid). Indeed the greater the clarity of the performance outcome, the lower the incentives for appropriate adaptation, initiative or innovation (Kornai, 1992, 118). The accurate planning of outcomes also depends on forecasts, which in turn depend on good information about the *status quo*, which takes us back to the false assumptions of ergodicity and that PSI firms will be nothing but honest and comprehensive in their reporting. The intensification of payment-by-results incentives in PSI firms and pseudo-synoptic outcome targets would take outsourcing only deeper into the private 'orders of importance', misreporting and widening discrepancies between production and allocation that characterized the Soviet planning system. As Kornai noted of the Soviet system, as the regulatory net was not dense enough to cope the holes had to be plugged with a succession of new regulations and so the bureaucracy only grew (Kornai, 1992: 130). The more comprehensive the UK's imperative planning the more government agencies would have to develop synoptic planning and oversight capacity not just over but *between* all practically interdependent contracts. Again, this means only deeper entry into the planning world of the Soviet enterprise system, known latterly as 'the economy of shortage'.

In the Soviet Union the distorting effects of extensively determined target outcomes were long understood but criticism was impolitic until Stalin's death. His successor, Nikita Khrushchev, had sought to reduce the number of indicators in national plans (1954-1956).

Subsequent discussions under Yevsey Liberman laid the groundwork for the Kosygin economic reforms of 1965, eventually thwarted by Brezhnev. These focused on the too numerous and often mutually contradictory success indicators to which Soviet enterprises were subject and tried to reduce targets and increase enterprise management flexibility (Laverty, 1982: 210-214). Since the Soviets abandoned synoptic enterprise targets over half a century ago as excessively bureaucratic it hardly smacks of scientific rationalism to find them at the methodological frontier of neoliberalism.

To stay with the Institute's list of stewardship requirements: to ensure enough money to pay for services is always important but it becomes harder with outsourcing given the asymmetries between supplier and buyer already discussed. As the Public Accounts Committee concluded, cost overruns are a chronic feature of outsourcing and by no small amount. In 2014 the National Audit Office concluded that the Aspire IT contract with Her Majesties Revenue and Customs had cost double the original contracting price and with double the profit for the contractors (Stokdyk, 2017). Without practical solutions to contractual power asymmetries this ratcheting up of costs is destined to continue, as it did under Leninism even without the systematic financial extraction.

The stewardship requirement that users operate with good information is both misleading and more difficult than it sounds, but suffice it to say that for the market metaphor to add up the end-user 'customers' must be able to make an informed choice, and a choice has to exist, and this picture is disingenuous for the majority of outsourced services. To take just one example: disabled people who need to access their financial support are not shopping for a handbag. Guaranteed demand in the market for private goods is typically a recipe for poor service and price-gouging in the absence of powerful regulation.

The instruction to resolve information asymmetries between buyer and seller is a purely theoretical artefact. It flows from the neoclassical microeconomic logic of customer and seller in a competitive market for simple goods in a closed system. But again, the state is not a standard economic agent. It is typically mandated if not statutorily required to provide individual services while balancing the needs of all as relate to that service. To believe you can satisfy the state's needs as a buyer by improving customer information you have to assume that the choices made by informed end users will be compatible with the wider social interest that the state is mandated to protect, but they rarely are. The problem is well illustrated by the chronically higher pupil exclusion rates of the outsourced Academy school system in England. Social policy research has long showed the welfare state to be accessed most effectively by the educated middle classes but is it progress to build this bias into the production regime?

To continue down the Institute's list: to encourage higher public service market competition the state should encourage entry not just by more large firms but also SME and third sector providers . Diversified contracting might be better managed by well-resourced local authorities around tasks that can be clearly defined (though likely poorer in the conditions of employment). However, to manage this centrally raises serious challenges around economies of scale, the bureaucratic costs of managing multiple small contracts and the capacity of smaller contractors to compete for, let alone manage larger contracts at a competitive price. There is also the risk to SME's from failed tenders. As a form of stewardship this market-making also requires analytical contortion. The rational state-as-standard-economic-agent (no longer the Leviathan of the original public choice diagnosis) now has to think not just about its immediate financial interest but has to build a better future market for itself as the customer, regardless of the increase in logistical complexity and increased transaction costs from *that*. It also has to take on liabilities if those contractors fail. Imagine a market for bread where the condition for buying your daily loaf is an additional commitment to buy several days a week from multiple local artisanal bakeries at marginally higher immediate cost, where the service or total failure of *any* supplier means you become personally liable for supplying their fraction to the local population. Under such conditions the rational consumer would probably learn to bake their own.

The difficulties likely to confront the last three requirements for effective ‘market stewardship’ have already been considered, but it is worth reflecting on the PAC’s 2014 recommendations that government increase business expertise within the state. Indeed, a consistent government and parliamentary response to repeated contractual failures has been to blame the insufficient transformation of public employees into skilled market agents. With the private sector considered a reserve domain under neoliberalism, the state is the actionable sector left. The result however, is an increase in revolving-door appointments into the senior civil service; in-house expertise is lost as state capacity is outsourced more directly to private companies; civil servants and MPs who criticize the underlying doctrine on the basis of evidence are unlikely to advance in supply-sider governments and all the while important strategic information flows out asymmetrically to the private sector.

It was particularly under Stalin that specialist knowledge was often screened out on the basis that experts were politically unreliable, though clearly his methods were uniquely brutal. Real authority was given instead to those who lacked competence but supported orthodoxy (Ellman, 2015): the opposite of scientific rationalism. In practice successive supply-side governments have continually endowed already failing PSI firms and the major accountancy firms already proved incompetent (*c.f.* Carillion) with new contracts and policy-making influence. This is a degree of practical corporate state capture we only otherwise find in systems we categorize as highly corrupt. As in the Soviet system the result is an increase in both avoidable ignorance and systemic risk. While there has been no 'terror', people have died from neglect and satisficing corporate behaviour, for example in the fiasco of outsourced Personal Independence Payments for people with severe disabilities.

Conclusion

This paper contests the thesis that there is a constructive and socially organic trend towards scientific rationalism across the organizational board: a process that 'rapidly turns the chaos surrounding human life into articulated uncertainties and structures the proper management of the risks involved' (Bromley and Meyer 2013:370). It also challenges the public administration scholarship which maintains the supply-side shift is toward 'a plural state, where multiple interdependent actors contribute to the delivery of public services, and a pluralist state, where multiple processes inform the policy-making system' (Osborne, 2010: 9). My argument is that these analyses mistake doctrinal promises for institutional reality. Supply-side reforms were the product of a radical political project conceived in utopian economics, not of a spontaneous and Enlightened cultural shift. Institutional convergence in the political economy of the state has duly failed to take a progressive scientific form. To the contrary, we have seen the most dysfunctional potentialities of states and markets grow from seeds sown in the hypothetical-deductive method of a pseudo- 'governing science'.

The resulting path dependencies are nevertheless transformative. The development of highly networked institutional fields of business around an expanding public service industry sector has been reinforced by rights-to-tender enforced by domestic and EU competition rules. This has built a powerful lobby for further expansion of PSI ‘markets’ (as distinct from their deepening) even though the existing market is characterized by concentration, poor-to-atrocious performance and increasingly Kafkaesque but inescapably lagging bureaucratic oversight. Given ongoing parallel cuts in core civil service capacity and bureaucratic Taylorist drives towards disaggregated administrative function, the paths are laid for multi–level institutional asymmetries in resources, information and political-economic power.

More than any reversion to public provision or towards the methods recommended for an improved market stewardship, the central UK government’s solution under post-Financial Crisis ‘austerity’ has been to accept only the lowest cost outsourcing bids as a matter of course. This follows from the neoclassical emphasis on cost efficiency as ‘the correct line’. The result is a serious adverse selection problem. Given the objective difficulty of knowing what accurate pricing in complex and uncertain contracts might be, only companies with low regard for service quality and most determined to deploy a strategy of ‘hold up’ will rationally underbid for contracts when they have no guarantee they can stay within those margins. Carillion was just such a repeat ‘winner’ in competitive tendering and its liquidation alone cost UK taxpayers some £148 million (BBC 7 June 2018).

The accelerated outsourcing of complex public service tasks has resolved the always hypothetical bureaucratic rent-seeking behaviors of public servants by creating still-expanding opportunities for systemic rent-seeking by highly financialized large private business actors, while the taxpayer continues to foot the bill. Moreover, the new production regime is less covered by ethics codes and informational transparency than the public systems of before. The result, as in the Brezhnev era, is epic scope for moral hazard. Deteriorating service quality, rising cost and the demoralization of de-professionalized public servants are baked in to the prevailing incentive system around outsourcing, as they were under Leninism. Rational people are incentivized to do damaging things, and conscientious people have to spend additional effort to limit the harm inflicted by the systems within which they work. To put this back into political cultural terms: if we insist on uploading a high modernist script of the political economy as predictable machine, actors as hyper-rational and society as amenable to codification, quantification, managerialism and target-setting, and if we insist on selling this to the public not as an ideological doctrine but as the technological frontier of ‘scientific’ progress, then we should expect to hear the mordant laughter of Soviet ghosts.

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