WHY WE NEED PUBLIC SPENDING

A REPORT FOR EPSU & PSI
BY THE PUBLIC SERVICES INTERNATIONAL RESEARCH UNIT

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In 2008 the collapse of the Lehman Brothers bank was the catalyst for what became a global financial and economic crisis. However, a complete meltdown of the system was prevented as governments around the world intervened, mobilising their resources and bailing out the banking and finance sector. A clearer case for the value of public spending could not have been made.

Unfortunately, this was not the turning point that some expected. Many national governments and international institutions – the International Monetary Fund and European Commission included – decided that public spending was not part of the solution but part of the problem. Austerity became the order of the day with deep cuts imposed, and continuing to be imposed on many public services around the world.

The result has been years of recession and rising unemployment. And it is back to business as usual. The deregulation that contributed to the depth of the financial crisis is once again the order of the day, with the focus now on the public sector and the various laws and institutions that provide protection for workers and their trade unions. The role of the public sector in containing the crisis has been forgotten and the attacks on public spending and public sector workers have been resumed.

It is all the more important then that we make the case for why we need public spending.

In 2009 PSI commissioned the first version of this report from David Hall of the Public Services International Research Unit (PSIRU). EPSU and PSI have come together to fund this revised and updated version which we believe will provide our affiliates across the world with valuable facts, figures and arguments to defend public spending and public services and public service workers.

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Introduction

This report aims to explain why public spending, in particular on public services, is economically and socially vital and not an economic liability. Rising public spending has been part of economic growth for over 100 years; it supports half the formal employment in the world, much of it in the private sector; it delivers services like healthcare and public goods like renewable energy more efficiently and effectively than the private sector. Public spending is an important way of creating greater equality, not only through benefits but through public services.

The aim is also to show that extra spending can be financed easily in all countries by taxing the rich, eliminating corporate tax evasion, and property taxes and that public spending and government borrowing are far more efficient ways of funding and providing services than public-private partnerships or privatisation.

Austerity policies are being applied in many countries. Government spending and deficits are identified as key economic problems. But government deficits are the result of the crisis, not a cause of it. Austerity damages the prospects for economic growth, rather than improving them. It is being implemented as a way of reducing the role of public services, public employment and public spending (see section 1).

Far from being a burden on the economy, public spending has had a consistent positive effect for over a century. This positive link works in developing countries as well as high income countries. Public spending supports economic growth through investment in infrastructure, through supporting an educated and healthy workforce, through redistributing income to increase the spending power of poorer consumers, providing insurance against risks, providing direct support for industry, including through technological innovation, and increasing efficiency by taking on these functions (see section 2).

Public spending supports employment, in both high income and developing countries, through: direct employment of public service workers; indirect employment of workers, by contractors supplying outsourced goods and services; employment of workers on infrastructure projects; extra demand and jobs from the spending of the wages of these workers and also of recipients of social security benefits (the 'multiplier effect') (see section 3).

The combined effect of these mechanisms is to support half the formal jobs in the world; subsidies to support employment by private companies, or by providing employment guarantees; providing formal jobs with decent pay and conditions; government procurement is used to require 'fair wages' from private contractors, to reduce gender and ethnic discrimination, and strengthen formal employment of local workers.

The purpose of public spending and public services is to achieve public objectives. These objectives include, for example, ensuring universal education and universal access to healthcare; environmental objectives such as the reduction of greenhouse gas emissions and management of waste; and economic objectives such as full employment. In a wide range of areas, these objectives are most effectively and efficiently achieved through public spending and public services and three policy areas are examined where public spending and public services are key – healthcare; housing; and climate change (see section 4).

The growth of profits at the expense of income from wages, and the rise in the incomes of the richest households, have created large and growing inequalities, with damaging economic and social effects. Along with trade unions, public spending and public services are the most powerful engines of greater equality.

Public spending redistributes money income through social security benefits, but public services make an even greater contribution to equality. The value of public services is equally distributed, and in the more advance economies that are members of the Organisation of Economic Co-operation and Development, this is equivalent to an extra 76% of the disposable cash income of the poorest 20%.

In Latin America, public services have the same effect, making a greater impact on equality than social security benefits. In Asian countries too, the benefits of public healthcare and education are powerful equalising mechanisms. Infrastructure for electricity, water and other services not only increases access for all, but improves employment opportunities, especially for women. And through employing more people on better pay and conditions, public services also improve income equality (see section 5).

Government revenues consist of taxes of various kinds and income from other sources. Countries with higher economic output (GDP) have higher levels of taxation, so an increasing level of taxation is a key part of economic development. The total amount needs to be sufficient to pay for spending on public services and social security, and the burden of taxation should be fairly distributed.

However, the neoliberal policies that argue for a greater role for the market and a rolling back of the state have attempted to reduce taxation, and have shifted the tax burden away from the rich, and corporate profits, on to ordinary people. All countries could increase their revenues substantially, just by increasing taxes on high incomes, property and corporate profits. This requires action to strengthen tax collection systems, and to deal with tax avoidance and the use of tax havens (see section 6).

The supporters of austerity programmes argue that government debt damages economic growth, but there is no evidence to support this – a Harvard University paper which claimed to find a connection has been discredited. Government borrowing is a key economic instrument for driving economic activity, and is much cheaper than borrowing by private companies, which have to pay much higher interest rates. Privatisation and public-private partnerships are unnecessary, costly and damaging ways of raising money (see section 7).

Changing current policies depends on political activity. Market mechanisms do not deliver the level of public services which countries need. The decisions which drive the development of public spending, or the imposition of austerity, are the outcome of political processes at national and international level (see section 8).

1 CRISIS AND AUSTERITY

Crisis and austerity

Austerity policies are being applied in many countries. Government spending and deficits are identified as key economic problems. But increased government deficits are mainly the result of the crisis, not a cause of it. The austerity policies damage the prospects for economic growth, rather than improving them. They are being implemented as a way of reducing the role of public services, public employment and public spending.

Crisis, recovery, bank rescues and public spending The world economy has been hit by recession since the financial crisis of 2008, as a result of the unsustainable speculation by banks and financial services companies. The crisis was not caused in any way by government spending. But in response to this crisis and recession, government deficits and public spending rose everywhere – table 1 shows the actual pattern of spending - for three reasons:

· Government deficits automatically increase in recessions, because taxes fall and spending on benefits rises. Combined, this partially protects people from the fall in their incomes, and acts as an economic stimulus which partly offsets the effects of recession.

· Secondly, there was a globally coordinated deliberate expansion of public borrowing in most countries in 2009, which successfully injected a significant stimulus to the world economy, largely by increased public spending.

· Thirdly, through the massive debts adopted by some northern governments to rescue banks. This involved injecting capital by buying shares and providing government loans to banks, as well as general government guarantees on bank loans and deposits, and provision of greater liquidity. The IMF described this as *"an unparalleled transfer of risk from the private to the public sector"*. (IMF 2008)

Table 1.1 Government spending as a % of GDP, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
High income countries (average)	38.6	38.7	40.6	44.6	43.3	42.7	42.1
Euro area	46.6	46	47.2	51.2	51	49.5	50
United Kingdom	40.1	39.8	42.4	46.8	46.1	44.7	44.8
United States	34.6	35.5	38.1	42.8	41.1	40.2	38.8
Japan	34.5	33.3	35.7	40	38.9	40.8	41.3
Korea	21.5	21.9	22.4	23	21	21.4	21.4
Developing countries (average)	26.9	27.4	28.6	30.1	29.6	29.3	29.9
Asia	20.8	21	22.3	23.9	23.3	23.9	24.8
East Europe	35	35.7	36.9	41.1	39	37	37.6
Latin America	29.5	30.4	31.8	33.2	34.3	34	34.7
Middle East and North Africa	34.7	33.7	34.6	33.6	32.8	32.7	33.8

Source: IMF 2013

"Nationalise to save the free market"

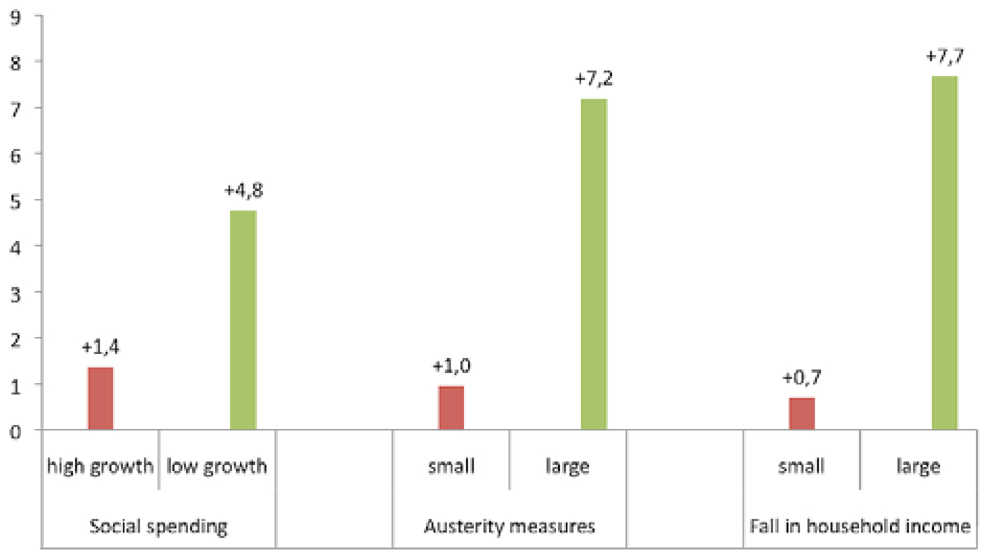
In October 2008 governments across the world were nationalising banks to avoid a financial collapse. *The Financial Times*, a leading global business newspaper, re-assured its readers that this did not mean that the banks were becoming part of a public sector: "Does this rescue mean the end of private financial capitalism? Of course not. These leaders are not putting capitalism to the sword in favour of the gentler rule of the state. They are using the state to defeat the marketplace's most dangerous historic enemy: widespread depression. And they are right to do so." (FT 2008)

This rescue of the banks totals about US $1900 billion (€1380 billion), without taking account of longer-term costs. This is equivalent to the total value of all the privatisations carried out worldwide in the last 30 years, which raised about US $1,800 billion (€1300 billion). So the public sector has injected more capital into the private sector in one year than the private sector has paid for state enterprises in the last 30 years. The difference is that the public sector now owns the useless burden of bank failures, while the private sector owns many profitable utilities and service companies.[1]

[1] Privatisation Barometer 2008 makes a similar assessment of the relative impact of the support for the financial sector and the cumulative total of privatisations: "governments worldwide acquired more assets from the private sector [in 2008] – probably exceeding US $1.5 trillion (€1.1 trillion) in bank stocks and loans – than they divested….. This figure is impressive, especially considering that global privatization revenues from 1977 to date are worth the same amount."

Austerity, social damage and economic growth In countries which have imposed greater austerity, more families are unable to afford food, there is higher unemployment, worse inequality, more poverty and even lower fertility rates. The chart shows that countries with higher growth in social spending have seen a much smaller rise in unemployment; that unemployment has risen by an additional 6 percentage points in countries which have imposed large austerity cuts; and that this makes as big a difference as the scale of recession itself, through the impact on household incomes (OECD 2014A).

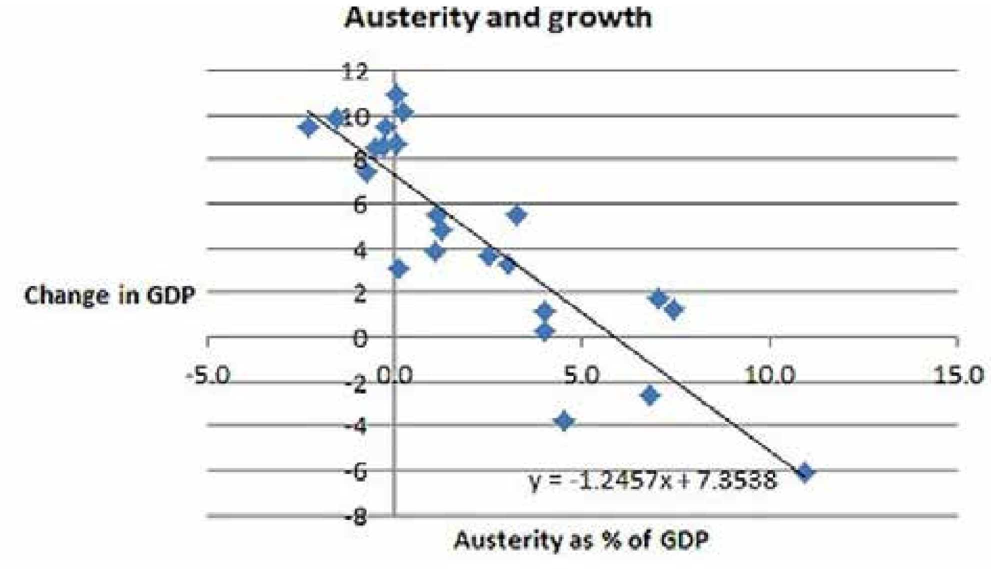
Chart 1.1: Effect on unemployment rates of austerity policies and recession in OECD countries 2007-2012



Source: OECD 2014A

The advocates of austerity policies claim publicly that they will restore economic growth and thus also increase employment. However, the empirical evidence, both from the current policies in Europe, and from previous experience in developing countries, is that austerity is not leading to growth, but suppressing it. The chart below shows that the greater the austerity, measured in terms of reducing government deficit, the greater the fall in GDP.

Chart 1.2: Austerity and growth 2009-2011



Source: Krugman 2012

Previous evidence already showed that austerity damages rather than helps economic growth:

· a research paper from the International Monetary Fund (IMF) published in August 2012 confirmed that reducing government deficits is extremely likely to damage growth, especially in recession. It concluded that: "withdrawing fiscal stimuli too quickly in economies where output is already contracting can prolong their recessions without generating the expected fiscal saving.." It also found that any 'confidence effects' "do not seem to have ever been strong enough to make the consolidations expansionary", so the supposed trade-off of restoring market confidence never compensates for the damage (IMF 2012A).

· in the October 2012 edition of its *World Economic Outlook*, the IMF reported that all forecasts of economic growth following austerity have been systematically overstated by a large margin and bluntly that the relationship between forecasts and actual outcomes is "large, negative, and significant" (IMF 2012B).

· an analysis by the United Nations Commission on Trade and Development (UNCTAD) also found that in nearly all cases, the outturns in terms of GDP growth were worse than the IMF forecasts, and concluded that: "This record of failed IMF-sponsored adjustment programmes suggests that they are based on a fundamental macroeconomic misconception" (UNCTAD 2011).

· the IMF programmes, and the European Union's economic policies, also require changes in economic governance and regulation, so that business is less constrained by regulation of all kinds, including labour conditions and regulation of the financial sector. But these favoured policies are not just useless, but positively damaging. An IMF report found that: "the countries with the best ratings in terms of public sector regulatory framework, as well as those countries with the most far reaching financial deregulation, were hit the hardest economically" by the crisis; and an OECD report also found that: "the indicators of the quality of public sector regulations—which proxy the "market friendliness" of the economy—are negatively correlated with economic growth" (IMF 2011A).

The aims of austerity Austerity policies have other underlying objectives, which are not connected with growth. The main aims are:

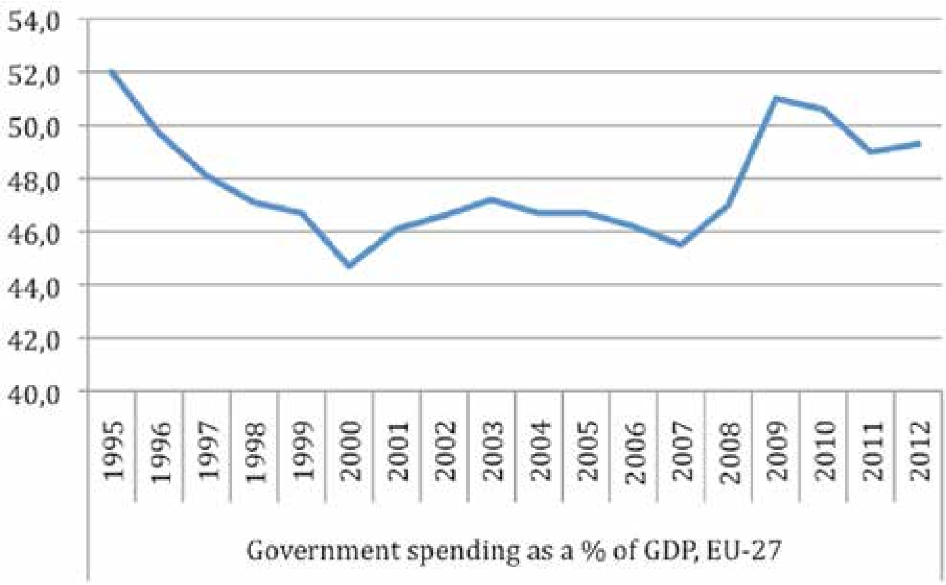
· to reverse the long-term upward trend in public spending (see section 2);

· cut back the growth in public spending on pensions and healthcare expected because of the demographic ageing of the population in many countries; and

· cut back on employment in the public sector.

Right-wing governments, the fiscal constraints of the EU economic and monetary union, and constant pressure from the IMF and World Bank, had mostly succeeded in slowing or reversing the growth of public spending by 2007, but the crisis and the reflationary policies of 2009 saw the levels leap up again, to over 50% by 2010, as can be seen in the chart below.

Chart 1.3: Government spending as percentage of GDP, EU-27, 1995-2012

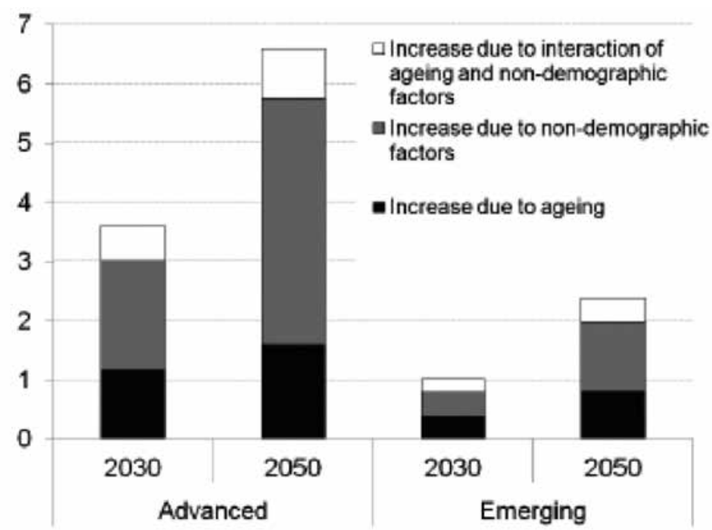


Source: Eurostat 2013

But even before the crisis, since the 1990s, the IMF, OECD, EU and many national governments had been arguing that major cuts in public spending were needed, because ageing populations require higher spending on healthcare and pensions. The European Commission's first report on the subject, in 1999, identified the problem simply as: "Ageing is consequently expected to result in substantial increases in age-related public expenditures…It is important to stress the scale of the task facing governments in relation to controlling health and pension expenditure over the next 50 years" (McMorrow and Roeger 1999).

Demographic change was one of the factors used by the IMF to justify the abandonment of the Keynesian stimulus policies of 2009 in favour of long-term, global austerity policies. The chart below shows IMF predictions that healthcare spending alone could rise by the equivalent of 3.5% of GDP by 2030, and pensions spending by 1% of GDP. The IMF proposed a general austerity strategy, with the sole objective of containing future growth of public spending (IMF 2010A).

Chart 1.4: Fear of future public spending



Source: IMF 2010A

Thus by 2009 many governments had already adopted policies to reduce pension entitlements and pension levels, both in general and for public employees in particular, despite facing strong attempts at resis-

tance. People now have to work longer, retire later, and receive lower pensions. Public spending on public healthcare in Europe has also now started falling, from 9.2% of GDP in 2009 to 9.0% in 2010 for the first time in many years: exactly what the international institutions had been wanting to happen. Ireland and Greece recorded some of the biggest cuts (OECD 2012).

The austerity programmes focus in particular on public service employees - their numbers, pay and pensions. This too is a long-standing element of the austerity policies of the IMF, both as a way of reducing the role of the public sector, and as a mechanism for driving down wages in general to more 'competitive' levels. The focus on public sector pay is based on the argument that public sector pay is not subject to market discipline, especially during recession, and so can trigger a general rise in wage levels which renders and economy uncompetitive.

But the evidence does not support this: a report by the European Central Bank on the subject found that: "public and private wage developments do not diverge significantly even in the short run. Wages in both sectors also share a common long-run trend." (ECB 2010). Further details are available in a PSIRU report on public sector pay (PSIRU 2011).

Further reading

The main sources of data on international economic developments and public spending continue to be the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD). IMF data is accessed through the regular *World Economic Outlook* (http://www.imf.org/external/ns/cs.aspx?id=29) while the OECD publishes annual reports and data on government finances, health and social spending in high income countries (http://www.oecd-ilibrary.org/economics/oecd-at-a-glance-publications_aag_pkg-en).

The Bretton Woods Foundation publishes a stream of critical reports on austerity policies of the IMF, World Bank and others in developing countries: http://www.brettonwoodsproject.org/index.shtm

The EuroMemorandum group publishes annual alternative economic proposals for Europe: http://www.euromemo.eu/

The United Nations Development Programme's International Policy Centre for Inclusive Growth publishes progressive perspectives on developing countries economic policies: http://www.ipc-undp.org/

Martin Wolf in the *Financial Times* has often been critical of austerity policies: http://www.ft.com/comment/columnists/martin-wolf

There are several relevant PSIRU papers see references – PSIRU 2013A, PSIRU 2012 and PSIRU 2011.

ECONOMIC BENEFITS 2

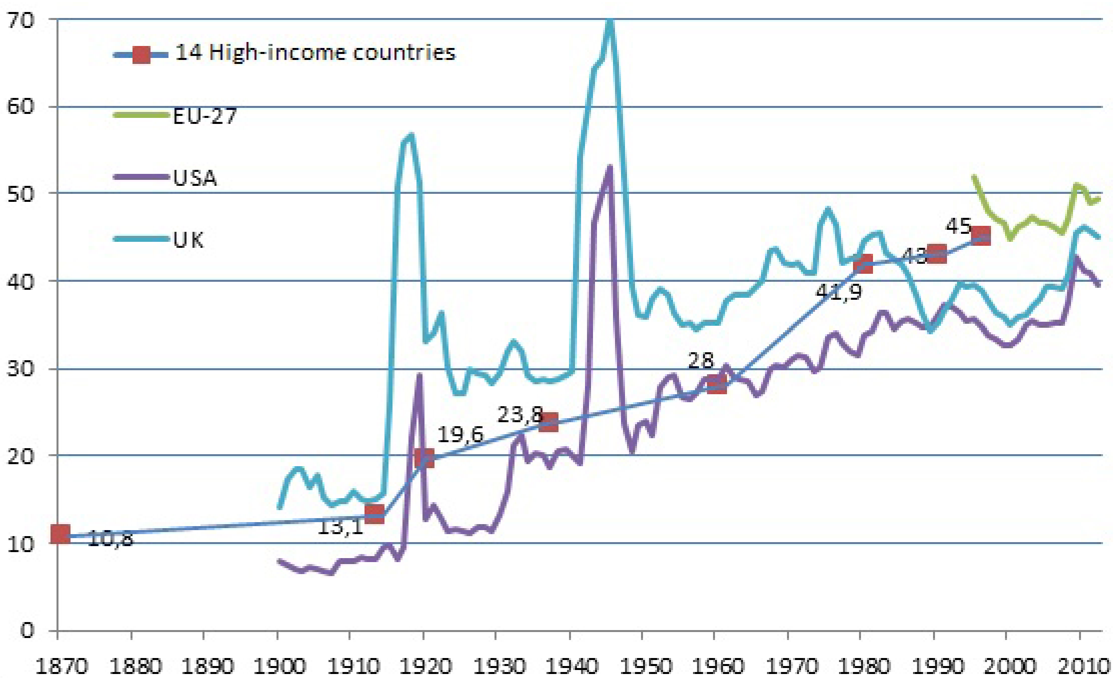
Economic benefits

Far from being a burden on the economy, public spending has had a consistent positive effect for over a century. This positive link works in developing countries as well as high income countries. Public spending supports economic growth through investment in infrastructure, through supporting an educated and healthy workforce, through redistributing income to increase the spending power of poorer consumers, providing insurance against risks, providing direct support for industry, including through technological innovation, and increasing efficiency by taking on these functions.

Public spending and economic growth Public spending is often discussed as though it was a burden on a market economy, which would grow much faster if only public spending were cut back. But the economic history of the last 150 years shows exactly the opposite: that economic growth has gone hand in hand with a rising proportion of public expenditure since the mid-19th century. Public spending has not just risen in line with GDP, it has risen *faster* than GDP – and so has been rising *as a proportion of* GDP.

The can be seen in the chart, which presents data from four different sources, all of which show the same trends. Taxation and spending in high-income countries rose continuously throughout the 20th century as a proportion of gross domestic product (GDP) , with peaks during the two world wars due to military spending. This is not just true of European 'social democrat' countries; the same steady growth can be seen in the USA and in Japan. And the same pattern can be observed in each individual country, not just overall.

Chart 2.1: Government spending as % of GDP 1870–2012, high income countries



Sources: Tanzi and Schuknecht 2000, Eurostat 2013B, UK 2013, USA 2013

The long-term rise in public spending appears to have levelled off in many countries from the 1980s and 1990s. Some analysts argue that this is because the economic advantage of public spending has come to an end in rich countries, because the burden of tax acts as an economic brake and offsets the benefits of public spending. But the same pattern of 'levelling off' can be seen in developing countries and those in the transition from communism, with far lower levels of public spending and taxation. In India, for example, the introduction of neo-liberal policies in the 1990s halted the growth in public spending, until the election of a social democrat government in 2004 resulted in renewed growth in public spending. A better explanation for the levelling off is that trends in public spending depend on political decisions, and that neo-liberal politics have been dominant everywhere since the 1980s.

But the trend shifted sharply upwards again as a result of the economic recession. The crisis forced higher spending on benefits; and the initial policy responses, to stimulate recovery through higher government spending and borrowing, meant that globally, public spending leapt by 3% to 4% of GDP in one year.

This 'long-run' link between public spending and growth is known as 'Wagner's Law' after the economist who first identified it in the 1890s, and has been confirmed by the great majority of studies since then, including:

· an analysis of 23 high-income countries from 1970–2006 confirmed "a positive correlation between public spending and per-capita GDP … [and] a common development among the 23 countries and the widespread validity of the Wagner's law" (Lamartina and Zaghini 2008); and

· a study of 51 developing economies by staff at the International Monetary Fund found that there was a consistent link across all countries, confirming "a long-term relationship between government spending and output consistent with Wagner's law" (Akitoby et al 2006).

So growth in public spending is not a handicap to economic growth, but seems to be an essential part of economic growth and development, in all countries. Explanations for this link identify a range of ways in which a rising proportion of public spending helps economies:

· public spending has a crucial role in investment in infrastructure. There are benefits to the whole economy from having good roads, railways, electricity and water supplies, but it is not profitable for private investors to build them. In all countries, infrastructure investment has been driven by the public sector (Aschauer 1989);

· public spending is a more efficient way of producing many services. Public spending on healthcare, for example, is much more efficient, in economic terms, and more effective, in terms of public health objectives, than private spending on healthcare (Beraldo et al 2009);

· a healthy, well-educated workforce is more productive: "…when oriented towards health and education, such redistributive programs contribute as well to the quality of the labour force, and hence the growth potential of the economy" (Gintis and Bowles 1982);

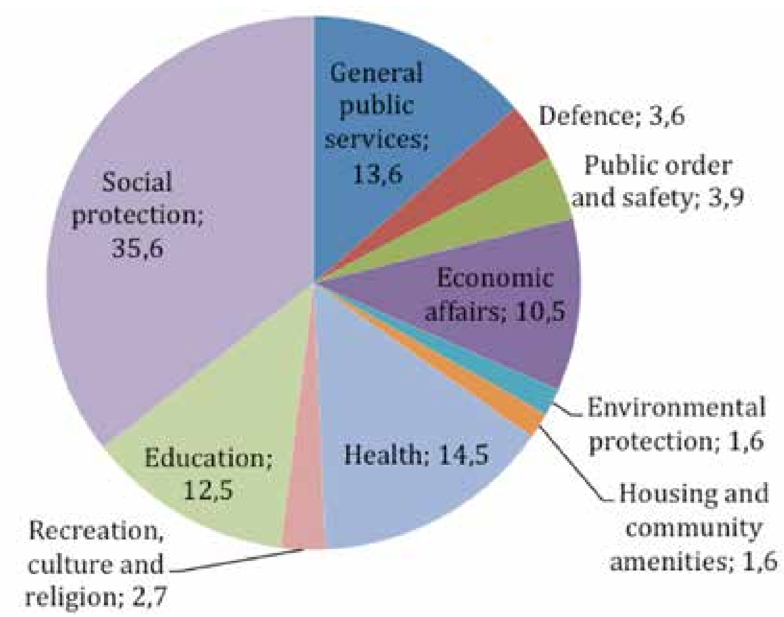
· re-distribution of income increases consumer demand, because poorer people spend a much higher proportion of their income: "State-sponsored redistribution policies …place additional income in the hands of families with relatively high marginal propensities to consume" (Cameron 1982);

· public services are an efficient collective long-term insurance mechanism. In industrialised economies, a public system of collective support in sickness, unemployment, old age etc., replaces the role of the extended family in agricultural societies. Provision of public services and social security allows people to spend more instead of using savings to protect themselves; and

· there is a general benefit to social and economic stability: "The possible patterns of economic evolution consistent with the no-welfare-state option include chaos, stagnation, and the development of new and perhaps unprecedented economic systems" (Gintis and Bowles 1982).

The chart below shows the actual distribution of the functions of public spending in OECD countries.

Chart 2.2: Functions of public spending, OECD countries, 2011



Source: OECD 2013A

Infrastructure Investment in electricity, water and sanitation, roads, rail, and telecoms has played a major role in the growth of high-income countries, and is equally crucial in developing countries. For example, much of the economic growth and productivity of the USA in its 'golden period' in the mid-20th century was due to the growth in roads and energy infrastructure, the great majority of which was publicly financed (Field 2007, Calderon and Serven 2008).

By contrast, government spending in Latin America on human and physical infrastructure in the 1980s and 1990s, "dropped precipitously" during the period when the IMF imposed its structural adjustment policies, and led to a fall in economic growth: "… a major portion of the per-capita output gap that opened between Latin America and East Asia over the 1980s and 1990s can be traced to the slowdown in Latin America's infrastructure accumulation in those years".

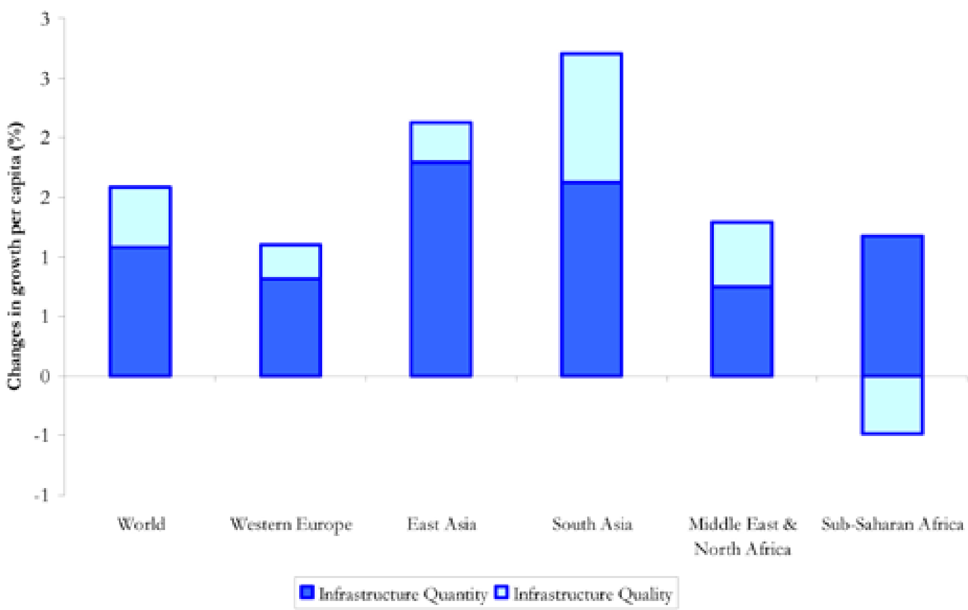
Most South American countries have now deliberately paid off their loans from the IMF, to enable them to pursue more rational economic policies, in which public spending on infrastructure has played a key role. For example, in 2007 Brazil launched a four-year programme for economic growth, (the Programa de Aceleração do Crescimento), based on the public investment of US $236 billion (€170 billion) in roads, electricity, water, sanitation and housing (Caldron and Serven 2004, Jonakin and Stephens 1999, Lora 2007, Brasil Gov Fed 2014).

In Africa, by contrast, the level of infrastructure spending remains inadequate, for exactly the same reasons as in

Latin America in previous decades: "Spending has actually been on a declining trend in many countries, partly as a result of the disproportionate toll that the fiscal adjustment of the 1990s took on public infrastructure spending, and also reflecting the fact that private sector participation has failed to live up to expectations".

A 2010 report on infrastructure investment in Africa found that the contribution of the private sector has been close to zero in water, electricity and transport: there has only been some private investment in telecoms: "the public sector remains the dominant source of finance for water, energy, and transport in all but the fragile states". If Africa caught up with the infrastructure investment levels of other world regions, growth rates would increase by 1–2%. (Calderon and Serven 2008, World Bank 2010)

Chart 2.3: Change in growth due to infrastructure development
Change in average per capita growth between 1991–1995 and 2001–2005

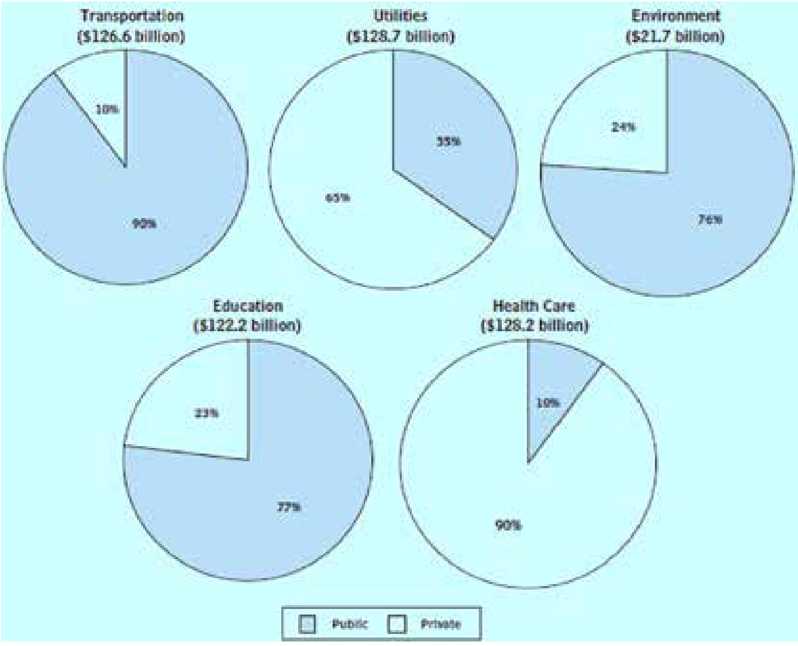


Source: Calderon and Serven 2008

The principal mechanism for financing infrastructure development, worldwide, is still through government and the public sector, even in technically advanced sectors such as telecoms. In Europe, private telecoms network operators are reluctant to make sufficient investment in the fibre-optic networks which are crucial to greater use of the internet, so the EU demands more public finance, calling on governments: "To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments".

Even in the USA, where the role of the state is relatively small, Chart 2.4 shows that the great majority of investments in transport, education, and environment are public – and even 35% of utility investment is public sector; only in healthcare is the public proportion low (the only high income country where this is true). (EU 2010, CBO 2009)

Chart 2.4: Capital spending on USA infrastructure 2007



Source: CBO 2009

Support for industry and innovation Significant parts of public services support other economic activity by the private sector. These include the provision of a legal system, courts and police, which both protect property rights and provide ways of enforcing contracts. The modern company itself is a legal entity dependent on privileges given by the state, including 'limited liability' which allows companies to fail and go bankrupt without the individuals running them being liable to any of the firm's creditors.

Virtually every sector in modern economies relies on significant economic support from the state. In some sectors, in many countries, this takes the form of public ownership – for example of public transport, electricity and water – and, in many countries now, of banks and financial institutions. Many sectors depend on public spending for contracts for goods and services, which represents about 16% of GDP in high-income countries. This includes many firms in the production sector, such as arms manufacturers or pharmaceutical companies, both of which rely principally on government orders.

Outsourcing means that firms in the services sector also compete for public sector work in areas such as auditing, IT, or cleaning services, while the construction industry benefits from long-term guarantees of government payments for public works contracts, under public-private partnerships and under ordinary contracts. Governments and development banks lend money to companies at rates which they could not obtain commercially. Implicit and explicit guarantees were given to customers of European banks during the crisis – the only thing which makes banks 'safe' places to hold an account.

Innovation: produced by public spending

The private sector claims that innovation by entrepreneurs and corporations is the great driver of improved economic performance and living standards. But much of this innovation, even in high tech sectors such as pharmaceuticals, computing and telecoms, originates with the public sector:

· seventy-five per cent of the new drugs approved in the USA between 1993 and 2004 originated from research in the publicly funded National Institutes of Health laboratories;

· monoclonal antibodies, the foundation of modern biotechnology, were discovered by researchers funded by the UK government;

· the world-wide web, the internet, computers themselves were all developed by and in the public sector; and the US National Science Foundation funded the algorithm that drove Google's search engine; and

· the Apple IT company received early funding from the US government's Small Business Investment Company, and made heavy use of government-funded research: "All the technologies which make the iPhone 'smart' are also state-funded ... the internet, wireless networks, the global positioning system, microelectronics, touchscreen displays and the latest voice-activated SIRI personal assistant." (Mazzucato 2013, Wolf 2013, Gordon 2012)

Efficiency It is often assumed that privatisation or public-private partnerships will result in greater levels of efficiency, just because of the involvement of the private sector. But the empirical evidence does not support the assumption that there is any systematic difference in efficiency between public and private sector companies, either in services which are subject to outsourcing, such as waste management, or in sectors privatised by sale, such as telecoms (PSIRU 2014C).

This does not mean that there is no difference, however. Privatised companies or contractors do charge significantly more to users of services; and transaction costs of sales, regulation, contract renegotiations, etc are always significantly higher under privatisation. If there is no systematic difference in efficiency, then it is always better value to use the public sector.

The most comprehensive review of research on the effects of outsourcing (excluding public-private partnerships) was published in 2011 by the Danish institute AKF. It examined studies of the effects on costs and quality of services, and the impact on employees, in the sectors of water, waste management, electricity, public transport, education, healthcare, social care, employment, prisons and other services. It found that: "it is not possible to conclude unambiguously that there is any systematic difference in terms of the economic effects of contracting out technical areas and social services."

The AKF study also concluded that "The consequences of contracting out for the employees are predominantly documented as negative in the literature… stress, illness absenteeism and attrition related to changes in working conditions should ideally be included in the calculation of the consequences for employees" (Petersen et al 2012).

An overview report by the SNS Centre for Business and Policy Studies in Sweden, also published in 2011, concludes that there is no clear evidence of any efficiency benefits arising from the private provision of welfare services or the increase in competition (Hartman 2011).

An analysis of 27 empirical studies on comparative efficiency in waste management and water concluded that "private production of local services is not systematically less costly than that of public production" (Bel et al 2008).

A 2009 review of 12 studies on the comparative efficiency of public and private prisons, found that half showed private prisons as cheaper, a quarter showed public as cheaper, and the rest showed no difference: the average was that private prisons were 2.2% cheaper. On quality, the results for 45 different indicators were almost exactly split between public and private superior performance. The differences emerging from all studies were so small that they could not justify one choice or another: "Results suggest privately managed prisons provide no clear benefit or detriment. Cost savings from privatizing prisons are not guaranteed and appear minimal. Quality of confinement is similar across privately and publicly managed systems, with publicly managed prisons delivering slightly better skills training and having slightly fewer inmate grievances" (Lundahl et al 2009).

A global review of water, electricity, rail and telecoms by the World Bank in 2005 concluded: "Probably the most important lesson is that the econometric evidence on the relevance of ownership suggests that in general, there is no statistically significant difference between the efficiency performance of public and private operators in this sector… For utilities, it seems that in general ownership often does not matter as much as sometimes argued" (Estache et al 2005).

A huge 1995 study done by Pollitt, where a number of public and private electricity operators across the world were compared, found no major differences in terms of efficiency between the public and private sectors. Other studies of electricity privatisation and liberalisation have found similar results (Hall et al 2009).

Studies of the UK privatisations have concluded that there is "little evidence that privatisation has caused a significant improvement in performance". A comprehensive analysis of all the UK privatisations concluded: "These results confirm the overall conclusion of previous studies that …privatisation per se has no visible impact [on a company's performance]. In conclusion, I have been unable to find sufficient statistical macro or micro evidence that output, labour, capital and TFP [total factor productivity] in the UK increased substantially as a consequence of ownership change at privatisation compared to the long-term trend. There are exceptions for some firms and some periods, but overall a significant productivity shock is lacking" (Florio 2004).

Even in telecoms, a sector where the private sector is assumed to be performing better than the public sector could, a global study comparing private and public companies found that public operators were significantly more efficient, whereas: "privatizations exhibit weaker performance relative to public sectors … for up to 10 years" (Knayezeva et al 2013).

EMPLOYMENT 3

Employment

Public spending supports employment, in both high income and developing countries, in a number of ways:

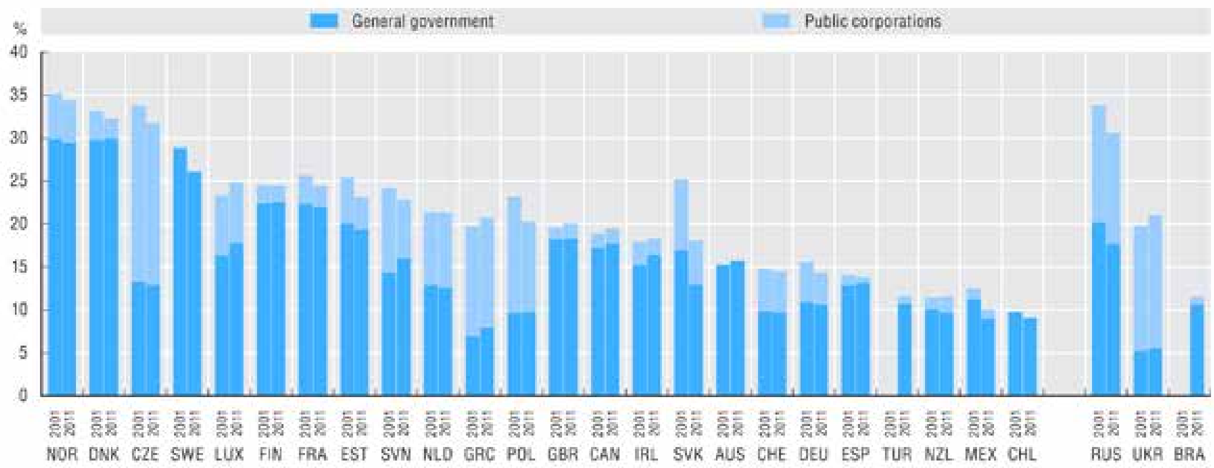
· direct employment of public service workers;
· indirect employment of workers, by contractors supplying outsourced goods and services;
· employment of workers on infrastructure projects; and
· extra demand and jobs from the spending of the wages of these workers and also of recipients of social security benefits (the 'multiplier effect').

The combined effect of these mechanisms is to support half the formal jobs in the world. The public sector also has an impact on employment through:

· subsidies to support employment by private companies, or by providing employment guarantees;
· providing formal jobs with decent pay and conditions; and
· government procurement that can require 'fair wages' from private contractors, to reduce gender and ethnic discrimination, and strengthen formal employment of local workers.

Public sector employment In the more advance countries – those who are members of the Organisation for Economic Co-operation and Development (OECD) – employment in general government was on average about 15% of all employees in 2008,as shown in Chart 3.1. There is a wide variation: in 2008 governments in Norway and Denmark employed close to 30% of the labour force, but the government of South Korea employed only 5.7% . The levels are higher when employment in public corporations is added, for example 4.0% of employees in Germany are employed by public corporations (OECD 2008).

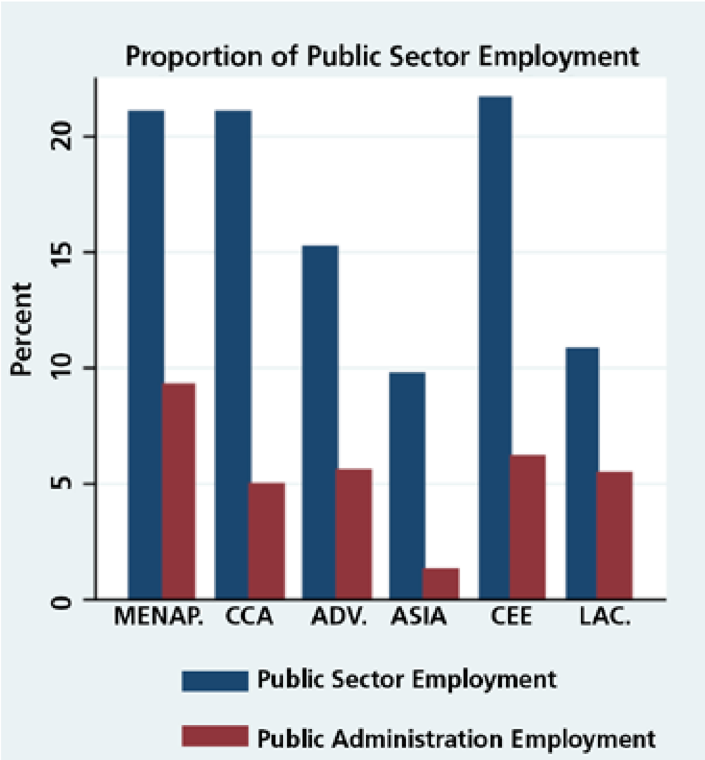
Chart 3.1: Employment in general government and public corporations as % of total labour force, 2001 and 2011, OECD countries



Source: OECD 2011

Data on public employment in developing countries is poor. The International Labour Organisation (ILO) estimated in the 1990s that on average in developing countries public employees accounted for about 23% of employees, slightly higher than high income countries. An International Monetary Fund (IMF) paper in 2013 estimated that public sector employment in eastern Europe, central Asia, the Middle East, and North Africa was about 21%-22%, but in Asia and Latin America it was only 9% and 11% respectively (it had no estimates for sub-Saharan Africa). The IMF figures for Asia reflect the data for the Asian and Latin American OECD countries of Japan and South Korea, Mexico, Chile and Brazil, but they seem to underestimate the role of the public sector in the world's two largest countries, India and China (ILO 1999, IMF 2013B).

Chart 3.2: Public sector employment as % of total employment, developing countries



MENAP = Middle East, North Africa, Afghanistan and Pakistan;
CCA = Caribbean and Central America; ADV = Advanced;
CEE = Central and Eastern Europe; LAC = Latin American Countries

Source: IMF 2013

Global estimates of jobs supported by the public sector

The table below shows estimates of the proportion of jobs supported by public spending, including the additional jobs supported by the 'multiplier effect' of consumer spending. They are based, conservatively, on the estimates of the OECD and the IMF that general government employment represents about 15% of all employment, with a further 4% of employees in other state-owned companies.

The result is that:

· public spending supports 40% of all jobs: 15% in the form of public employees, but a further 25% in the private sector supplying goods and services for governments and employees; and

· including employment in public service utilities, public spending and public services support 50% of the jobs in the economy – twice as many in the private sector as in the public sector.

Table 3.1: Global jobs supported by public spending and public services (as % of all employees)

Public spending by category	Jobs supported	Multiplier effect of workers spending	Additional jobs supported by multiplier effect	Total	... of which Public employees	... of which Private sector employees
	As % of total employees		As % of total employees	As % of total employees	As % of total employees	As % of total employees
Direct public employees	15	1.6	9	24	15	9
Indirect private sector jobs from public procurement	6	2	6	12	0	12
Indirect private sector jobs from public construction	2	1.9	2	4	0	4
Total jobs supported by public spending	23		17	40	15	25
Public utilities (mixed public and private)	4	2.5	6	10	2	8
Total jobs supported by public spending and public services	27		23	50	17	33

Source: see note [2]

[1] The table is constructed as follows. Direct public employees: median from OECD 2008 figure 8; Indirect jobs: using Oxford Economics 2008 estimated ratio of 1.2million jobs supported by £79 billion spending, implying a jobs-to-spending ratio of about half compared with direct labour (5.2million jobs from £160 billion spending), and assuming that the ratio of non-service procurement (£67million) is half of that again, so the overall employment effect of 8% of GDP spent on procurement (OECD estimate 2008) is to support just over one-third of the jobs that would have been supported as direct labour; employment effect of construction spending taken from Scotstat 2004, implying a higher ratio of about two-thirds the effect of direct employment; public utilities, using an average of the figure estimate of 6% (CEEP 2010) and the implied ILO 1999 figures of 4% and 2%. Multipliers for direct labour, construction and utilities are weighted averages of Scotstat multipliers for the relevant sectors, including induced effects: for procurement, the Oxford Economics 2008 implied multiplier of nearly 2.0 is used.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REFERENDUM

Public sector and formal employment The public sector plays a key role in creating 'formal' employment in developing countries – that is employment with defined pay and conditions, legal rights, and social security.

In India, about 84% of workers are in the informal sector, with no social security or employment rights, half of them classified as self-employed, and the largest numbers in agriculture. The remainder work in the formal ('organised') sector, but even here, half the workers lack any formal rights. The result is that only about eight per cent of all workers in India enjoy any statutory protection against such risks as sickness, maternity, disability and old age.

The public sector is crucial for the supply of quality jobs. In 2008, 64% of those employed in the formal sector were public employees. It is especially important for women: only 5.2 million have the chance of quality jobs in the formal sector, and over half of those are in the public sector, overwhelmingly in community and social services. But public sector employment has been slowly declining since the 1990s, as a result of deliberate policy decisions to reduce the size of the state. Between 1991 and 2008, the number of public formal sector jobs declined by 14 million, which was only just offset by a growth of 21m. private formal sector jobs (Papola and Sahu 2012, Paul et al 2011).

Where will the growth in quality formal jobs come from in India? Even with forecasts of 9% or 10% annual growth rate in GDP, the government only expects an 8% growth in education, health and other social services – a relative decline.

A similar pattern can be seen in Brazil. Although the OECD reports public sector employment in Brazil as only 10% of total employment, it represents a much higher proportion of formal employment. In the major cities of Brazil, 27.5% of workers with formal contracts are employed in the public sector – and for women the proportion is even higher, more than one-third (Daulins et al 2012).

Employment subsidies and guarantee schemes Public spending is often used to subsidise companies as a way of protecting employment levels. One general method which has been used during the crisis has been through short-time working schemes, which compensate employees who agree to maintain employment levels by reducing working time. The rescue of banks and companies which would otherwise have collapsed was also partly justified in terms of protecting the jobs of employees (EIRO 2009).

Some countries have set up employment guarantee schemes, which guarantee a specified amount of employment to workers who would otherwise be unemployed. These have been used in a number of countries, usually involving employment on public works or infrastructure. For example, after the economic crisis of 2000, Argentina introduced a scheme guaranteeing 20 hours work a week for a member of households with children under 18.

India: the National Rural Employment Guarantee

The biggest employment guarantee scheme is in India, known as the Mahatma Ghandi National Rural Employment Guarantee (MGNREG). An employment guarantee scheme had existed in the state of Maharashtra for many years, and in 2005, against the background of widespread rural poverty, the government of India introduced a national scheme. This guarantees 100 days of work to one member of a rural household, on works decided locally as being of value to the community. It thus creates rights which strengthen the bargaining position of rural workers, and is demand driven. The scheme includes requirements for basic employment conditions, including a basic hourly minimum rate, a 7-hour day, a weekly day off, equal wages for equal work, medical and crèche facilities. These formalised rights are otherwise almost unknown to rural agricultural workers.In 2010-11, the scheme provided work to nearly 55 million households; it employed people for a total of 25.7 billion working days, the equivalent of nearly half of the total jobs in Italy, France or the UK; 48% of those employed under the scheme were women; the average daily wage paid was 117 Rupees; and most of the works carried out were for water resources, irrigation, and roads. It cost about 412 billion Rupees in 2009-10 (about US $6.6billion, €4.8 billion). Rural household incomes have increased significantly as a direct result of income from the scheme, by as much as 15% in Andhra Pradesh, for example. The scheme has also had the effect of increasing agricultural wages in general, and the overall effect is claimed to be a 50% increase in rural household incomes. (MGNREG 2014, UNDP 2010, Papola and Sahu 2012)

Procurement and social clauses

"Fair wages" policies have been applied to public sector contractors for over a century, in order to use the economic activity of public authorities to "create avenues of just and secure employment". In France, the USA, the UK and other countries, legislation and clauses in public contracts were introduced, specifying minimum conditions of work and/or the need to recognise rates agreed with trade unions.

The ILO adopted the principle of fair wages clauses in 1949, in Convention 94, which requires states to include clauses in their public contracts ensuring that wages (including allowances), hours of work, and other conditions of labour were not less favourable than those established for work of the same character in the trade or industry in the district where the work is carried out. The ILO encouraged its use in developing countries as a key instrument for establishing formal employment. It also adopted the use of procurement clauses for pursuing equality in Recommendation 111, which advocates that commitment to equality principles should be a condition of eligibility for public contracts (ILO 1949, ILO 1958, ILO 2008, McCrudden 2004).

London's responsible procurement policy

The Greater London Authority (GLA) spends over £3 billion (US $4.8 billion, €3.6 billion) each year on procuring supplies, works and services. It has adopted a comprehensive social procurement policy which includes standard contract conditions on employment issues. The policy is applied not only through contract conditions but through a series of meetings with suppliers and community organisations to ensure the policies are understood and supported.

The GLA's responsible procurement policy consists of seven themes:

· encouraging a diverse base of suppliers;
· promoting fair employment practices;
· promoting workforce welfare;
· addressing strategic labour needs and enabling training;
· community benefits;
· ethical sourcing practices; and
· promoting greater environmental sustainability.

The GLA sets a London Living Wage (LLW), significantly above the national minimum wage. In re-tendering its cleaning and catering contracts in 2006, bidders were required to indicate whether they would accept a LLW clause as part of the contract, including ensuring that other employment conditions were not reduced as a result of paying a living wage. It estimates that over 400 workers gained from implementation of the LLW in 2007.

The GLA also applies 'supplier diversity requirements' on major contracts, such as the East London rail redevelopment, to ensure that smaller suppliers led by minority ethnic groups, by women and disabled people have received a significant proportion of subcontracts. Furthermore, it monitors the supply chains of companies, for example suppliers of uniforms, and is piloting the use of a Suppliers Ethical Data Exchange (Sedex) – a system for companies to report labour conditions in all their suppliers factories (GLA 2014).

4 PUBLIC GOODS

Public goods

The purpose of public spending and public services is to achieve public objectives. These objectives include, for example, ensuring universal education and universal access to healthcare; environmental objectives such as the reduction of greenhouse gas emissions and management of waste; and economic objectives such as full employment. In a wide range of areas, these objectives are most effectively and efficiently achieved through public spending and public services. This section examines three policy areas where public spending and public services are key – healthcare; housing; and climate change.

Public healthcare – better value Public spending represents the great majority of health spending in all OECD countries, except the USA (and Mexico). There is good reason for this. The comparative data shows that a healthcare system based on private spending is much more expensive ,and produces much worse results, than systems based on public finance.

Higher *public* spending on healthcare produces better health outcomes for everyone. But higher *private* spending on healthcare has the opposite effect – because it makes healthcare less affordable. A recent analysis of 163 countries found that "an increase in public funds is significantly correlated with a lower infant mortality rate" but "private health care expenditure is associated with higher, not lower, infant mortality rates". So if private spending on healthcare could be converted into public spending on healthcare, the global annual total number of child deaths could be cut by around 2 million. (Tacke and Waldmann 2011, OECD 2009; Pearson 2009; Beraldo et al 2009)

The ineffectiveness of private healthcare spending can also be seen in Table 4.1, which compares the performance of the USA with that of Belgium and Cuba. In all cases, public spending on healthcare is at similar levels, as a proportion of GDP. The USA however also spends over 9% of GDP on private healthcare - the only country in the world with anything like such a level of private healthcare spending. This huge extra spending however appears to deliver no benefit at all – the health outcomes are in fact significantly worse than in either Belgium or, remarkably, Cuba – a much poorer country. (OECD 2013B)

Table 4.1: Public and private healthcare spending and outcomes in USA, Belgium, Cuba

	Public spending on healthcare (% of GDP)	Private spending on healthcare (% of GDP)	Life expectancy at birth (2010)	Infant mortality rate (2011)	GNI per capita US$ (2011)
USA	8.29	9.10	8.29	6.4	8.29
Belgium	8.17	2.71	8.17	3.5	8.17
Cuba	9.72	0.91	9.72	4.5	9.72

Sources: OECD 2013B

Public health in Sri Lanka

The Sri Lankan health system shows the importance of public and political commitment, and the capacity of workers, in the effectiveness of public healthcare. It spends less in absolute and relative terms than comparable countries but achieves better health indicators than some European countries. It does so by providing levels of access to medical services comparable to a developed country.

"All government health services, with few exceptions, are available free to all citizens…from antiretrovirals for HIV/AIDS patients to coronary bypass surgery… Access to health care is treated as a fundamental social right and thus not subject to arbitration…. This attitude….has been a critical success factor … government services continue to be used by and accountable to all in society, including the influential middle classes and urban elite who have remained political supporters of good quality government services. Furthermore, expansion has not been at the cost of reductions in clinical quality of services, although it has been at the cost of accepting lower consumer quality in amenities. Most of the population has lived within 5 kilometres of a healthcare facility since the early 1970s, and most of the rural population is within 5–10 kilometres of a peripheral facility" (Rannan-Eliya and Sikurajapathy 2009).

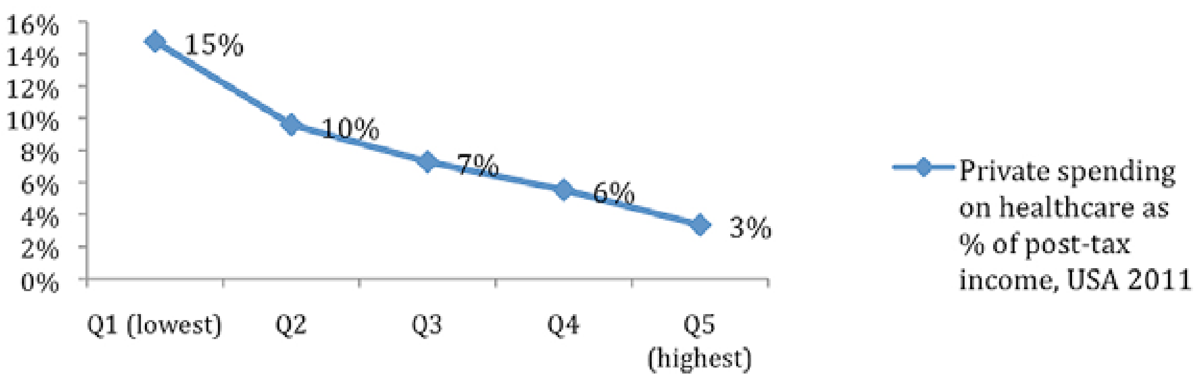
"The factors explaining this include: a strong public service ethos established in the MOH [Ministry of Health] by the 1950s; strong centralized control of budgets, inputs, and operating procedures, which minimized input prices and constantly forced health workers to meet increasing demand through efficiency savings instead of relying on more resources; and low administrative overheads associated with a civil service run, command-and-control management system….through internal purchasing controls and investment decisions, the MOH can and does restrict the availability of services it considers too expensive. For example, government hospitals are prohibited from, or limited in, buying individual drugs or certain high-technology equipment." (Rannan-Eliya and Sikurajapathy 2009, Hsiao et al 2000).

Problems with private healthcare The problems fall under four broad headings: affordability, catastrophic expenditure, selectivity and over-treatment.

Affordability Charges act as economic barriers so the poor cannot afford the care that they need. The core problem with private healthcare or education is simply that private providers charge for services, including insurance. As a result, the poor can afford less than the rich. Private healthcare is a much bigger burden on their income, and they can only afford a limited amount of healthcare, regardless of need. So it reduces the amount they have to spend on other things, while failing to provide as much care as they need.

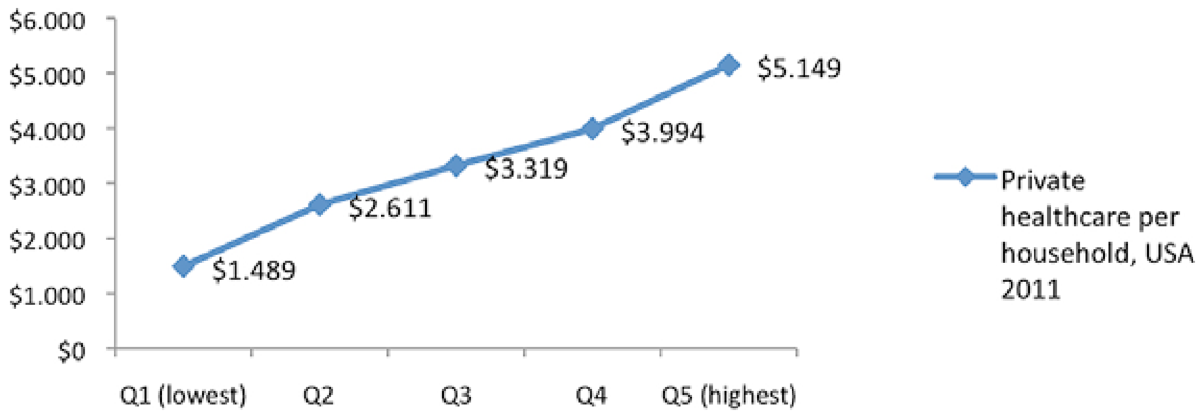
The charts below show these effects. In the USA, where private healthcare remains dominant, the poorest households spend 15% of their income on healthcare, while the richest are spending 3% of their income. But they still cannot afford as much private healthcare as the rich – although the healthcare needs of the poor are invariably greater.

Chart 4.1: USA – private spending on healthcare as percentage of income



Sources: USA BLS 2011, and PSIRU calculations

Chart 4.2: USA – private spending on healthcare ($)



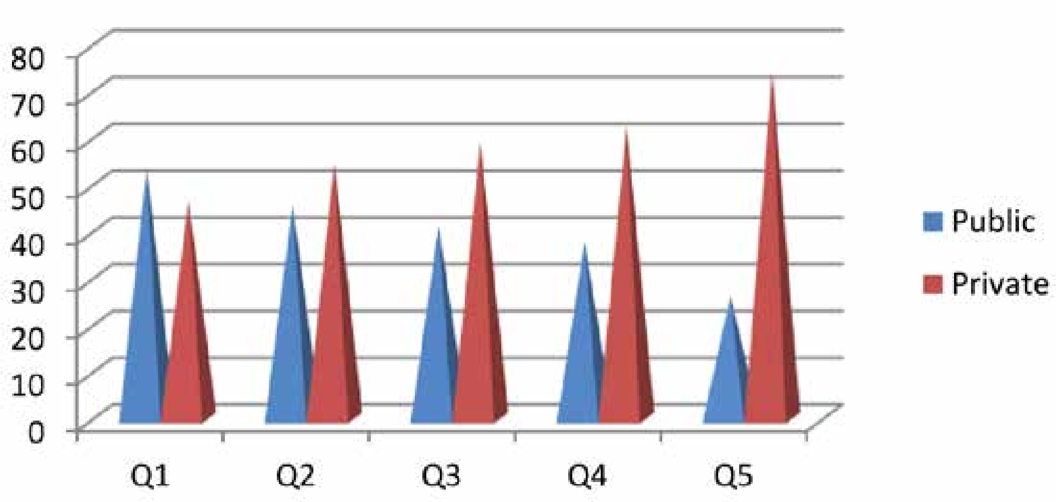
Sources: USA BLS 2011, and PSIRU calculations

Catastrophic expenditure The poor risk being forced into "catastrophic expenditure" by ill-health. Surveys in eighty nine countries, both low and high income, covering 89% of the world's population, suggest that 150 million people globally suffer financial catastrophe annually because they have to pay for health services. Countries with higher rates of inequalities between households have higher rates of financial catastrophe (Xu et al, 2007).

Selectivity Private operators target the rich or richer regions. Privatizing existing public services also increases inequalities in the distribution of services, as private companies seek those with highest incomes rather than greatest needs. In Tanzania and Chile privatization led to many clinics being built in areas with less need, whereas prior to privatization government clinics had opened in underserved areas and made greater improvements in expanding population coverage of health services. In Chile, changes in demand for healthcare from an ageing population are causing people, previously covered by private healthcare insurance, to return to the public sector. The private healthcare sector is refusing to insure them because of their age and expected higher demand for care (Basu et al 2012; Murray, 2000; Benson 2001).

In India, public spending only represents one-fifth of all spending on healthcare, the rest is private spending. There are considerable variations between states in whether the benefits of this system are progressively distributed or not – in some states the poor get more benefit, in other states the better-off. But overall, poorer households rely more on public sector provision, while the private sector is used more by higher-income patients, as shown in the chart below (Chakraborty et al 2013).

Chart 4.3: Utilisation of public and private healthcare in India by rich and poor



Source: (Chakraborty et al 2013)

Over-treatment Private companies sell services that are profitable but not needed. In China, private providers are paid on a fee-for-service basis under health insurance schemes, with below-cost prices for basic care and above-cost prices for higher-tech care, which encourages over-provision of expensive 'high-tech' care: for example giving patients treatment which is not strictly necessary, or over-prescribing drugs (Wagstaff et al 2009, Wagstaff and Lindelow 2008).

India also shows the problem of providing 'targeted' public finance which is then spent on private provision. The Indian government launched a national health insurance scheme for the poor, the RSBY, in 2008, whereby families living below the poverty line can receive treatment worth up to 30,000 rupees (US $550, €400) each year from designated private hospitals, which claim the costs directly from the state. But private clinics have seen this as an opportunity: an extraordinarily high number of women are having their uteruses removed by private clinics, for which the clinics can charge more than for less radical treatment (BBC 2013).

Housing The importance of public housing can be seen in the origins of the financial crisis of 2008. In the USA, where public housing has been minimal, poorer families had to try to buy homes by taking out mortgages. The banks loosened credit requirements, as they rushed to sign more people to mortgages. Many people could then not afford the payments, and so these 'sub-prime' mortgages became bad debts for the banks, a major factor in the banking crisis. The banks responded with repossessions which made hundreds of thousands homeless.

If the USA had instead provided public housing at affordable rents, families could have had decent accommodation without such financial stress on themselves and the system. As the United Nation's (UN) housing expert, Raquel Rolnik, observed: "The belief that markets will provide adequate housing for all has failed. The current crisis is a stark reminder of this reality, … A home is not a commodity – four walls and a roof. It is a place to live in security, peace and dignity, and a right for every human being … Excessive focus on home ownership as the one and single solution to ensure access to housing is part of the problem … adequate housing for all is a public goal whose achievement requires a wide variety of arrangements…. Markets, even with appropriate regulation, cannot provide adequate housing for all" (Rolnik 2008).

The provision of public sector housing at affordable rents was one of the major public services in the 20th century in European and other OECD countries. In parallel, non-profit mutual savings banks and building societies enabled the middle classes to buy houses, with encouragement and support from governments. But this system has been undermined by neoliberal policies.

From the 1980s, public sector housing was cut back as part of the general reduction in the role of the state, and public housing was sold to private companies, mutual building societies were converted into for-profit banks, with fewer restrictions on their lending policies. A UN conference on housing problems in central and eastern Europe, concluded that: "… the increasing reliance on market forces has not been sufficient to compensate for the decline of the role of the state in the housing sector" (UNECE 2004).

Housing is also a key issue in the rapidly growing cities of developing countries. This problem has been successfully addressed by public housing policies over the last 50 years in Singapore and Hong Kong, two of the most densely populated city states in Asia. In both cities, the programmes were started to deal with the problem of rapidly growing slum settlements, building hundreds of thousands of homes for rent. Public housing was later used to provide middle class housing as well, without rent subsidies.

In Singapore, 85% of the population live in public housing, either rented or on a 99-year lease. Policies ensure that estates and new developments include a mix of different racial and social groups. Half the population of Hong Kong – over three million people – live in public housing; two million of them renting. By contrast in Malawi, a 2007 survey found that: "Formal housing finance in Malawi is rudimentary … and less than 16% [are] able to afford a conventional house … no subsidies are available to the individual" (Singapore 2010, Hong Kong 2014, Nyasulu and Cloete 2007).

Environment: public finance and climate change The greatest single challenge facing the countries of the world is dealing with climate change. The measures required include switching to renewable energy sources for generating electricity, investing in more energy-efficient industrial processes and more energy-efficient homes, and developing public transport systems to reduce the use of cars.

The global costs of all the measures required to cut carbon emissions by the necessary amount is estimated at between 1% and 3% of global GDP. The UN estimates that about three-quarters of this will have to come from public finance. These figures mean that globally, public spending will have to be higher by about 1.5% of total GDP, just to deal with climate change. This process was accelerated by the stimulus packages introduced by governments in 2009 to counter the recession, which included many 'green' investment projects, estimated to be worth over US $436 billion (€315 billion) in total – all from public finance. (IMF 2010)

Europe The necessity of public finance can be clearly seen in Europe, which introduced a compulsory internal market in electricity in the 1990s, and has more recently adopted targets for renewable energy. But it is now clear that the climate change policies are incompatible with the market rules, because the cheapest options, fossil-fuel plants, must be discouraged in order for renewables to flourish. An attempt to provide a market solution by creating a carbon trading scheme, the ETS, failed. European governments are now creating mechanisms to develop renewable energy which involve public spending and the public sector.

The UK, for example, is introducing a new energy law under which all new generation will be commissioned by the state, supported by long-term power purchase agreements with a central state agency as the sole buyer – which is in breach of the current EU electricity law. The reason is a realisation that the market will not deliver the required levels of renewable energy. The UK committee on climate change advised that: "we should not accept the significant risks and costs associated with the current market arrangements… changes to the current arrangements are both required and inevitable." The UK regulator, OFGEM agreed: 'There is an increasing consensus that leaving the present system of market arrangements and other incentives unchanged is not an option.' (UK Committee on Climate Change, 2009)

In Germany, a policy of explicit priority for renewable energy has simultaneously encouraged re-municipalisation, and created a large number of small firms and co-operatives, and undermined the dominance of the multinationals. There has been a big revival of municipal electricity companies [Stadtwerke], not only taking over distribution networks but also expanding into generation of electricity – especially renewables. Municipalities plan to boost their share of electricity production from a tenth to at least a fifth by 2020, with some more ambitious: the city of Munich, for example, has decided that all its energy will come from renewables by 2025, and that all of it will be generated by the public sector.

Renewable energy is now growing very fast as a proportion of electricity generation in Germany – much faster than anyone expected. By mid-2013 the share of renewable energy was nearly 25%, with 25,000 wind turbines and 1.3 million solar photovoltaic facilities. The policy objective is for renewable energy to provide 35% of all electricity by 2020, and 50% by 2030, and 80% by 2050. Nuclear power stations will be closed completely by 2022. This process is known as the 'Energy transformation' [Energiewende] (Agora 2013, Economist2012, IP Journal 2013, Reiter 2011).

Developing countries In addition to developing renewable energy sources, many developing countries need to extend their electricity systems to provide full coverage. In 2010, 1.3 billion people were without access to electricity, the great majority of whom are in Sub-Saharan Africa (589 million, 68% of the population) and South Asia (628 million, 18% of the population), and in rural areas. These policies require coherent planning and financing in a way which the market cannot deliver. The International Energy Agency estimates that $23 billion (€16.6 billion) a year are needed to achieve universal connection in Sub-Saharan Africa by 2030 and $20 billion (€14.4 billion) to do the same in Asia (IEA 2012).

A World Bank study of investment in electricity and other infrastructure in sub-Saharan Africa shows that private companies have provided only about 10% of total investment in the sector – and nearly all of that is in independent power producers, not in extensions to the system: Table 4.3 summarises the data. The great majority of investment comes from public finance, followed by aid from donor countries and development banks. An IEA report argues that "in most developing countries upfront public investment in developing national and local capacity is the most important ingredient" for attracting any private investment at all – and even then it will only take place "where a commercial return can be reliably earned on the investment" (IEA 2010, World Bank 2010).

Table 4.2: People without access to electricity, 2010

	Population without access to electricity	% of total population
Sub-saharan Africa	589	68%
Asia (developing)	628	18%
Latin America	29	6%
Middle East	18	9%
World (including high income)	1267	19%

Source: IEA 2012

The private sector has also shown it is not a reliable partner for investing in major renewable energy projects. Multinational companies have abandoned the two largest renewable energy projects in Africa, Desertec – generating solar power in the Sahara desert – and Grand Inga, a hydro-electric scheme on the Congo river. Development of both these projects now depends on governments and public sector utilities (Euractiv 2013, CleanTech Blog 2013).

The World Bank report also says that experience shows that a centralised public sector utility delivers much better results in rural electricification than fragmented or privatised approaches:

Table 4.3: Investment in electricity in Africa

	Investment ($ billions)				Operational expenditure ($ billions)	Total investment and operational	Public sector as % of total
Country group	Public sector	Aid	Private sector	Total	Public sector		
Total sub-saharan Africa of which:	2.4	1.8	0.5	4.6	7.0	11.6	81%
1. Resource-rich countries	1.2	0.8	0.3	2.3	1.6	3.9	72%
2. Middle income countries	0.8	0.03	0.01	0.8	2.7	3.5	99%
3. Low-income countries	0.4	0.9	0.2	1.6	2.6	4.0	75%

Source: World Bank 2010

"countries that have taken a centralized approach to electrification, with the national utility responsible for extending the grid, have been more successful than those that followed decentralized approaches, where a rural electrification agency attempted to recruit multiple utilities or private companies into the electrification campaign" (World Bank 2010).

China is the leading current example of the development of renewable energy through public sector bodies using public finance. By 2012, renewables accounted for 20% of all electricity generated, a rise from 16% in 2005, despite great economic growth in the same period. Solar power produced 6.5 million kilowatts (KW), hydroelectric 249 million KW, and wind power 63 million KW. The process has been driven by a government commitment to finance the development of renewables by the state-owned generation companies. This has been on a huge scale: public spending on renewable energy is expected to total nearly US $300 billion (€216 billion) between 2010 and 2015. In the process, China has also created a solar panel manufacturing sector which is now the world leader and obtaining much business in the USA and Europe (China 2013).

Chile, by contrast, which is praised by supporters of its strictly market electricity system, has failed badly in respect of renewables, which only provide 3.7% of the country's energy. The only recent major development is a US $2.6 billion (€1.9 billion) 360MW solar park in the Atacama desert, to be built by Iberdrola for the mining industry (Bennett 2012).

Aggreko: private company exploiting failure

Many countries facing power shortages have leased diesel generators. It is estimated that temporary emergency generators currently account for about 750 megawatts of capacity in Sub-Saharan Africa. Not only are temporary power solutions expensive, but because they use diesel, they are also a high carbon option. They do not provide a long-term solution by developing local capacity. They are also extremely noisy for local residents. The procurement processes for temporary power have also resulted in corruption and bribery problems: the Tanzanian Prime Minister and Energy Minister were forced to resign in February 2008 (Eberhard et al 2011).

But private companies make good business from this failure to develop either a universal system or renewable energy. The biggest beneficiary is the UK-based multinational, Aggreko, with annual sales of £1.6 billion (US $2.6 billion, €1.9 billion) and nearly six gigawatts (GW) of generating capacity, whose business plan is based explicitly on a continuing failure to extend the connections and generating capacity of utilities in developing country: "In our core market, which we define as non-OECD countries excluding China, we estimate that the shortfall [in generating capacity] will increase 9-fold, from 22GW to 195GW. We are confident that such a level of power shortage will drive powerful growth [for Aggreko] over the medium and long term in demand for temporary power as countries struggle to keep the lights on."

Aggreko is not just a passive beneficiary of this failure. It actively encourages governments to accept this failure, and rely instead on its diesel plants: "our own activities serve to create market demand – Bangladesh and Indonesia did not figure highly in our estimates of market size a few years ago, but they are now important customers as a result of our sales efforts" (Aggreko 2012).

Further reading Recent PSIRU reports on public provision of public goods cover renewable energy (PSIRU 2013B), private health (PSIRU 2013C) and remunicipalisation (PSIRU 2012C).

EQUALITY 5

Equality

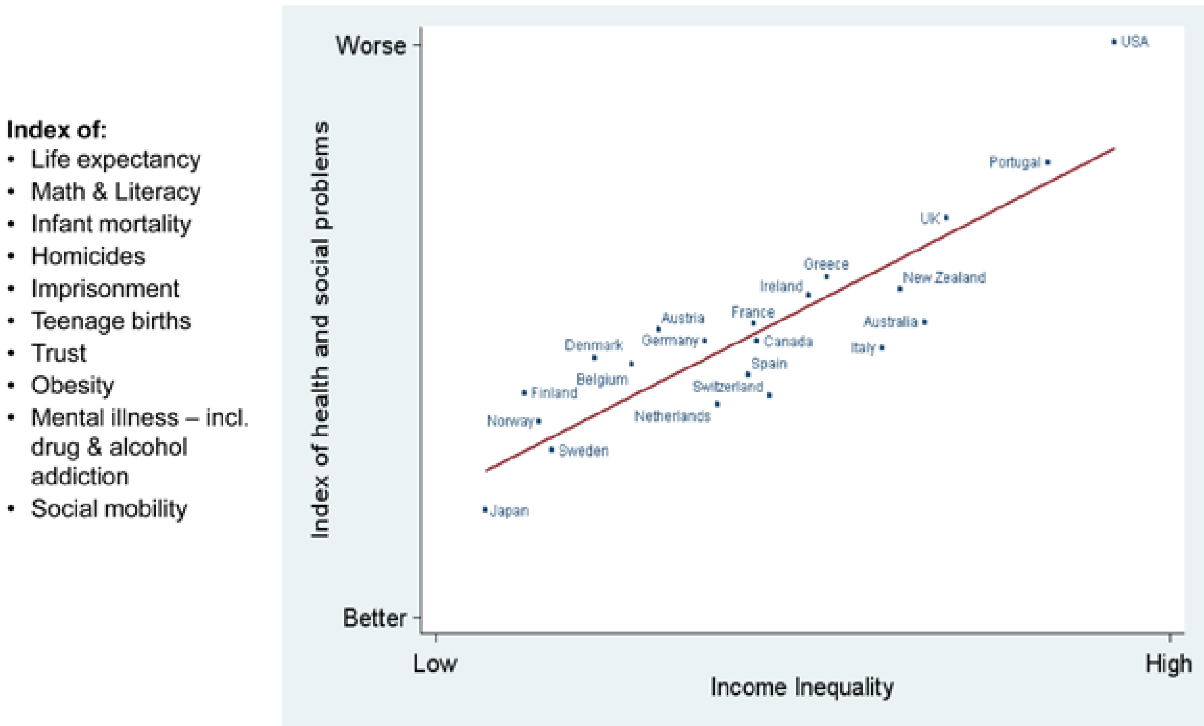
The growth of profits at the expense of income from wages, and the rise in the incomes of the richest households, have created large and growing inequalities, with damaging economic and social effects. Along with trade unions, public spending and public services are the most powerful engines of greater equality.

Public spending redistributes money income through social security benefits, but public services make an even greater contribution to equality.

The value of public services is equally distributed, and in OECD countries this is equivalent to an extra 76% of the disposable cash income of the poorest 20%. In Latin America, public services have the same effect, making a greater impact on equality than social security benefits. In Asian countries too, the benefits of public healthcare and education are powerful equalising mechanisms. Infrastructure for electricity, water and other services not only increases access for all, but improves employment opportunities, especially for women. And through employing more people on better pay and conditions, public services also improve income equality.

Market inequalities and public equality Greater equality is better for everyone, both socially and economically. *The Spirit Level* uses international data to show that more equal distributions of income lead to a better life for everyone. The chart below shows that the countries with the most equal distribution of income also have better social outcomes for everybody – life expectancy is higher, infant mortality is lower, there are fewer murders, less mental illness, less obesity, and fewer people in prison (Wilkinson and Pickett 2009).

Chart 5.1: Health and social problems are worse in more unequal countries



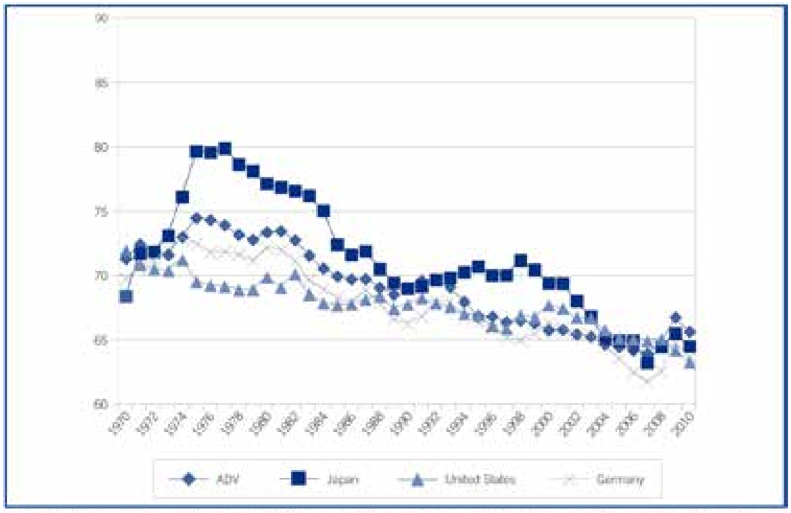
Source: Wilkinson (2009)

More equal societies also tend to achieve better economic performance – money is more likely to be spent by people on average or poorer incomes instead of being saved or hidden in tax havens by the rich. An analysis of 131 countries found that improving equality of income distribution is linked to higher growth in GDP per capita. And general economic growth has been damaged by the disproportionate rise in profits – growth prospects would be improved generally by re-balancing income shares through a faster growth in wages. (Ortiz and Cummins 2011, Onaran and Galanis 2013, Stockhammer and Onaran 2012)

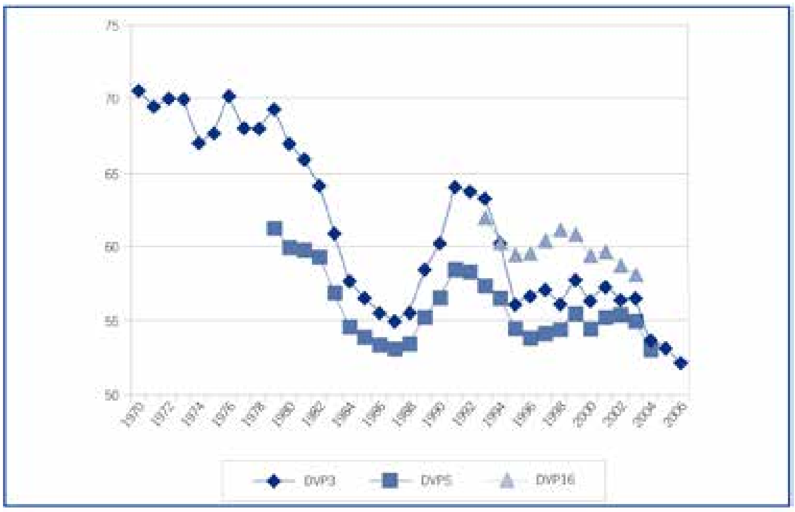
Increasing market inequality The market economy has created much greater inequalities in recent decades in two main ways. Firstly, there has been a long-term decline in the share of wages in the total economic output (GDP) in both high income countries and developing countries. The International Labour Organisation (ILO) states that: "In 16 developed economies, the average labour share dropped from 75% of national income in the mid-1970s to 65% in the years just before the economic crisis. In a group of 16 developing and emerging countries, it decreased from 62% of GDP in the early 1990s to 58% just before the crisis". (ILO 2012)

This decline means that workers have gained little during these decades – even though productivity has risen massively – while company profits, and people whose incomes derive from those profits, have increased their share of the economy.

Chart 5.2: Falling share of wages 1970-2010: advanced and developing countries



Note: ADV = unweighted average of 16 high-income OECD countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Spain, Sweden, the United Kingdom, and the United States. The Republic of Korea is excluded.)



Note: DVP3 = unweighted average of Mexico, Republic of Korea and Turkey; DVP5 = unweighted average of China, Kenya, Mexico, Republic of Korea and Turkey; DVP16 = unweighted average of Argentina, Brazil, Chile, China, Costa Rica, Kenya, Mexico, Namibia, Oman, Panama, Peru, Republic of Korea, Russia, South Africa, Thailand and Turkey.

Source: ILO 2012

Secondly, higher income groups have increased their incomes much faster than lower income groups, especially in the USA, the UK, and central and eastern Europe. This gap has continued to widen since the recession: in the USA the top one per cent increased their real income by 31% from 2009 to 2012, while the income of the other 99% grew by only 0.4% (Stockhammer 2013, Saez 2013).

The real extent of the gains of the top 1% is even greater, because their tax avoidance strategies mean that much of their income and wealth is not counted. There is between US $21trillion (€15 trillion) and US $32 trillion (€23 trillion) of unrecorded wealth in tax havens, almost all of which is certainly owned by the top 1% of the world's population(Dhaxton et al 2012).

The impact of public spending and public services In order to get the benefits of greater equality, there have to be other mechanisms to force a fairer distribution of resources. One of these is trade union organisation, which can increase wages as opposed to profits. The other great mechanism for achieving greater equality is public finance.

Public finance redistributes income and resources in three ways. Firstly, taxes are paid by people according to their income or spending – so the rich pay more than the poor towards the cost of public spending. In practice, this does not redistribute income very much in most countries (see below).

Secondly, money is distributed through social security benefits for people who are unemployed or retired or caring for children or sick. The poorer households get more of these benefits, and the gap between top and bottom disposable incomes is reduced

But the third form of redistribution, through public services, is at least as important as the others. Public health services, public education, child care, care for the elderly, and public housing have a powerful redistributive effect, because they are equally available to everyone. For those on lower incomes, public services are at least as valuable as either benefits or income (as explained in the next section). As a result, cuts in spending on services have a disproportionate impact on households on lower incomes.

In addition, services such as child care, care for older people and education have a big impact on gender and ethnic equality, because they allow more women to get paid employment, and can be used to provide decent employment and career prospects for members of ethnic groups which have suffered discrimination. Other spending on public services takes the form of buying goods and services from private companies, and this too can be used to improve equality by making contracts conditional on positive discrimination in favour of women.

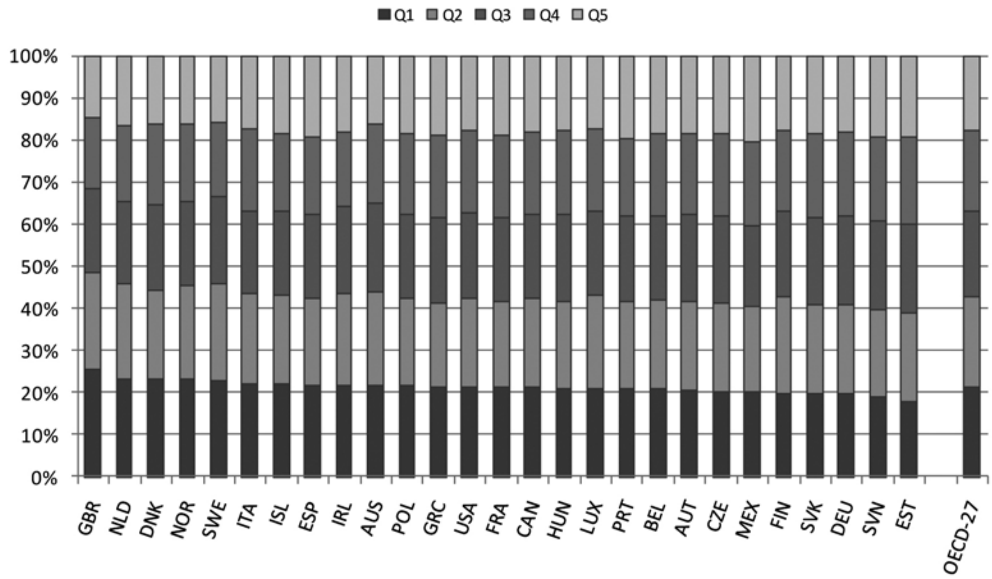
Infrastructure like water, sanitation, electricity, roads and telecoms also improve equality because they make it possible for everyone to improve their livelihoods by using these services.

The provision of public services thus rejects the market principle of allocation by price and demand They are based on a principles of universalism and solidarity, which similarly challenge the social relations of the market.

Public services and equality In the main advanced economies (countries that are members of the OECD), education and healthcare each account for about 5.5% of GDP, with another 2% of GDP spent on social care for children and older people, and social housing: a total of 13% of GDP – more than the total value of benefits (Verbist et al 2012).

The benefits of these public services are very evenly distributed between the households divided into five income bands, or quintiles. Each quintile receives roughly equal benefit from the services, in absolute terms – i.e. the value of the services received is broadly the same for all groups. The figures are not just estimates or assumptions, but based on data on actual use of education and healthcare by households in each country. This equalising effect of the provision of public services is remarkably consistent across all OECD countries. It is a remarkable picture of material equality at the heart of countries where the market continues to generate great inequality.

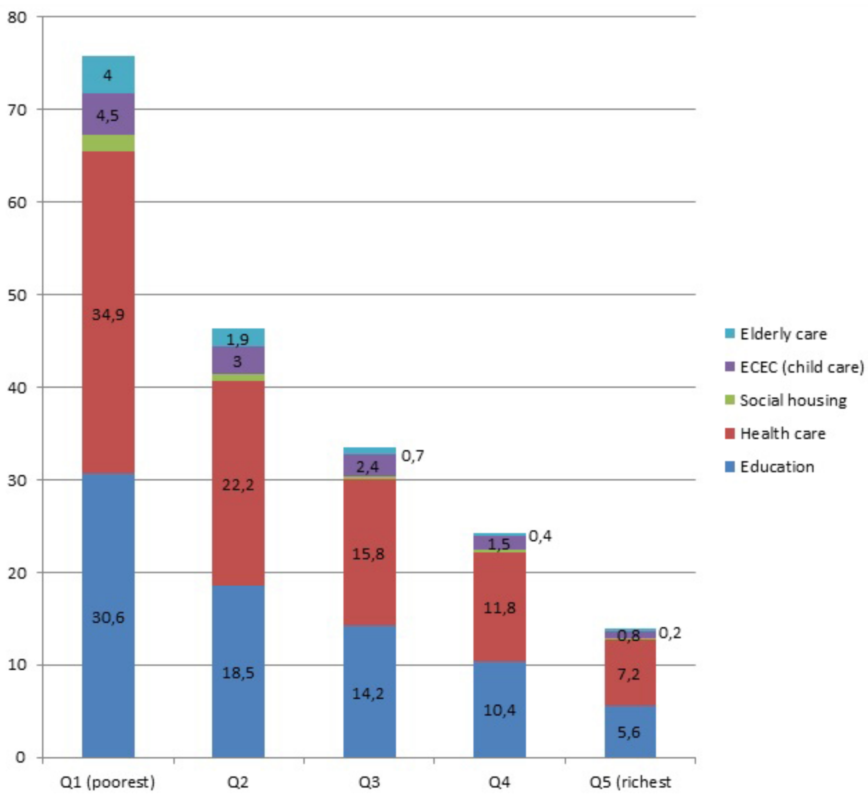
Chart 5.3: Distribution of value of total public services over quintiles, 2007, OECD.



Source: Verbist et al 2012

This equal distribution of benefits contrasts strongly with the unequal distribution of money incomes. As a result, public services are far more important to poorer households, and are equivalent to a substantial proportion of their disposable income – worth 76% of disposable income for the poorest 20%. Even for households around average income, they are worth an extra one-third on top of disposable income. Even for the top 20%, public services are still worth an additional 14% to their disposable income.

Chart 5.4: Value of public services relative to disposable income, 27 OECD countries



Source: calculated from Verbist et al 2012

The detailed data on the UK in Table 5.1 also shows how public services, and benefits, are the crucial mechanisms for creating equality, rather than the taxation system. Income tax and profits tax are progressive, because those on high incomes pay more; but this is offset by the effects of indirect taxes, like VAT, and social security contributions paid by workers, because these taxes are regressive – they represent a higher percentage of the income of the lower paid. As a result, the overall effect of the tax system is almost neutral. It is the provision of services, and benefits, which creates the greater equality.

The same is true in developing countries. In Brazil, for example, the taxation system is actually regressive – that is the poor pay more than those on high incomes – but once again, it is the effect of public services and benefits that has the great equalising effect (Silveira et al 2013).

Table 5.1: Effects of taxes and benefits on income in the UK

(Data on quintile groups of households 2010-11(£ per year))

Quintile groups of all households	Bottom	2nd	3rd	4th	Top	All households	Ratio Top/ Bottom quintile
Original income	5 089	11 764	22 482	39 642	81 501	32 096	16:1
plus cash benefits	7 040	8 322	6 655	4 098	2 115	5 646	
Gross income	12 129	20 086	29 137	43 740	83 616	37 741	7:1
less direct taxes and social contributions	1 271	2 510	4 755	9 002	19 727	7 453	
Disposable income	10 858	17 576	24 382	34 737	63 890	30 288	6:1
less indirect taxes	3 365	3 741	4 770	6 033	8 339	5 250	
Post-tax income	7 493	13 835	19 612	28 704	55 550	25 039	7:1
Total tax as % of gross income	38.2%	31.1%	32.7%	34.4%	33.6%	33.7%	
plus benefits in kind	7 749	7 584	7 459	6 825	5 826	7 089	
Of which education	3 296	2 944	2 860	2 660	2 048	2 762	
Of which health	4 100	4 391	4 397	3 978	3 461	4 065	
Final income	15 242	21 419	27 071	35 529	61 376	32 127	4:1

Source: ONS 2012

Latin America There is now clear evidence that public services have similar impacts in developing countries, which is shown in chart 5.5. In Latin America, public services make a greater impact on inequality than taxes and benefits combined, according to a 2011 study on the impact of taxes, benefits and public services (healthcare and education) in six Latin American countries with a combined population of 390 million - Argentina, Bolivia, Brazil, Mexico, Peru, Uruguay (Lustig et al 2012)[3]. Like the OECD reports, the research used data on actual use of services and converted that into 'virtual income' to see how the benefits of public services changed the distribution of income.

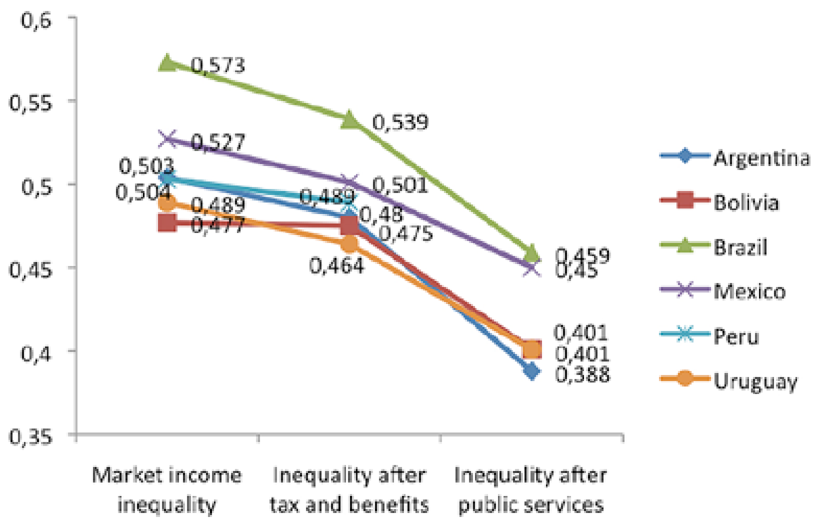
In all countries, these public services significantly reduce inequality, as measured by the Gini coefficient. That means that in all countries, public services are relatively progressive – the poor get a much higher proportion of the benefit of public services than they do of market income - as in OECD countries.

[3] This research (Lustig et al 2012A)has been published in another paper with completely different emphasis, re-worked and presented to fit the World Bank agenda (Lustig at al 2012B). This almost ignores the impact of public services e.g. the impact of education is explored entirely in terms of reducing the relative wages of skilled workers, and the results on healthcare are mentioned only in a dismissive footnote.

This refutes the conventional cynicism that the rich benefit most from social spending in Latin America: "social spending does not accrue to the richest quintile. On the contrary, [it is] progressive in absolute terms for Argentina and slightly so for Bolivia and Mexico. In Brazil and Peru social spending is progressive in relative terms"; …."inequality of access to basic services in education and health has ceased to be a major problem in many countries" (Lustig et al 2012).

Another striking result is that public services have a more important effect in reducing inequality in these countries than social security benefits and taxes combined: "the largest decline in inequality is due to in-kind transfers in education and health…. governments in Latin America redistribute mostly through public spending on education and health". Even in Brazil, for example, whose benefits programme includes the Bolsa familia, the combined effects of education and healthcare make a contribution to equality twice as great as the effects of tax and benefit (Lustig et al 2012).

Chart 5.5: Impact on inequality of taxes and benefits, and public services



Source: Lustig et al 2012

Asia

Healthcare The pattern in Asian countries, for healthcare systems, is similar to that in Latin America – nearly all systems are progressive in either absolute terms, or at least relative terms.

A 2007 study of Asian healthcare systems in eight countries and three Chinese provinces or regions, found that 10 out of 11 systems reduced inequality. In four cases – Hong Kong, Malaysia, Sri Lanka and Thailand – the distribution of benefits was equally distributed or positively favoured the poor: and the poorest 20% received 20% or more of the benefits. Vietnam was not far behind. Public healthcare systems were still relatively progressive in five other cases (Bangladesh, India, Indonesia and the Chinese regions of Gansu, and Heilongjiang). Only in Nepal was the system not progressive in its effects (before the regime change) (O'Donnell et al 2007).

Another study covering over 70 developing countries and those in transition from communism, found that the poor gained twice as much benefit as the rest: "The absolute impact of public health spending on the health status of the poor is more than twice that of the non-poor …. For child mortality rates, a 1% increase in public spending on health reduces child mortality by twice as many deaths among the poor. Infant mortality rates follow a similar pattern (Gupta et al 2003).

Education Public education services have multiple impacts on equality, by:

· making education equally available to all, including both men and women, without barriers of affordability;

· improving the employment prospects and human development of children from poorer households, women, and other disadvantaged groups; and

· increasing disposable income by reducing or eliminating the need to spend money on education, which is proportionately of greater benefit to poorer households.

These effects are greatest where education is universally available, with no direct or indirect fees. The benefit of public spending on primary schools is fairly equal, or greater for poorer households, so is progressive. But for secondary education this is reversed, so that more of the benefit goes to the higher income groups; for tertiary – university – education, it favours better-off groups even more.

An analysis of the benefits of education spending in developing countries, summarised in Table 5.2, shows these different patterns:

· in primary education, in nearly all regions, the poorest 20% get about as much, or more, of the benefit than the richest 20%, in all groups of countries: so it is equal or progressive in absolute terms;

· for secondary education, the absolute benefits are greater for the higher income groups – but the poor still get a higher proportion of the benefit than they do of money incomes, so the impact is still relatively progressive, in all regions; and

· this is true for education spending as a whole, even when university education is included, and even in Africa and Asia: the richest 20% get three times as much benefit as the poorest, whereas their money incomes are many times greater than the poorest.

It would not however improve equality to reduce spending on secondary schools or universities: this would make it even more difficult for poorer families to afford to send their children to secondary school, and so reduce equality of opportunity.

Table 5.2: Shares of poorest and richest quintiles in public education spending (1990s)

		Primary education spending		Secondary education spending		Tertiary education spending		All education spending	
	No. of countries	Poorest 20% get	Richest 20% get	Poorest 20% get	Richest 20% get	Poorest 20% get	Richest 20% get	Poorest 20% get	Richest 20% get
Sub-Saharan Africa	10	17.8	18.4	7.4	38.7	5.2	54.4	12.8	32.7
Asia and Pacific	4	20.3	16.9	8.3	37.3	2.5	69.0	12.4	34.8
Middle East and North Africa	2	24.7	12.4	11.0	24.4	4.0	46.9	15.3	24.1
Transition	7	19.3	20.0	12.5	24.6	8.7	32.6	15.3	24.0
Western Hemisphere	14	29.5	9.4	15.1	17.8	4.7	41.6	19.2	20.7
Total	37	22.8	15.1	11.3	27.9	5.4	46.3	15.8	26.3

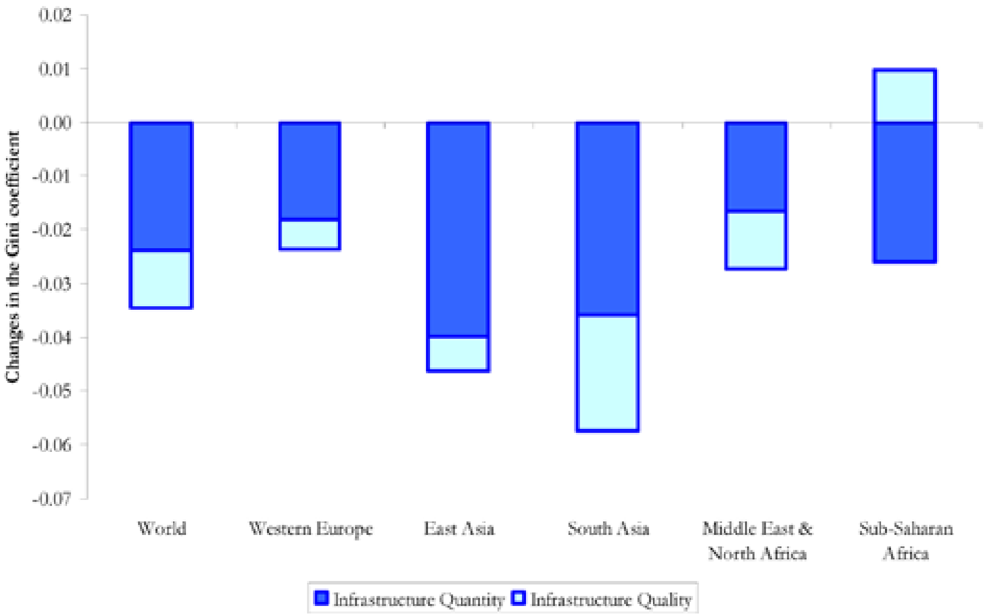
Source: Davoodi et al 2010

Infrastructure and equality Other public services involve infrastructure which connects people to networks. They include roads, electricity, water, sewerage, and telecoms. As well as being very important for supporting economic growth and business activities, they provide important economic and social benefits to families and communities.

These infrastructure or network services have a double impact on inequality. Firstly, the quality of life directly improves as a result of the services themselves: as communities gain access to piped water and sanitation their health improves, access to electricity facilitates reading and education as well as the use of electrical equipment including radio and television, and roads, rail and telecoms provide greater mobility and ability to communicate.

Secondly, they improve equality of income, because people have better opportunities for earning more when they get access to roads and electricity and telecoms. Across all continents, there is a strong correlation between access to roads, electricity, water and sanitation and greater equality. This equality impact of infrastructure is greater than the impact of tax and benefits in Latin American countries, for example (though not as great as the value of health and education services: see above). The following chart shows the scale of this effect, across all continents, measured by a reduction in the Gini coefficient. (Calderón and Servén 2008)

Chart 5.6: Improvements in income equality due to infrastructure development, 1990s–2000s, by region



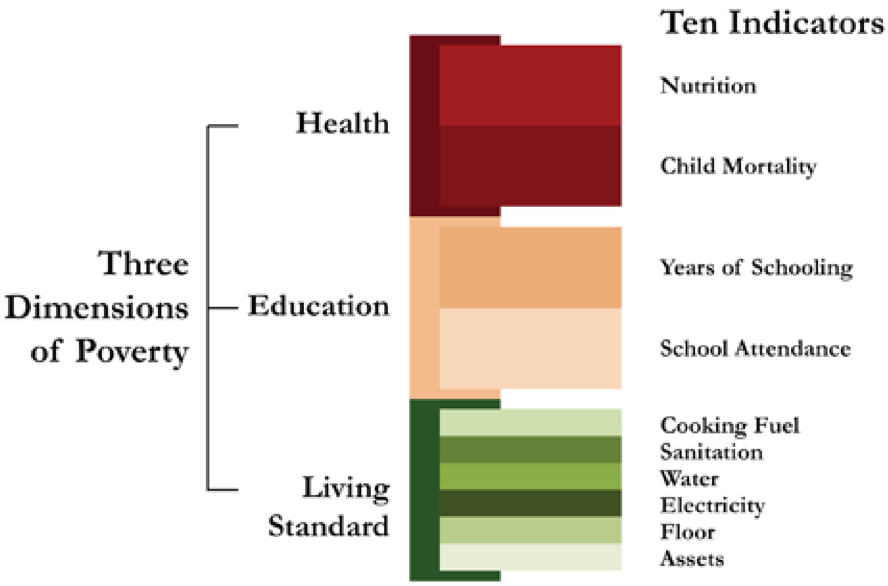
Source: Calderón and Servén 2008

Thirdly, when utilities are run as public services, cross-subsidies can be used as a powerful way of making the services accessible and affordable for all. Wealthier users of a service, including corporate users, can be charged more than ordinary households, and the extra money can be used to finance investment in the system for the benefit of all, or to reduce the price for poorer consumers, or to pay for other public services. So it reduces inequality by transferring resources from the rich, or companies, to the poor, as acknowledged by World Bank researchers: "implementing welfare programs through a transparent cross-subsidy in the utility rates, especially if undertaken such that only fixed charges are affected, may well be more efficient than a general poverty alleviation program undertaken with general tax funds" (Estache et al 2001).

These services are highly valued in developing countries. For example, infrastructure services have been an important factor in the democratic processes of India, where the slogan of 'bijli, sadak, pani' – electricity, roads, and water – is widely used in election campaigns, because voters recognise the importance of these factors: household surveys in a number of different states provide systematic evidence that these infrastructures rank at the top of voter demands, alongside education (Khemani 2010).)

Their importance is also reflected in a new measure of poverty and development now used by United Nations Development Programme, shown in Chart 5.7, which has three dimensions – health, education, and living standards. The measurement of living standards is focussed on public infrastructure – access to water, sanitation and electricity account for half of the measures used of living standards. So the overwhelming majority of the factors making a difference between poverty and human development are concerned with the level of public services.

Chart 5.7: Public services and infrastructure as indicators of development



Source: Alkire et al 2013

Public water and equality

The importance of public sector provision can be seen from a comparison of investment in water and sanitation services in the department of Maldonado in Uruguay. Water services were privatised in 1993 and sanitation in 2000; both were then taken back into public ownership in 2004, following a referendum. A study compared progress with connecting households to sewerage under both regimes, and found that, whereas privatisation had little impact on access to the sanitation network, the return to public ownership led to a 15% increase in access to sanitation networks". The main beneficiaries were the poorest: "… the bottom 25% has greater access to the network during the nationalization period than during the privatization period." Under public ownership, there was also a large and significant improvement in water quality (Borraz et al 2013).

Rural electrification, gender equality and development

South Africa has massively increased the number of households connected to its electricity system, financed first by cross-subsidies and then from tax revenues: the continuing programme is financed from a national government fund. The percentage of the population with access to electricity rose from 40% in 1994 to 66% in 2002: by the end of 2006 over 3.3 million households had been connected. South Africa also provides subsidies to enable poor households to receive 50 KWh per month free, with reduced tariffs after that point. By the end of 2006, 1 million households were benefiting from this(Dubash 2002, Eskom 2006).

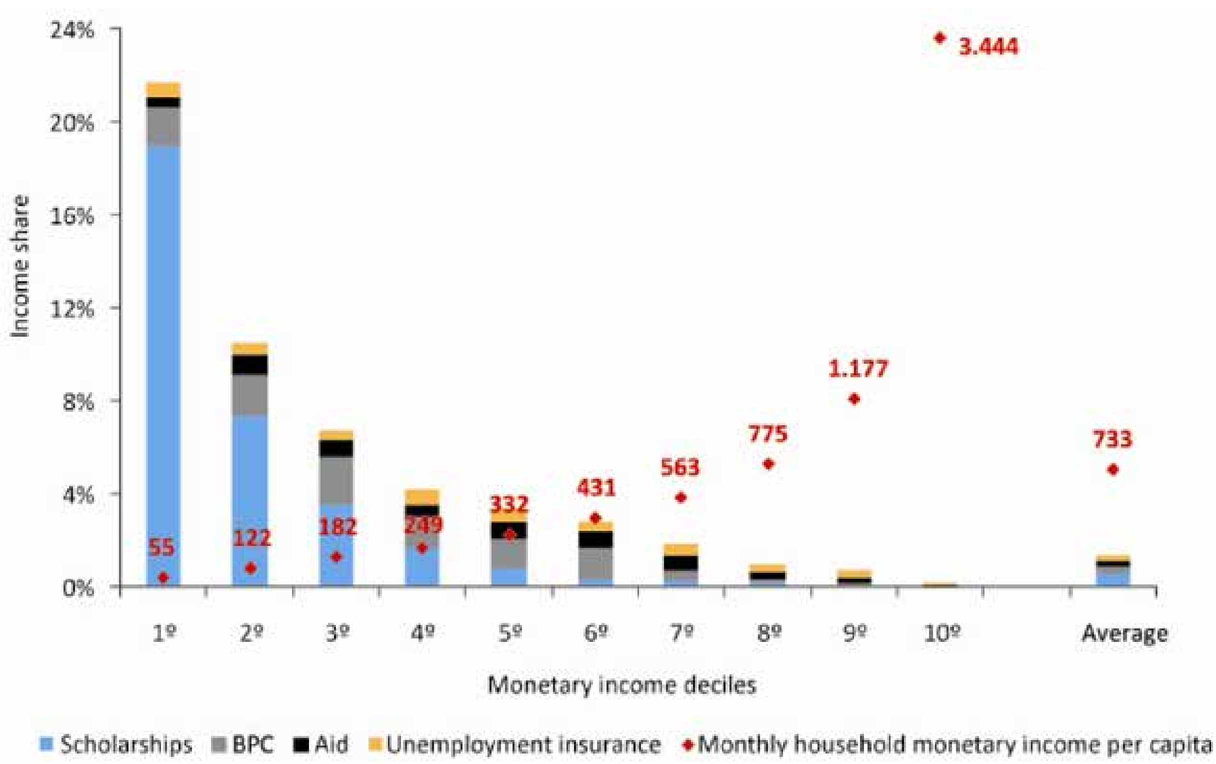
One effect of rural electrification is to release women from household duties of fuel collection and enable them to find paid jobs. In South Africa, within five years of electrification, there was a sharp fall in the use of wood as a cooking fuel, and a 13.5% increase in female employment, though little effect on male employment. The employment effects were greatest for women in their 30s and 40s, in middle-poor communities (Dinkelman, 2008).

Benefits, pensions and equality

Social security systems themselves are public services, which provide support to the vulnerable and the poor by providing pensions to the old, child benefits to the young, and unemployment benefit to those without jobs. Benefit systems redistribute incomes within a country, and so can be implemented by all countries: "The cost is within reach of even the poorest countries, while making it affordable requires political will" (Hagemejer 2009).

The potential effects are considerable, as shown by the example of Brazil in the chart below. The country has been one of the most unequal societies in the world, but it is becoming significantly more equal as a result of the expansion of social security benefits under the Lula and Roussef governments. Spending on benefits rising from 6.9% of GDP to 8.9% of GDP, through the 'Bolsa Familia' and other measures heavily weighted towards poorer families, and were one reason why the incomes of poorer families increased faster in the seven years after 2002. In 2011 Brazil introduced a further programme, Plano Brasil Sem Miséria (PBSM — Brazil without Extreme Poverty), which is expected to further reduce inequality (Hailu 2009, Silveira et al 2013).

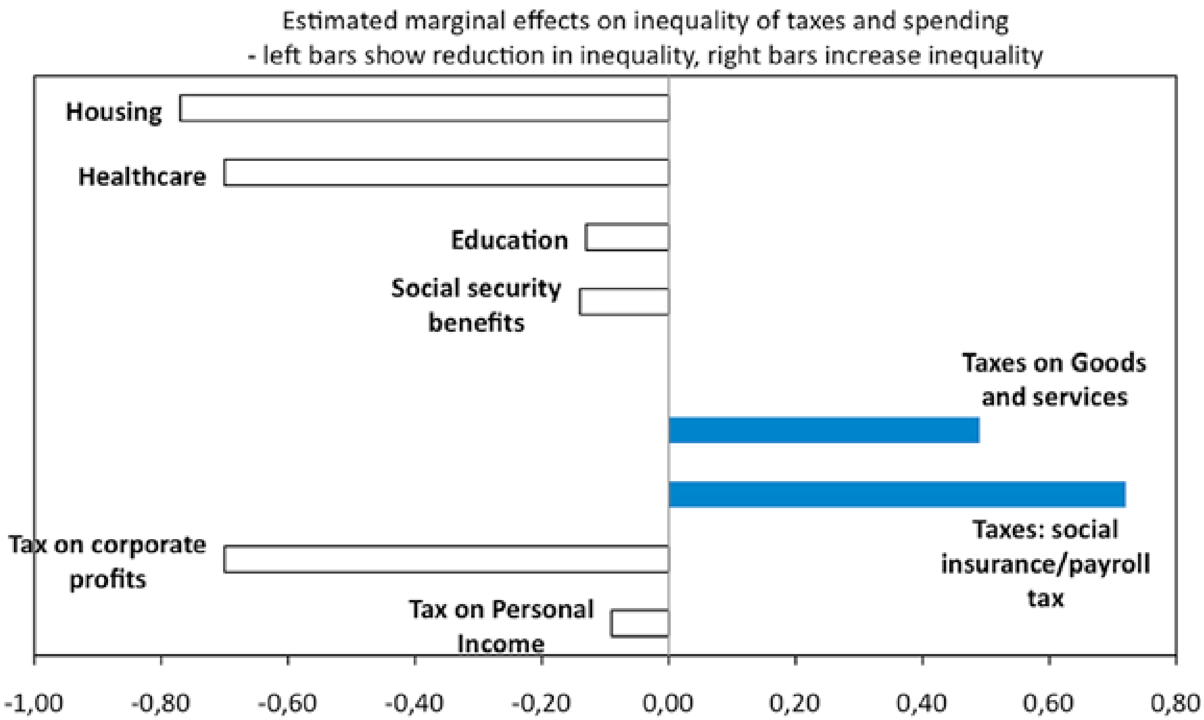
Chart 5.8: Brazil: poor households gain most from Bolsa Familia



Source: Silveira et al 2013

Public services and income distribution Greater provision of public services and greater equality of income seem to be mutually reinforcing. An assessment of the effects of tax and public spending changes in 150 countries from 1970 to 2009, summarised in the chart below, found that spending on public health and housing has an even greater impact on improving equality of cash income than the same spending through social security benefits: "higher shares of GDP on social welfare, education, health, and housing public expenditures have a positive impact on income distribution, individually and collectively" (Martinez-Vazquez, et al 2012). An analysis of the impact of austerity policies found that cuts in spending worsened inequality most (Woo et al 2013).

Chart 5.9: Unequal austerity: effects on inequality of changes in taxes and public spending



Source: calculated from Martinez-Vazquez, et al 2012, table 4

Further reading Recent reports on equality which also highlight the role of public spending and public services include:

Ortiz and Cummins 2011, Lustig et al 2012A, Dhaxton et al 2012, Verbist et al 2012 and PSIRU 2014A. The IMF has now produced two reports on how inequality harms economic growth, and on the relevance of public finance for equality: *The IMF's Work on Income Inequality*, 2014, http://www.imf.org/external/np/fad/inequality/

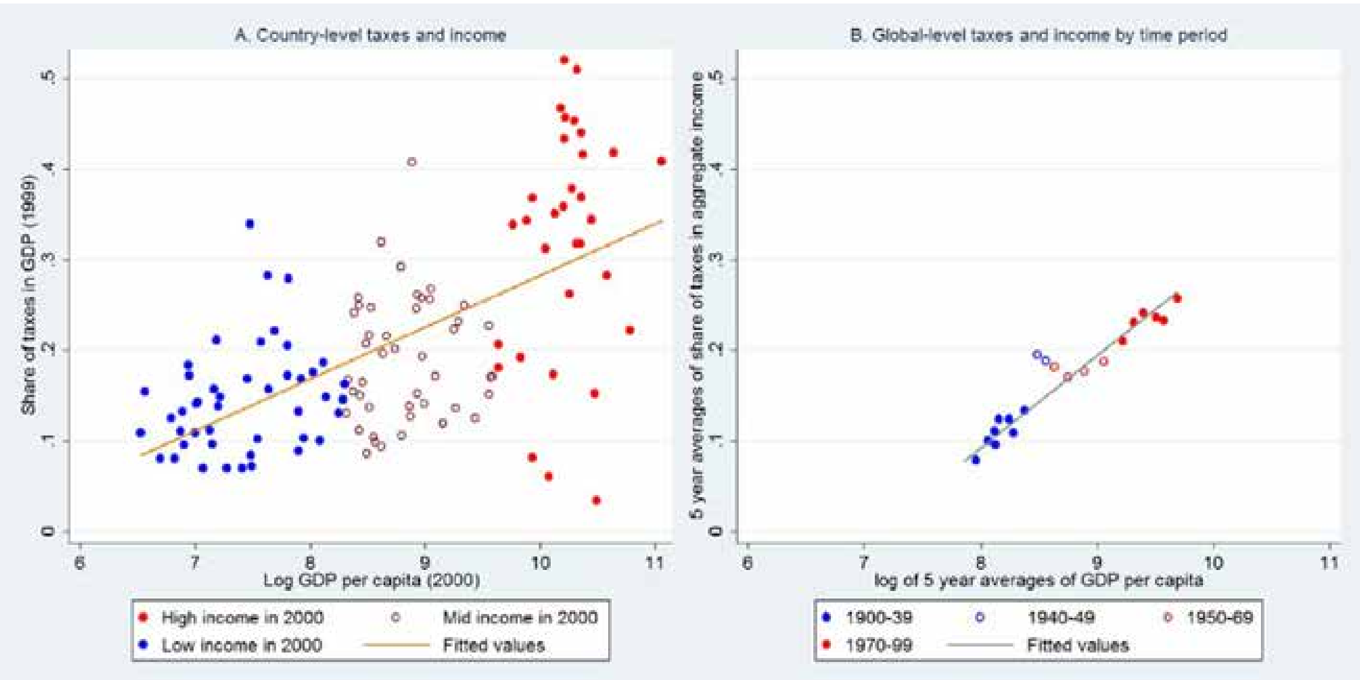
PUBLIC FINANCE: TAXES AND REVENUE 6

Public finance: taxes and revenue

Government revenues consist of taxes of various kinds and income from other sources. Countries with higher GDP have higher levels of taxation, so an increasing level of taxation is a key part of economic development. The total amount needs to be sufficient to pay for spending on public services and social security, and the burden of taxation should be fairly distributed. But neoliberal policies have attempted to reduce taxation, and have shifted the tax burden away from the rich, and corporate profits, on to ordinary people. All countries could increase their revenues substantially, just by increasing taxes on high incomes, property and corporate profits. This requires action to strengthen tax collection systems, and to deal with tax avoidance and the use of tax havens.

Level of taxation Taxation is not a burden but an essential part of economic, social and political development. As economies grow, tax revenues rise as a proportion of GDP: "rich countries collect a much larger share of their income in taxes than do poor countries", as the first chart shows. Higher tax revenues are a crucial part of development: "the power to tax lies at the heart of state development" – the second chart shows how the level of taxation has grown steadily for the last 100 years (Besley and Persson 2013).

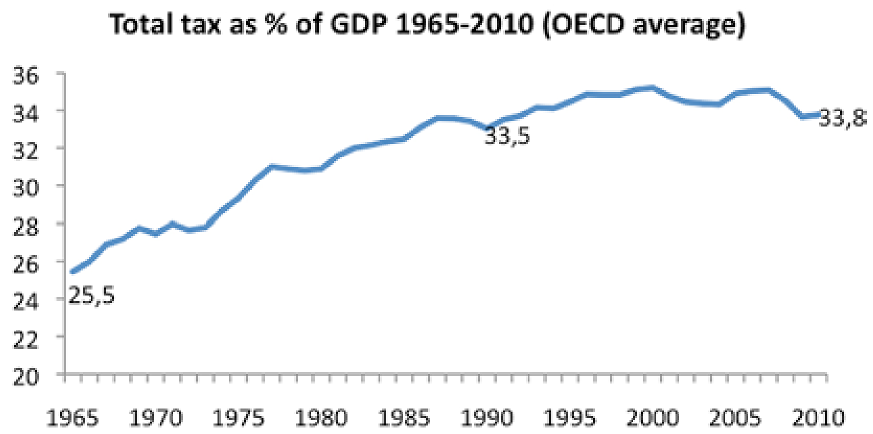
Chart 6.1: Higher GDP means higher taxation



Source: Besley and Persson 2013

High income countries raised an increasing proportion of GDP in taxes up to the late 1990s, but neoliberal policies that promote the free-market and aim to reduce the role of the public sector have attempted to hold down the level of taxation since then, as can be seen in Chart 6.2. But low levels of taxation are not an economic advantage:, and do not help countries avoid crises: Ireland, Spain, Greece and Portugal were the lowest taxed of the 'old' countries in the EU, but have been worst affected by the crisis (Euromemorandum 2014).

Chart 6.2: Tax revenues as % of GDP 1965-2010 (average of OECD countries)



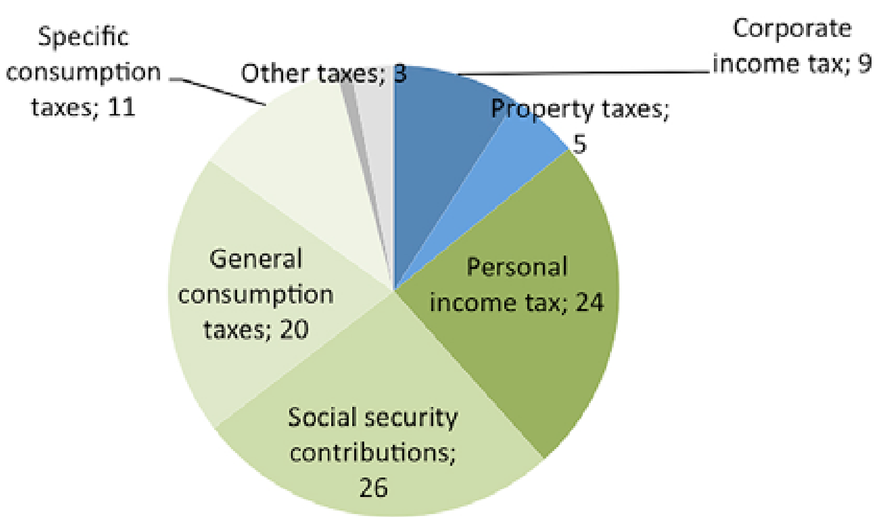
Source: OECD 2014B

Tax structures The burden of taxation depends on the types of taxes used. Corporations and rich people pay taxes on profits, property and the highest incomes . But social security contributions and taxes on consumer spending are paid disproportionately by ordinary people, who continue to pay income taxes – and these now represent the main burden of taxation.

In high income countries, taxes on company profits now contribute only 9% of all taxes, about the same as in the 1960s, even though company profits now take a much larger proportion of GDP. Property taxes contribute only 5%, much less than in the 1960s. Countries have cut import taxes, as a result of trade liberalisation. Chart 6.3 summarises the position for the more developed countries that are members of the OECD.

According to the International Monetary Fund (IMF): "Tax systems around the world have become steadily less progressive since the early 1980s. They now rely more on indirect taxes, which are generally less progressive than direct taxes; and within the latter, the progressivity of the personal income tax has declined, reflecting most notably steep cuts in top marginal tax rates" (IMF 2011B, IMF 2013).

Chart 6.3: Tax structures in the OECD countries 2010 (as % of total tax revenues)



Source: OECD 2014B

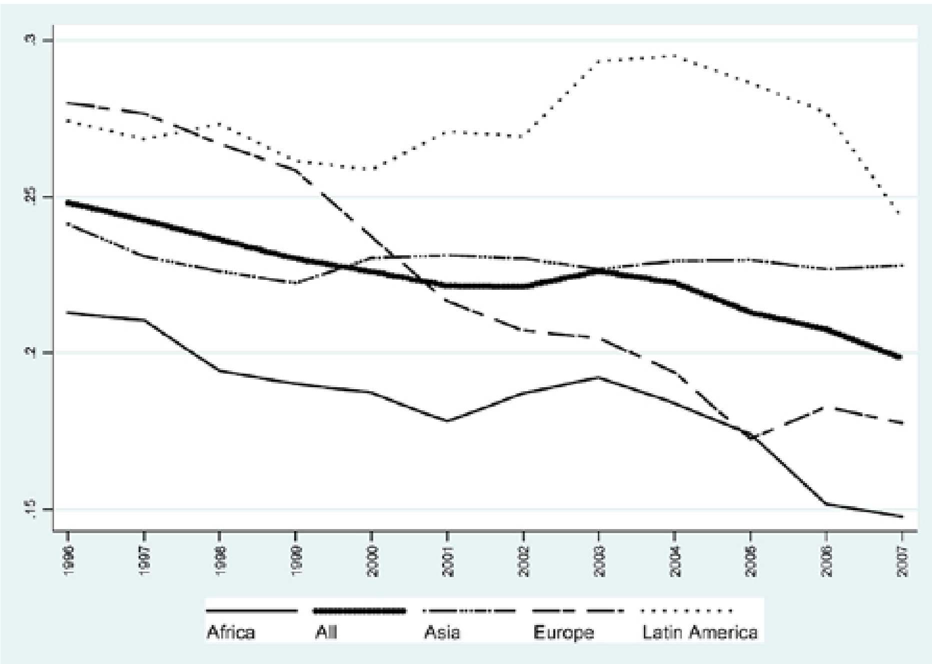
Developing countries are collecting more revenue from corporate taxes than in previous years, but the effective rates have fallen, and evasion of various kinds, including the use of tax havens, means that this revenue is much lower than it should be. Personal income tax plays a much smaller role than in high income countries, and rich individuals and members of elites still avoid such taxes, so in practice income taxes are collect-

ed almost entirely from wages paid to employees in large enterprises and the public sector (IMF 2011B).

Corporate taxation Companies have reduced the taxes they pay in a number of ways, including reduction in the rates of tax, exemptions and special allowances, and general tax evasion. In all regions of the world, the effective rate of taxation on corporate profits has fallen steadily for at least the last 20 years, as shown in Chart 6.4.

In Africa, the effective average rate of tax on corporate profits is almost zero. This has been the result of cuts in the official tax rate and the introduction of 'special regimes' giving allowances and exemptions to companies under various headings. While in Europe, the rates of tax on corporate profits have fallen sharply for more than 20 years. Companies now face lower rates of taxes on their profits than people do on their incomes – in many countries, much lower (Euromemorandum 2014).

Chart 6.4: Declining corporate tax rates – effective average rates by region



Source: Abbas and Klemm 2012

Interest payments Most corporate tax systems do not tax profits which are paid out as interest payments. The elimination of this allowance would not only increase revenues from corporation tax, but also discourage high levels of corporate debt, which were one factor in the financial crisis: "eliminating the debt bias would have reduced the probability of crisis by 20 percent or more in several countries" (IMF 2013, IMF 2012B).

Higher corporate taxes do not drive investors away

Multinational companies can choose where they do business, which means that they can decide to operate in countries with lower tax rates on profits. So countries are under pressure to reduce their levels of company taxation in order to attract investment, by offering special reductions or allowances or free trade zones, where company profits are not taxed.

But empirical evidence shows that countries should not lower their tax rates for this reason. An IMF study of 44 developing countries found that raising tax rates does not deter investment in general, or foreign direct investment in particular: higher tax rates on corporate profits leads directly to higher tax revenues (Abbas and Klemm 2012).

Other research has found that:

· USA multinationals are not influenced at all by the rate of corporation tax in deciding where to invest;

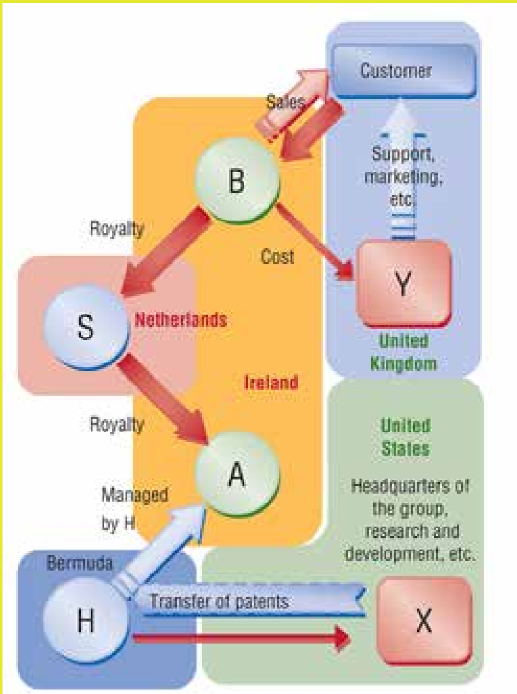
· Japanese multinationals are most influenced by good public infrastructure rather than tax rates (Slemrod 2007);

· human and social capital is the most important determinant of the distribution of investments into eastern Europe and central Asia (Deichmann et al 2003); and

· decisions to invest in European countries are far more affected by factors such as economic performance and good production links, than by differences in tax rates (Hansson and Olofsdottor 2013).

Tax avoidance Multinational companies, helped by multinational accountancy firms and banks, find many ways of avoiding tax, usually involving transfers between different parts of the business. Companies such as Amazon, Google and Starbucks are now notorious for such practices. The box gives examples of how this is done.

How multinationals avoid paying tax



"The precise design of tax planning schemes reflects specifics of national tax systems, but common strategies include:

· *Shifting profits to low-tax jurisdictions*—abusive transfer pricing is prominent in public debate, but there are many other devices that can be used to the same effect, like the direct provision of services from, and location of intellectual property rights in, low-tax jurisdictions;

· *Taking deductions in high-tax countries . . .* by, for example, borrowing there to lend to affiliates in low-tax jurisdictions;

· *. . . and as many times as possible*—passing on, through conduit companies, funds raised through loans may enable companies to take interest deductions several times (without offsetting tax on receipts);

· *Exploiting mismatches*—tax arbitrage opportunities can arise if different countries view the same entity or financial instrument differently;

· *"Treaty shopping"*—networks of double tax agreements can be exploited to route income so as to reduce taxes;

· *Delay repatriating earnings*—multinationals based in countries operating worldwide systems can defer the taxation of business income earned abroad until it is paid to the parent.

· *Food for Thought* So many companies exploit complex avoidance schemes, and so many countries offer devices that make them possible, that examples are invidious. Nonetheless, the "Double Irish Dutch Sandwich," an avoidance scheme popularly associated with Google, gives a useful flavour of the practical complexities." The diagram shows how it works.

(IMF 2013A)

This not only avoids tax, it is used as a way of taking large amounts of capital out of developing countries, in particular. A report produced by Global Financial Integrity and the African Development Bank found that the developing world lost US $859 billion (€620 billion)in illicit outflows in 2010, an increase of 11% over 2009. Most of this was achieved through 'trade misinvoicing' – companies creating false invoices for non-existent goods or services. In 2013 the Ralph Lauren Corporation, for example, admitted using false invoices to disguise bribes to customs officials in Argentina (GFI 2013).

Tax havens The most complete form of escape from taxation is the use of tax havens – countries which impose no tax on corporate profits and also demand very little information from companies registered in their jurisdictions, or from individuals with bank accounts there. Research on tax havens reveals that:

· between $20 and $32 trillion (€14-€23 trillion) is hidden in over 80 "offshore" secrecy jurisdictions;

· two-thirds of this global offshore wealth – more than $12 trillion (€8.7 billion) – is hidden in EU related tax havens, such as Luxembourg, Andorra or Malta;

· a third of the offshore wealth is sitting in UK-linked tax havens such as the Cayman Islands, Channel Islands and Bahamas;

· almost half of all investment into developing countries goes through tax havens;

· between $7.3 to $9.3 trillion (€5.3-€6.7 trillion) of this consists of money which the private elites in developing countries have accumulated since 1970;

· almost half of all money invested in developing countries is channelled through tax havens;

· the OECD estimates that developing countries are losing three times more money to tax havens than they currently receive in aid each year;

· if the money in tax havens is taken into account, developing countries are not in debt at all, but are lenders to the tune of $10.1 to $13.1 trillion (€7.3-€9.5 trillion) at the end of 2010;

· US $250 billion (€180 billion) in revenue is lost each year because of rich individuals holding assets in tax havens; and

· major global banks are key players in many havens and therefore key enablers of the global tax injustice system. The top 50 international private banks collectively managed $12 trillion (€8.7 trillion) in cross-border invested assets from private clients.

(TJN 2012, ICIJ 2013, Oxfam 2013, Actionaid 2013, Zucman 2013)

Huge potential for more tax revenues Far more tax revenues can and should be collected from taxes on high incomes, wealth, company profits, financial transactions, and from land and property. The IMF and others estimate the potential extra revenues from some of these sources as equivalent to 11% of GDP. Higher rates on top incomes could provide extra revenue of 1.9% of GDP with 1.1% coming from wealth taxes, 3% from property taxes and 3% from corporate taxes (IMF 2013A). A financial transactions tax (see below) could contribute a further 2% of GDP (Schulmeister 2009).

Overall they would represent a huge increase in tax revenues: an increase of 33% in high income countries, an extra 50% in middle income countries, and an extra 70% in low income countries.

The IMF also estimates that the government debt of all countries could be restored to the levels of 2007 by a general tax of 10% on private wealth (IMF 2013A).

The IMF on taxation

· "If the tax rates on only the top 1 percent were returned to their levels in the 1980s, an extra 0.2 percent of GDP could be collected in tax – in some countries, e.g. the USA, the gain would be greater."

· "In principle, taxes on wealth also offer significant revenue potential at relatively low efficiency costs…… as increased public interest and stepped-up international cooperation build support and reduce evasion opportunities. …"

· "… transaction taxes are administratively appealing, since transactions can often be fairly easily observed (stamp duty on the sale of shares in the United Kingdom, for instance, is one of the cheapest, per pound collected, of all taxes), and there are strong incentives for compliance when legal title is contingent on payment."

· "Resource mobilization should focus on broadening income and consumption tax bases and expanding corporate and personal income taxes by reducing tax exemptions and improving compliance".

· "Recognition that the international tax framework is broken is long overdue. Though the amount is hard to quantify, significant revenue can also be gained from reforming it. This is particularly important for developing countries, given their greater reliance on corporate taxation, with revenue from this taxation often coming from a handful of multinationals."

· "Reforming international taxation …must go beyond the control of tax-minimizing tricks to address more fundamental aspects such as the allocation of tax bases across countries and finding better ways to realize mutual gains from closer cooperation in tax matters. …Substantial progress likely requires enhanced international cooperation to make it harder for the very well-off to evade taxation by placing funds elsewhere and simply failing to report as their own tax authorities in principle require. One careful estimate is that there is about US $4.5 trillion (€3.3 trillion) in unrecorded household assets located in tax havens. Curbing the practice of relocating assets to avoid taxation requires that countries be able and willing to exchange information about the incomes and assets of one another's residents" (IMF 2013A, Bastagli et al 2012).

Financial transactions tax The proposal for a general tax on financial transactions is often called a 'Tobin tax' after the Nobel-prize-winning economist who advocated it as a way of deterring such transactions, to protect currencies from the volatility of speculative inflows and outflows. Many countries operate similar taxes successfully: China, Hong Kong, India, Indonesia, Italy, Singapore, South Africa, South Korea, Switzerland, Taiwan and the U.K. all tax the purchase and/or sale of company shares. If applied globally, a financial transactions tax could raise over US $1 trillion (€720 billion) per year, or 2% of global GDP, even at a rate of 0.01%. A more limited currency transaction tax could raise between US $25-33 billion (€18-24 billion) per year. (Taskforce 2010) Political support for the idea, in principle, has been growing for some years. In 2013 the EU proposed a directive to provide a framework for financial transaction taxes in Europe (EU 2013, Thornton Matheson 2011).

Property and land taxes The advantages of a property tax are that it is fair, hard to avoid, and impacts on people with assets whose value is increased by public services and infrastructure. There is wide variation between countries in taxes on property, and so considerable potential for collecting more from these sources.

A land tax is even broader, because it taxes all land, not just the buildings on it. It also taxes the value that landowners gain from economic growth and rises in property prices. Hong Kong uses a land tax to raise 38% of its revenues. A land tax has been supported by a wide range of people in the last 250 years, including Adam Smith, Tom Paine and Winston Churchill, who argued that infrastructure increases land values, but the landowner: "renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived." (McLean 2004)

Politics and tax collection Improving tax collection requires both political will and more resources to combat tax evasion. In Latin America, the election of left-wing governments has had resulted in a "significant and substantial" increase in tax revenues. A report published by the Inter-American Development Bank (IADB) found that left-wing governments in Latin America collected an extra 2.1% of GDP in taxes – a substantial addition to the average of 14% of GDP collected in taxes in the region. Moreover, this was done by boosting progressive taxes.

The biggest effect was due to an increase in revenues from income taxes, collected largely from the better off, where the left governments collected an extra 1.3% of GDP – boosting revenues by over a third of the average income tax revenues in the region, equivalent to 3.6% of GDP. But the left governments did not increase the regressive taxes which hit those on lowest incomes hardest – indirect taxes on consumption did not rise, and social security contributions even fell. The paper concludes that "ideology does matter for taxation, and that the impact is substantial" (Stein and Caro 2013).

The IADB itself has identified improvement in tax collection and compliance as key for development, calling on governments to: "reform our distortionary, inadequate and regressive tax systems to convert them into allies of economic growth, mobility and social equality… Tax administrations must be strengthened so that all citizens and businesses meet their obligations". Even the IMF describes improving tax compliance as "the central challenge" (Besley and Persson 2013, OECD, IMF 2013, IADB 2013).

A similar political will is also apparent in other countries which elect left of centre governments. For example, in 2009 the finance minister of India announced that the government was increasing the resources it devoted to collecting taxes, and used a memorable image for the workers: "Our tax collectors are like honey bees collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit" (India Budget Speech 2009).

Further reading

The Tax Justice Network produces a flow of reports (eg TJN 2012) and data on the problems of tax avoidance and tax havens, the importance of tax justice, and the importance of taxation in development. http://www.taxjustice.net/

The International Consortium of Investigative Journalists (ICIJ) published data on individuals hiding their money in tax havens worldwide (ICIJ 2013).

Mainstream institutions are now recognising the importance of tax for development, including: the Inter-American Development Bank (IADB 2013), International Monetary Fund (IMF 2013A) and the Asian Development Bank's 2014 annual report, the *Asian Development Outlook*, that "explores how fiscal policy—both public spending and revenue mobilization—can be used to promote inclusive growth" (ADB 2014).

International NGOs are campaigning actively for taxation for development, including Actionaid (Actionaid 2013).

Recent PSIRU reports on taxation include briefings on Asia (PSIRU 2013C) and Africa (PSIRU 2013D).

7

PUBLIC FINANCES: BORROWING AND DEBT


WE CAMP
ABAJO EL
RÉGIMEN
VIVA LA
LUCHA DEL
PUEBLO
SIN
MIEDO
PERMAN
GOBE
IMPOTE
NUESTR
REFLEXIÓ

Public finances: borrowing and debt

The supporters of austerity programmes argue that government debt damages economic growth, but there is no evidence to support this – a Harvard University paper which claimed to find a connection has been discredited. Government borrowing is a key economic instrument for driving economic activity, and is much cheaper than borrowing by private companies, which have to pay much higher interest rates. Privatisation and public-private partnerships (PPPs) are unnecessary, costly and damaging ways of raising money.

Government deficit and debt Following the 2008 financial crisis and the subsequent recession, the key policy adopted almost universally in 2009 for dealing with the recession was the Keynesian approach of increasing government deficits in order to inject more demand into the economy. This worked.

Now austerity policies have been applied in many countries – especially in Europe, and in other countries subject to International Monetary Fund (IMF) programmes. The supporters of austerity programmes argue that government debt damages economic growth, but there is no evidence to support this. A paper by two Harvard economists, Reinhart and Rogoff, claimed that the rate of economic growth for high income countries has consistently declined precipitously once the level of government debt exceeds 90% of GDP. But their paper was exposed as being based on selective and mistaken use of data and statistical techniques, and when these were corrected: "average GDP growth for advanced economies at public debt-to-GDP ratios over 90% is not dramatically different than when debt-to-GDP ratios are lower" (Herndon et al 2013).

Increases to government debt and deficits are normal responses to economic phenomena. According to IMF estimates, nearly all current government debt is the combined result of the recession itself (loss of tax revenues due to the recession; higher interest payments because of increased government deficits) or with government action to counter the recession – the automatic stabilisers, additional fiscal stimulus, and support for the banking sector (IMF 2010C). In recessions, companies are unwilling to invest because of lack of demand, and households are also saving rather than borrowing, to protect themselves from the effects of the crisis. Governments are the only bodies able to borrow and stimulate demand.

Current policies for limiting government deficits are based on arbitrary figures, such as the EU rule that deficits may not exceed 3% of GDP, and debt may not exceed 60% of GDP. But these figures are based on political agreements, not on any economic evidence.

The problems with private finance

Selling state and municipal companies Many governments have raised large sums of money by selling all or some of the shares in state-owned operations. Some municipalities, too, have raised money by selling shares in municipal companies. The proceeds are used to pay off debts, reduce taxes, or invest in other services. About US $1,800 billion (€1,300 billion) has been raised in this way over the last 30 years. But the apparent gains are illusory.

Firstly, the money received from the sale is not a gift, but a payment in exchange for a real asset, the company, and its future income. So the government or municipality loses all the income they would have got from the company. Zambia was told by the IMF to privatise all its municipal housing and water services in the 1990s, but municipalities lost the income from rents and water charges which they had used to finance other services, and it was harder to collect council rates from the private tenants.

Secondly, industries are often sold for less than their true value, in order to encourage buyers. The UK electricity companies were sold for only a third of their asset value, the water companies for only about 4% of their replacement value. So the new owners gain at the government's expense. And governments may continue to subsidise companies after privatisation – for example, railway operators or electricity distributors may get subsidies to keep fares and charges down.

Thirdly, consumers pay higher charges after privatisation than they would do otherwise. This is partly because of the higher cost of private capital – English water users pay about £1 billion (US $1.7 billion, €1.2 billion) per year more than they would need to under public ownership. And it is partly because companies will always exploit a monopoly: water prices in France are 15% higher under private companies than in systems run by municipalities, after taking other factors into account.

Creative accounting with PPPs Public-private partnerships (PPPs) are also used as a way of raising money for expensive infrastructure projects through the private sector, to avoid any apparent increase in public borrowing. The private partner in the PPP raises the money, so the government does not have to – and the bridge, or tunnel, or motorway, or railway, or school or hospital – still gets built. PPPs are actively promoted by a range of international institutions and governments, including the World Bank, the G20 group of leading industrialised countries, the European Union and donor countries.

The first fundamental problem is the illusion that PPPs bring in private money to pay for the infrastructure, so the state can spend its money on something else. But the opposite is true. The great majority of PPPs rely on a stream of income from payments by government (for the hospital, school, railway, etc.) – i.e. public spending (with the exception of true concessions, where the private company makes all the investment "at its own risk", expecting to get the necessary income from payments made by consumers (e.g. water charges or road tolls). PPPs do not supplement public spending – they absorb it.

The second problem is that governments can always borrow more cheaply than companies, so raising money through PPPs is always the worse option. This has been stated very clearly by the IMF: "… private sector borrowing generally costs more than government borrowing … This being the case, when PPPs result in private borrowing being substituted for government borrowing, financing costs will in most cases rise …" (IMF 2004A, IMF 2004B).

In 2011 a representative of the UK private companies involved in PPPs estimated that the average extra cost of private sector capital over conventional borrowing had been 2.2% a year. The *Financial Times* calculated that this means that the UK taxpayer: "is paying well over £20bn (US $34 billion, €24 billion) in extra borrowing costs – the equivalent of more than 40 sizeable new hospitals – for the 700 projects that successive governments have acquired under the private finance initiative..."

Finally, when PPPs are used to finance public investment, the private investors naturally seek to protect themselves against risks and uncertainty. Governments therefore usually provide some form of guarantee, or agreement to carry risks, to provide greater security for the private investor. But, as the IMF again notes: "… resort[ing] to guarantees to secure private financing can expose the government to hidden and often higher costs than traditional public financing". The further irony is that, since the financial crisis, state banks and institutions are actually lending money to PPPs, in order to borrow it back from them.

Despite the massive promotion effort, PPPs struggle to provide more than a tiny portion of the infrastructure investment in the world. Public finance remains the overwhelmingly predominant model worldwide, providing for well over 90% of infrastructure investment.

And many PPPs have been expensive failures. In the UK, the world leader in using PPPs, all the transport PPPs in London have been terminated – representing over 25% of the value of all the PPPs in the UK. The result has been a considerable saving in the cost of borrowing and in efficiency (PSIRU 2014B).

THE POLITICS OF PUBLIC SPENDING 8

The politics of public spending

This report has reviewed the economic and social role of public spending and public services, and the role of taxation and borrowing in financing such spending. There are long-term economic and social advantages of higher spending on public services, in both high income and developing countries. The current recession was in no way caused by public spending – indeed, it is possible that one factor behind the economic crisis was the attempt to replace the economic engine of public spending with a financial bubble, which has now failed. The danger is that austerity policies will cause long-term economic and social damage.

Changing current policies depends on political activity. Market mechanisms do not deliver the level of public services which countries need. The decisions which drive the development of public spending, or the imposition of austerity, are the outcome of political processes at national and international level. The creation of welfare states and the development of public services was associated with the election of social democrat governments and the independence of developing countries, both supported by strong trade unions. The attempt to halt this trend was also political, led by the Thatcher, Reagan and Pinochet governments in the UK, USA and Chile respectively, and by the adoption and promotion of these policies by the International Monetary Fund (IMF), World Bank and the European Union.

There is now a clear resurgence of social democratic politics, especially in Latin America and other developing countries, and a growing political resistance to austerity policies and inequality in Europe, Asia and north America.

There is thus a continuing political contest with the international institutions over the future of public spending. The sharpness of the contest can be seen in figures.

Public spending will have to rise well above existing levels because of:

· growth and economic development in middle and lower income countries;
· the need to deal with climate change alone will add about 1.5% of GDP to public spending levels;
· the needs of ageing populations for pensions and healthcare (an extra 4.5% of GDP); and
· restoring economic growth and reducing unemployment requires new increases to public spending.

But the IMF wants to see existing levels of public spending cut by a quarter (in high income countries) or a tenth (in developing countries).

Table 8.1: IMF targets for reducing public spending, globally

	Primary public expenditure (as % of GDP), 2007	Average adjustment called for by 2030 by IMF (as % of GDP)	IMF targets as proportion of public spending
High-income countries	35.8	-8.70%	-24%
Developing countries	24.5	-2.75%	-11%

Source: IMF 2010A

The outcomes of these and other contests will remain crucial to the future. But it will require major political effort, globally, to insist that public spending should be determined by democratic decisions according to what is economically and socially and environmentally best.

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