

Transforming the state: Towards democracy-driven public ownership

By Hilary Wainwright

This chapter asks ‘What are the conditions of possibility for democratic public ownership?’ This is a question facing those, across the world, who believe in a democratic egalitarian economy. But this chapter will focus on experiences, struggles and ideas concerning public ownership in two countries more specifically, Uruguay and Britain. Both are countries where questions of public ownership have played an important part in national politics. Both national experiences of public ownership provide challenging laboratories for thinking through what are the political, administrative and industrial relations factors favouring the democratisation of public ownership.

First a background historical note on each country. In Britain, the major utilities and the primary industries in coal and steel¹ were nationalised by the Labour government, which followed the Second World War. These public utilities and industries were re-privatised later by Margaret Thatcher between 1979 and 1990. In 2017, the Labour Party committed itself to bringing all the utilities back into public ownership. Moreover, it committed to doing so under democratic forms of public administration, involving the participation of frontline workers and users.²

In Uruguay, the public ownership of utilities goes back to the early twentieth century when José Batlle y Ordóñez led the country under very favourable economic conditions and made the welfare state (one of the first in the world) and the expansion of public enterprises a basis for class

harmony, social mobility and a satisfied middle class.³ This integrative approach, led by the state but facilitated by a mandatory, secular national education system (established at the end of the nineteenth century) became known as *Batllismo* and is a semi-permanent part of the political economy of Uruguay, entrenched in the constitution and outlasting the 1973–85 military dictatorship.

In the late '80s, the elected governments of the right initiated a process of privatisation in Uruguay, in line with the global neoliberal economic orthodoxy. The majority of the people in this small country of 3.5 million resisted the global trend towards privatisation. The resistance was organised through an alliance of a politically radical trade union movement – which under the leadership of the Communist Party had played an important role in opposing the dictatorship –, networks of community activists and the coalition of left parties, the *Frente Amplio*, which won the government office in 2005. The resistance to privatisation used a provision for referenda in the democratic constitution amended after the fall of the dictatorship, not only to defeat the privatisations but also to entrench the principle of water as a public good into the constitution along with the principle of democratic participation in its management. The *Frente Amplio* governments of 2005, 2009 and 2014 developed a more radical form of public ownership than Batlle's model based on national integration. *Frente Amplio* governments treated public enterprises as instruments of state-led industrial strategy to meet social and environmental as well as economic goals.⁴

Democratic public ownership requires a democratic state

A fundamental lesson from both the limits of the 1945 nationalisations in the UK and, positively, from the more recent attempts to democratise public enterprises in Uruguay and make them part of a state-led industrial strategy to meet social, environmental and economic goals,

is that the ideal of democratic public ownership cannot focus simply on mechanisms and relationships *internal* to an industry. Since we are talking about state ownership, we have to think about the nature of the state itself and scrutinise how democratic it is or is not, looking at two dimensions:

- the function and mission that the elected government gives to public industries and how they are managed; and
- the extent of openness to citizen participation in, and awareness of, the decision-making of public industries.

First then, this chapter analyses the lesson from the UK's 1945 nationalisations regarding the state. The original nationalised utilities – British Gas, British Telecomm, British Rail, and so on – were seen as insufficiently responsive to service users, which helps to explain why Thatcher faced little resistance to her privatisation programme, until she came to the National Health System where her privatising plans came up against an exceptional degree of user and staff loyalty.

From the perspective of the importance of a democratic state for determining the character of the nationalised industries, the limits of Labour's 1945 nationalisations from the standpoint of democracy were not surprising. The Labour government had inherited a state originally constructed to manage an empire. Its methods were (and still are) secretive, its unwritten rules opaque to the public but infinitely flexible for the powerful, who were hence under no obligation to be accountable. This peculiarly elite rule, which Labour has traditionally sought to deploy for its own purposes rather than for social transformation, is based on a historic compromise that led to Britain becoming a 'constitutional monarchy' rather than a republic.⁵ As such, various functions of government are neither subject to parliamentary debate nor to public scrutiny. A symbol of this is the way that Members of Parliament swear their oaths of allegiance not to the people but to the crown, which, in effect, stands for the moral authority of the state.

The consequence is that there is little recognition of the importance for democracy of open public debate on the rules that guide how we are governed. Yet without explicit, democratically formulated and publicly 'owned' rules, the ruling elite is left to interpret unwritten rules and conventions more or less as it likes. Neither the public nor their representatives have an adequate basis, beyond party manifestos, on which to call the executive to account.

This culture of flexibility disguised by opacity pervaded all parts of the state, including the nationalised industries. The nationalisations of 1945 were mainly pragmatic, a means to reconstruct after the war. There was no explicit statement or agreement on their social objectives, and hence no mechanism for public scrutiny or amendment.

In this model, politicians, advised by specialised professionals, set policy goals, and managers had day-to-day control as if they were simply technicians. This form of administration treated questions of implementation (the sphere of management) as purely technical, with only one 'correct' approach. It militated against popular participation and the debate and judgement that this would have entailed in the process of implementation.

For a positive example of how a democratic, written constitution influences the way public enterprises are managed, we can look at the experience of Uruguay, a country that has not only developed a democratic constitution to protect collective and individual rights but whose recent history has also produced a unique political economy in which public enterprises play a leading role in meeting social and environmental development goals rather than simply increasing state revenue or providing infrastructure for the private sector. Under governments of the Frente Amplio, it became an exemplary case of a *developmental state*,⁶ as distinct from a *competitive* or *market-led state*.⁷

Uruguay from 2005 to 2019 (when the Frente Amplio government was narrowly defeated) illustrated two key features of a developmental state. First, it intervened in the market to promote economic development rather than allowing market forces to determine the future of the national economy and the life chances of those who live and work in it. Second, it coordinated the different parts and powers of the state and state enterprises around explicit social and developmental goals, such as overcoming poverty, establishing economic security and strengthening the self-confidence and power of working people.

Public companies are seen as a central means of intervention in the market through their investment strategies and their purchasing and employment policies, and through their coordination to meet social and politically determined goals. For instance, Uruguay's public utilities all had social objectives written into their missions. This explicitly social purpose has influenced how the public views these companies and has led to an unusual degree of popular support for the state and to public consciousness of the social, pro-public role of the state enterprises.

Two distinctive dimensions of Uruguay's constitution are particularly important. The first is the longevity of the public sector as part of the constitution, even though it has changed character in the twenty-first century compared to the model of José Batlle in the last century. Public companies are part of the constitution and hence understood as part of Uruguayan democracy. Generations have been educated in this view of their country. Hence, they have been quick to mobilise to defend these companies against privatisation and eager to advance democratic principles (as in the case of the public water company through which they won the right of citizens to participate on company boards).

The second dimension is the importance of providing a foundation stone of public values to which citizens can refer to protect basic social as well as individual rights. In Uruguay, the constitution is a living institution

that citizens can change democratically to meet new needs, such as to protect water as a natural commons from the pressures of the corporate-driven global market.

For a constitution to be democratic, it must be drawn up with full popular participation so that its values reflect the realities of people's lives. Such a constitution could establish the fundamental framework and shared values of democratic public ownership in the UK and elsewhere, with subsequent legislation determining specific organisational and governance structures. In turn, this would frame how public enterprises are to be managed, turning questions of *management* from being purely technical to questions that recognise how forms of management have an impact on the nature of power relations.

Valuing the practical knowledge and capacity of every citizen

The means of management, then, are neither value neutral nor simply 'techniques'. For a start, they either perpetuate or challenge existing relations of power, including those based on race, gender and class. And they shape the character of social relations both within an institution and externally – for example, whether they are collaborative, hierarchical and/or competitive. In other words, there are choices involved in the implementation of policy, based on purpose and values. The recent proposals of the Labour Party illustrate an alternative option to the model of implementation that, until 2017, had been typical of Labour's approach to public ownership.

'We should not try to recreate the nationalised industries of the past', said John McDonnell, the British Labour Party's Shadow Chancellor of the Exchequer. 'We cannot be nostalgic for a model whose management was often too distant, too bureaucratic'. Instead, a new kind of public ownership is needed based on the principle that 'nobody knows better

how to run these industries than those who spend their lives with them'.⁸

John McDonnell's principle of valuing the knowledge and capacity of every citizen implies a profound cultural shift in the attitudes and strategies of public sector management and in the consciousness and self-confidence of working people. This requires a break from both the 'new public management' encouraged by Thatcher to apply private business methods to the public sector and from the command-and-control hierarchies of the post-1945 state, inherited from the war and reinforced by the paternalistic and narrowly scientific understandings of knowledge of Labour's policy-making elite.

What does this innovative approach of John McDonnell imply about how we move beyond – democratise – these traditional models of public management in which democracy meant only electoral democracy? The assumption behind post-1945 public utilities in the UK and Thatcher's 'new public management' was that the knowledge to implement the politicians' mandate lay with the experts. Beatrice Webb, an influential adviser to Labour leaders from the Fabian Society – a group of left-wing intellectuals who were part of the founding of the Labour Party – put this vividly when she wrote in her diary: 'We have little faith in the average sensual man. We do not believe that he can do much more than describe his grievances, we do not think he can prescribe his remedies'.⁹

Policies based on this approach have meant that possibilities for increased productivity that enhance workers' skills and satisfaction are missed, resulting in production processes that exhaust, de-skill and demoralise otherwise creative, energetic workers and fail to respond to the specific needs and desires of service users. This has meant for instance, public housing designed by architects who live in entirely different environments; public transport planned and run by people who travel by private car; and women's lives shaped by public provision designed and managed by men.

A simple reversal of new public management and the Fabian approach is not enough, however. In developing John McDonnell's 'new model of public ownership', we must address the problem of how, and through what institutions and processes, the knowledge of those 'who spend their lives with these industries' (both those who work for them and the communities and users affected by them) can gain effective expression and utilisation.

This is not simply a matter of democratic principle. Rather, because this aspiration to 'radical' democracy is based on a recognition of the practical knowledge and capacity of all, it is also the basis for improved public efficiency. In a sense, it implies a realisation of Marx's ideal of a society in which the 'fulfillment of all depends on the fulfillment of each'. It could be called 'productive democracy', as distinguished from a liberal democracy in which political rights are conceived in isolation from economic and social equality.¹⁰

Workers on the board: necessary but not sufficient

'Workers on the board' is the common understanding of the democratisation of public companies. Certainly, worker representation is necessary if a real change in the relations of production is to be achieved. But it is by no means sufficient to change the balance of power between management and workers, which is essential for workers' knowledge and capacity to have an effective influence on company efficiency in meeting social goals.

Experience has shown that unless there has been a change in the balance of power in the workplace, due to trade union organisation and changed management methods, board representation alters little. This is illustrated negatively by the experience of *Mitbestimmung* in Germany, where the fact of workers on the board has often had limited effect unless the unions were strong and in those circumstances the influence of workers

was more through collective bargaining than through participation on boards. ‘Workers on the board’ is illustrated positively in Uruguay, where union industrial power and political influence has been decisive and the unions have pushed for board representation as a means of consolidating their power through collective bargaining and political accountability.¹¹

Furthermore, the social benefits of practical and often tacit knowledge cannot be realised by simply being turned into ‘demands’ fed through the structures of a union or company from shop floor to the board. Of course, on some key decisions, workers’ views can be conveyed through such a process, but there is a deeper level of workers’ and citizens’ knowledge that is tacit and embedded in skills and capacity that are expressed and shared through practice, whether in technological design and manufacturing, caring for other people, or creating works of art. This practical dimension of knowledge can only be released for the benefit of all through collaborative practice.

Replacing market ‘discipline’ with that of social and environmental need

To move beyond hierarchical models in the public sector, we need to learn from Elinor Ostrom’s approach to the management of the commons¹² and encourage principles like strong common purpose, inclusive, participatory decision-making, commitment and peer-group monitoring, fairness in reward and cost, just conflict resolution, local autonomy and consistent governance. This would involve replacing the bureaucratic hierarchies traditionally typical of the public sector with structures that coordinate problem-focused teams working within the framework that encourages experimentation and innovation.

Still, worker representation plus democratic relations of production and/or service delivery are insufficient to meet fundamental social and environmental goals, such as transition to a low-carbon economy or

overcoming the poverty, exclusion and wasted human talent caused by decades of market-driven politics. Unless its *external* economic relationships and environment are changed, a publicly owned company is still subject to the same pressures that lead private companies to act in anti-social ways.

The 'discipline' of the market must be replaced with the discipline of democratically determined social and environmental need. To achieve this, all the different powers of public bodies – procurement, borrowing, employment, planning, property ownership, environmental and health and safety regulations, and more – need to be deployed to take as much economic activity out of the market-driven economy and into the cooperative or public democratic (ideally) economy. Public money could then be used to generate a positive 'multiplier effect' in meeting need and creating socially useful and satisfying jobs. The social and environmental benefits resulting from public economic activity as it percolates through the economy must be accorded value beyond the monetary cost and benefits of the initial expenditure. This move beyond single public sector organisations towards a decentralised democratic economy is already being at least exemplified through local government.

Community wealth building – an example of an alternative to market discipline

Economic collaboration across the public sector and with co-operatives around a common purpose is already happening in a few localities in the UK, developed through local councils in the nationally hostile environment of a Conservative government. A pioneer exemplar of such a collaborative approach can be found in what has become known as 'community wealth building' in the UK. Inspired by US experiences of more democratic forms of community economic development, it began in Preston post-2008 after the local authority was let down by a private partner in a major regeneration project.¹³ As part of the 'Preston Model',

the council has collaborated with other public authorities in the town and region to deploy their procurement budgets, investments and workforce development policies to support local, unionised and democratic enterprises (such as co-operatives).

The Preston model offers a building block for further systemic change. National government support could strengthen and spread such local exemplars with greater powers to local government and through a network of regional public development banks.

Moving from a defensive to a transformative trade unionism

Government action is necessary, but insufficient and limited, given the importance of achieving collaborative rather than hierarchical relations of power and a form of organisation that can facilitate the sharing of tacit and practical knowledge.¹⁴ The democratic drive in an effective strategy for democratic public ownership requires the central involvement of a transformative agency beyond government, like trade unions.

For instance, recent experiences of community wealth building have seen innovative local councils, determined not to be dependent on private finance, turn to workers' co-operatives, other public bodies and the trade unions within them, for alternatives that would grow the local economy. Similarly, the wealth creators, the working and would-be working people, organised through their unions and co-operatives, should be the allies of a government seeking to democratically transform the economy. And sometimes, as in the recent history of Uruguay, they are – or show how they could be.

By way of illustration, in Uruguay the vision of democratic, socially useful public companies is shared and sometimes driven by the trade unions. Here is how Gabriel 'Chefle' Molina, president of the telecoms union

Sutel, sees the significance of the industry being public: ‘because [the telecoms company] Antel is public, its services must be for everyone – including those who can’t afford it. [And because revenues go back to the state] nowadays we have tablets for pensioners and laptops for young kids to go to school and study with’.¹⁵

This positive commitment to the social purpose of Antel has had practical consequences. First, it has led to the union being a strong supporter of the integrity of Antel as a public company and a fierce opponent of any plans to privatise services or contract them out to multinational telecoms companies.

Second, the role of the union went beyond the defensive to participation in the appointment of the new director of Antel at the time, Carolina Cosse Garrido. For 10 years, in close collaboration with the union, she led Antel in a direction that was both ambitiously innovative technologically and commercially, and also radical in its social provision.¹⁶ The involvement of the union, and specifically frontline workers, led to successes that would not have been possible if the workers had not understood and supported such ambitious projects.

The relationship between the unions in Uruguay and the left coalition party was forged in the common struggle against the previous dictatorship. As a result, rather than a rigid division of function between them, as seen in the UK, there was a culture of collaboration and mutual solidarity against a common enemy, originally the dictatorship (until 1985), then right-wing parties and then the corporate-driven global market. We are beginning to see the signs of similar collaboration and solidarity in a common cause – resisting austerity, privatisation and deregulation – in the UK. But even now key unions are not preparing a transformative strategy for their industries, including in the public sector. This preparation, this shift to a more strategic, political trade unionism, is a precondition for the realisation of democratic public ownership.

Conclusion

In sum, democratising public ownership requires a radical shift in the balance of power towards frontline workers, users and affected communities. Such a shift cannot be achieved simply by institutional engineering, such as workers on boards. This kind of institutional opening up is necessary, but it will only release a democratic dynamic if there is a conscious movement for industrial and service transformation coming from workers and communities themselves. And this requires a steady transformation, including democratisation, of the labour movement itself.

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Endnotes

- 1 Labour's Iron and Steel Act of 1949 created the Iron and Steel Corporation of Great Britain as a nationalised industry. This was particularly resisted by the Conservatives (more strongly than the other nationalisations) who refused to complete the process of nationalisation (the fact that steel companies also had interests in other industries made it especially complex and lengthy) when they returned to office in 1951. Indeed, they privatised it in 1953. It was re-nationalised by Harold Wilson's Labour government in 1967, and privatised by the Conservatives in 1988.
- 2 Addison, P. (1975) *The Road to 1945*. Jonathan Cape stresses the centralised origins of Labour's plans for nationalisation in the wartime coalition. However, S. Brooke (Labour's War, 1988) analyses the pressures from Labour Party members, especially the returning troops, for a radical shift in power away from the economic and political elite. The final outcome is well summarised in: Rugow, A. and Shore, P. (1955) *The Labour Government and Industry 1945-51*. Blackwells. For more recent developments, see: Cumbers, A. (2012) *Reclaiming Public Ownership : Making space for economic democracy*. London: Zed Books
- 3 Pearce, J. (1980) *Uruguay Generals Rule*. Latin America Bureau.
- 4 For a useful history of the left in Uruguay until 2006 see: Chavez, D. (2009) 'Uruguay. The Left in government: between continuity and change' in P. Barrett, D. Chavez and C. Rodri-guez-Gravito (eds.) *The New Latin American Left*, pp. 99-127. London: Pluto Press.
- 5 Barnett, A. (2018) *The Lure of Greatness*.
- 6 Developmental states vary in terms of goals; Japan and other Asian developmental states tend to goals of economic growth rather than, for example, overcoming inequality.
- 7 Chavez, D. and Torres, S. (eds.) (2014) *Re-orienting Development. State-owned Enterprises in Latin America and the World*.
- 8 <https://www.opendemocracy.net/en/opendemocracyuk/new-economics-of-labour/>
- 9 Webb, B. (1948) *Our Partnership*. Longman.
- 10 Wainwright, H. (2018) *A New Politics From the Left*. Polity.
- 11 Author interviews with Gabriel 'Chiflie' Molina, President of Sutel, the trade union in Antel, Uruguay's public telecommunications company and an affiliate of PIT-CNT, the national trade union federation.
- 12 Ostrom, E. (1990) *Governing the Commons*. Cambridge: Cambridge University Press; and Wall, D. (2017) *Elinor Ostrom's Rules for Radical. Co-operative Alternatives beyond Markets and States*. London: Pluto Press.
- 13 Chakraborty, A. (2019) 'In an era of brutal cuts, one ordinary place has the imagination to fight back'. *Guardian*, 6 March. See also: Berry, C. and Guinon, J. (2019) *People Get Ready*. OR Books.
- 14 Wainwright, H. (2018), op. cit. For a full analysis of the nature of tacit knowledge see Polanyi, M. (1966) *The Tacit Dimension*. Routledge.
- 15 Author interview with Molina, 2019.
- 16 Cosse, C. (2014) 'ANTEL: A socially committed enterprise at the forefront of technological development', in Chavez, D. and Torres, S., op. cit.