The 'marketisation' of urban government: private finance and urban policy

Fran Tonkiss

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In the 1980s and 1990s Britain has witnessed an accelerated shift in its governmental arrangements away from an emphasis on state provision of public and social services, to an ethos of 'privatism' in the provisioning and regulation of social life (Barnekov, *et al*, 1989). While the primary mechanism for achieving this shift during the 1980s was through programmes of privatisation, more recently 'marketisation' has emerged as a key strategy for transferring the financial and managerial functions of government into the private sector. 'The market' has been reconfigured not simply as an instrument for organising economic exchange in the private sphere, but as a more general organisational model which may be incorporated into the design of government agencies, or which may order the distribution of public services (Le Grand and Bartlett, 1993).

This paper is concerned with how such a process currently operates within the domain of urban policy. My focus is on the Private Finance Initiative (PFI), a cross-departmental scheme which seeks to find new ways to incorporate private investment and management into public projects and services. In an urban policy context, the PFI codifies a prevalent discourse of 'partnership' in the form of equity agreements between public and private actors. Given that such a process of 'marketisation' is managed within a clear policy framework, the PFI offers an instructive instance of how a version of the market comes to be instituted as an instrument of government.

The first part of the paper examines the policy context of 'marketisation' and suggests that this requires us to think about both government and market forms in an extended way. The Private Finance Initiative - if it is concerned with transferring a range of urban development functions to private agencies - is also concerned to transform the 'culture' and to some extent the structures of urban government. In particular, a model of the market assumes importance for the forms of knowledge and the institutional disciplines which are currently privileged within urban development policy, and which augment the fiscal and capital resources which private actors bring to this domain. In these terms, the market represents a source of special knowledge about economic development, inculcates economic rigour and discipline, and offers a model of efficiency along which lines policy institutions may be organised. The paper goes on to consider in more detail how financial partnerships between public and private bodies represent an example of the way market forms, and their imputed rationality, come to be instituted within policy. The manner and degree in which government is 'marketised' within such initiatives (Lane, 1991; Rose, 1993), involves a particular version of how 'the market' is to be defined and managed. The PFI constitutes a distinct and rather partial process of 'marketisation' on three grounds. First, it is premissed on a clear distinction between public and private sector actors and moneys. Second, it seeks to minimise risk and provide forms of indemnity for public investors. Third, it attributes different modes of calculation, or different economic rationalities, to the decisions of public and private actors. These features not only produce a specific version of 'the market' in relation to the activities of public bodies, but provide a range of instruments through which private economic decisions become implicated in the policy process.

The overall argument is that the formation of public-private partnerships in the field of urban development policy represents less a displacement of public investment, service and regulatory functions onto a private sector - and as such a straightforward attack on 'big government' - than the creation of alternative forms and instruments of government which do not reside easily within a conventional distinction between 'public' and 'private' spheres. Indeed, current policy reforms are at least partly concerned with establishing a proper 'governance mix' between public and private functions, actors and resources (Williamson, 1985)[1].

The policy context of marketisation

While the introduction of markets has become a prevalent feature of contemporary governmental arrangements, in Britain as in a number of other advanced liberal societies[2], it is a peculiarly portable and ill-defined market model that tends to be instituted within the sphere of public policy. Precisely because the conception of the market that underlies this process is often fairly weak and always highly variable, the former translates into a number of policy contexts - from internal market reforms within public agencies, to contracting-out, to the sale of public assets and enterprises, to a shift in organisational languages. The imprecision of the 'quasi-market' model (Le Grand and Bartlett, 1993) makes it important to observe how this comes to be incorporated into specific policy projects and agency forms; not least because liberal conceptions of the market as a domain which is disembedded from practices of government may obscure the potentially tight forms of economic and political regulation which are produced by 'marketisation'.

The Private Finance Initiative, announced in the Government's 1992 Autumn statement, represents a key attempt to incorporate market relations into government, by codifying the terms on which public and private agents may form financial partnerships. This goes beyond the inclusion of private sector actors as notional 'partners' in policy formation and implementation, to establish clear guidelines upon which private investment might be levered into public programmes[3]. The PFI in this way realises a substantive 'governance mix' between public and private actors based on socio-economic relations of contract, trust and risk.

Processes of marketisation under the Private Finance Iniative are located in context of a long-standing government priority to increase the role of both private capital and private sector expertise in public projects and the provision of public services:

> Since 1979 the Government has brought private sector enterprise and disciplines into an ever wider area of the economy. In the 1980s privatisation played a major role. It liberated large sections of the British economy from the dead hand of the public sector, improved efficiency and services, and often led to substantial increases in investment. Other measures in this vein included the increased use of market testing and contracting-out. These all reflected the changing role of the public sector, from being a provider of services to being an enabler and purchaser. (HM Treasury, 1994: 6)

However, while privatisation disrupted a set of normative associations concerning the proper role of government, and represented a major transfer of public assets,

> the assumption remained that most infrastructure, and many services, were inherently 'public' and had to be financed and managed by the public sector. (ibid)

The period of privatisation during the 1980s centred on the transfer into the private sector of areas of government activity where costs could be met through user charges, such as public utilities and telecommunications (see HM Treasury, 1994: 3). In contrast, 'marketisation' under the PFI indicates a far-reaching set of programmes that range from major capital projects, such as transport infrastructure, to specific forms of service provision, including acute medical services and 'custodial service packages' within the Prison Service (HM Treasury, 1994: 7-8). These reforms may quite radically change the financial and organisational composition of public services, without transferring ownership wholly to a private sector. Rather, an extended range of projects and services are relocated to a 'semi-public' sphere based on new networks of governance (Scholten, 1987).

These new forms of association work most effectively when disembedded from the formal structures and regulations of government:

> In launching the initiative the Chancellor expressed the Government's determination to remove unnecessary obstacles to private investment in Britain's infrastructure. He relaxed the rules governing public/private partnerships, and reaffirmed the Government's wish to participate in

> joint ventures and to share risks. He asked the private sector to come forward with proposals, identifying further obstacles where they were perceived to exist. That provides the impetus for both public and private bodies to take a fresh look at the opportunities and to find new solutions. (DoE, 1993: 2)

These deregulatory strategies invigorate new forms of economic agency, particularly on the part of a Government which appears to have become constrained by 'obstacles' and 'rules' of its own making (such that some of these are no longer even visible to it).

That such arrangements disrupt a conventional public/private divide is suggested by current Government rhetoric:

> The challenges we are setting are clear: to break down further the barriers between the public and private sectors and to see how best to harness our combined abilities. (HM Treasury, 1994: 3)

This transition represents no less than a change in the 'culture' of government; 'a radical change of attitude' on the part of public agencies (HM Treasury, 1994: 7). The deregulation - or, better, 're-regulation' - of public-private interactions both produces and requires concomitant changes in the self-understanding of government: 'We need to change the public sector culture as well as its rules' (HM Treasury, 1994: 24).

'Cultural' factors take an increasingly important role in the recomposition of government into forms of public-private association (Hassard and Parker, 1993; Amin and Thrift, 1995). In this context, the market indicates not just a set of economic relations, much less a set of economic imperatives, but a locus of knowledge, expertise and 'attitude'. The resources which private sector actors bring to the field of governance do not refer simply (and sometimes do not refer at all) to financial investment, but also to forms of expertise, innovation and discipline. The Private Finance Initiative establishes financial and organisational structures which allow

> the public sector to use its resources more efficiently and effectively through joint working with the private sector by tapping the ideas, rigour, commercial disciplines, and resources of the private sector thus delivering management and efficiency gains. (DoE, 1994e: np)

In this sense, forms of economic knowledge become an extension of the fiscal resources which private sector actors bring to public enterprises. An ensemble of ideas, rigour, commercial disciplines and financial resources configures a particular set of technologies for strategies of urban development.

Market disciplines, then, have a role to play not only in promoting economic efficiency, but also in processes of knowledge production. It is in a market context that economic expertise is generated and maximised: policy discourses within the PFI, consequently, stress the importance of competitive bidding procedures for securing 'the flow of good ideas and innovative proposals from the private sector' (DoE, 1993: 12).

In this language of 'flows', of 'tapping the ideas' of private actors, forms of knowledge circulate within an economy of expertise. The marketisation of government integrates these 'flows' within a network of communication and control:

> We want to harness the private sector's efficiency and management expertise, just as much as its resources, bringing a new approach to investment in a whole range of activities and services traditionally regarded as the exclusive domain of the public sector. (HM Treasury, 1994: 3)

Knowledge functions represent a primary component of regulatory networks of governance (Amin and Thrift, 1995). The formal partnerships arrangements instituted under the PFI are in part an attempt to organise market knowledges in the interests of stable, continuous and calculable socio-economic management.

The effects of such a programme do not bear only on public sector agencies, but bring the decisions and the resources of private sector actors into the calculations and plans of government centres. The PFI offers a calculative framework within which public agents might

> consider the scope for securing private finance in the delivery of capital projects and services. (DoE, 1993: 2)

By instituting the governance relationship in the form of financial agreements, this initiative provides a protocol, and a set of accounting formulae, for a continual and 'systematic analysis' of the mutual roles of public and private moneys and bodies (DoE, 1993: 14)[4]. Neoliberal urban policy has always stressed the special knowledge and innovative expertise of private actors, but these new financial and institutional arrangements 'governmentalize' such resources via clear forms of association and information[5].

The Private Finance Initiative entails a rather split understanding of the relationship between government and the market. On one level, the market operations which determine patterns of private investment are differentiated out from and antipathic to the regulatory structures of government. On another, the removal of 'unnecessary obstacles' levels out the field of socio-economic activity, such that public and private agents may engage in joint ventures as risk-sharing market actors. The first conception re-states the distinction between a private field of accumulation and a public field of authority. The second 'flattens out' this distinction in a neoliberal design which positively *regulates for* the free activities of markets. Private capital is to be freed from unnecessary state regulations, and the decisions of public actors are to be rationally informed by financial calculations and price signals. However, the financial agreements between private and public actors are managed at the centre in ways which maintain and regulate a distantiated relationship between them. It is to these strategies which I now turn.

Defining public and private

In an important sense, private financing strategies re-combine the public and private so as to put into question conventional distinctions between them. In another, these strategies are premissed on a clear distinction between public and private sectors. This does not mean that government is not to some extent being *marketised*; but it does mean that these processes produce quite specific versions of 'the market' which are not reducible to either the economic theory or the political rhetoric of neoliberalism. Policy programmes based on financial partnerships represent one site in which market processes and relations are instituted, and they emerge here in specific ways[6].

Partnership arrangements under the PFI may take a number of forms:

(1) **'financially free-standing projects'** for the public utility, where the role of government is limited to initial planning or feasibility studies and where private investors recoup their investment through user charges (eg. Channel Tunnel, Queen Elizabeth II Bridge at Dartford);

(2) **joint ventures** between public and private actors, where government bodies have a minority equity stake, provide grants, are involved in corporate organisations and staff secondment (eg. City Challenge, Urban Development Corporations, Estate Action);

(3) **leasing** of capital assets and property (eg. medium-term leasing of private properties by local authorities to provide accommodation for homeless people).

(4) private sector provision of public **services** (eg. contracting-out). (DoE, 1993; HM Treasury, 1994: 7)

These forms of partnership aim to maximise the range and impact of urban development programmes, while operating within existing public spending constraints. Such initiatives expand the urban development role of private sector agents, at the same time deploying certain techniques for steering private investment in this domain. In this way, the 'harnessing' of private capital flows into urban projects operates within a larger context of macroeconomic control:

> Achieving an increase in private sector investment will mean that more projects will be undertaken, taking into account the Government's objective that public spending, over the medium

> term, should take a declining share of national income while value for public money is constantly improved. (DoE, 1993: 2)

This calculus of efficiency aims to extend the field of government activity without increasing its financial scale. The 'size' of government, understood in terms of public budgets, is contained by strict regulation of the form which public-private arrangements assume. These new relations of governance, that is, produce a range of instruments for economic steering within a macroeconomic framework.

Central government draws on specific techniques of regulation in order to direct the flows of private money into public projects, and to control the financial activity of public bodies in this context. An example may be drawn here from the sphere of local government finance. Controls over local authority expenditure represent one of the centre's core macroeconomic instruments, and constitute local government finance as a key regulatory site. The Private Finance Initiative, however, represents a partial liberalisation of local government finances, in relaxing rules governing the use of capital receipts from the sale of public assets[7]. This rule change aims to

> give local authorities greater incentive to dispose of assets to the private sector, affording those assets the potential for increased investment and more effective utilisation

and to

> target local authorities' spending power in defined circumstances, to encourage new public/private partnerships and unlock private investment. (DoE, 1995c: 2)

Within an overall strategy for public expenditure which stresses cuts in spending budgets, the PFI offers an interesting exemplar of how macroeconomic policy may be pursued through programmes of liberalisation, in ways which are at least as effective as more punitive practices such as rate-capping. Moreover, these 'negative' techniques of regulation - the choice not to exercise various technologies which government has available to it - are deployed in the interest of *positively producing* private forms of regulation and development. In relation to local government, the Private Finance Initiative represents a distinctive use of public policy, finances and formal public powers in order to institute and facilitate market processes.

While the transfer of functions from public to private agents and the maximisation of private investment are both important expressions of a market rationality within government, these exist in tension with certain other of its logics. In particular, effective central control over public spending requires an ability both to clearly delineate public from private finance, and to regulate the former in line with macroeconomic objectives. In order to accurately cost joint projects, to calculate public spending contributions, to evaluate value for money standards, and to ensure financial probity, public and private sector agents and moneys must be clearly distinguishable.

This consideration has the effect of redoubling a public/private distinction which market-style government is apparently concerned to dissolve. Table 1 shows how the public and private sectors are defined, within the domain of urban policy, for the purposes of government accounting under the PFI. In this schema, a number of quasi-autonomous organisations are re-integrated into the corpus of formal government.

Table 1
Defining public and private: the Private Finance Initiative

<u>**Public sector**</u>	
1. Central government sector	**2. Local Authority sector**
<u>Nationalised Industries</u>	. local authorities
. British Waterways Board	. local authority-controlled companies
	. City Challenge
<u>Executive Agencies</u>	. Broads Authority
. Building Research Establishment	. National Parks Authorities
. Queen Elizabeth II Conference Centre	. Joint Police Committees
	. Passenger Transport Authorities
<u>NDPBs</u>	
. Housing Action Trusts	<u>**Private Sector**</u>
. Housing Corporation	
. English Nature	. private firms
. National Rivers Authority	. financial institutions
. Rural Development Commission	. housing associations
. Urban Development Corporations	

Source: DoE (1993), Annex C; Annex D.

In the twilight world of semi-public government, this set of distinctions becomes a necessary one. In order, after all, to restrain and steer public spending in line with macroeconomic objectives, it is necessary to be able to account clearly for it[8]. Managing the public economy involves a rationalisation of the networks of semi-public governance *back into* a unitary public sector. Financial partnership arrangements in this sense integrate public and private actors, not in ways which render those categories redundant, but in ways which specify and manage the relationship between them[9].

A 'market' logic is introduced into the operations of urban government in the context of certain regulatory and economic constraints. On a formal level, a set of organisational relations between public and private actors is instituted within a definite framework of 'control'. Central government guidelines require that a

> clear institutional framework should be established for the joint venture, identifying the degree of control to be exercised by each partner. (DoE, 1993: 5)

Such a strategy of regulation is somewhat different from the decentralised exchanges of a liberal market. In this sense, the 'marketisation' of government produces a set of techniques for steering activities in the private sector. These techniques do not work through direct controls, sanctions, statutory regulations and other 'unnecessary obstacles', but through effects of *managed liberalisation*. As institutional partners within a range of risk-sharing ventures, government actors become implicated in the economic decisions of private actors.

I am suggesting that the 'marketisation' of government within public-private partnerships provides a context for government centres to engage with private economic planning in ways which render the latter calculable and, in a quite formal sense, 'governmental' (cf. Rose, 1993: 294-8). This is a rather different understanding of the marketisation process from that offered by rational choice theories of government or analyses of internal markets, where the movement between government and the market is seen as rather more one-way (eg. Self, 1993; Le Grand and Bartlett, 1993). It is not to suggest, however, that these forms of economic steering offer public agencies some sort of general regulative power over market actors - although in specific cases they might. By integrating the activities of public and private actors, these techniques bring a range of semi-public bodies into line with the centre's chief strategies for managing the urban economy: creating markets, promoting private interests, and curbing public spending. In the same move, they incorporate private decision-making into the calculus of government.

A variant of the market is constituted and regulated in this policy domain which organises public-private interactions in distinct ways. A particularly interesting sense in which this understanding of the market is constructed, involves an inversion of normative concepts of market efficiency. Securing private sector investment is in this context understood as a *costly* exercise. In contrast, public finances are associated with market efficiency and liquidity:

> Private finance is *almost always* a more expensive way to raise money than initial Exchequer finance. The Exchequer has the power to tax and is viewed by lenders as a borrower with virtually no risk of default. The transaction costs of Exchequer borrowing (by sale of British Government securities, national savings certificates and other instruments) are low and the market in Exchequer debt is liquid and efficient. (DoE, 1993: 19n; emphasis in original)

While discourses of financial partnership emphasise the innovative and enterprising qualities of private actors, these also seek to prevent speculative or risky behaviour on the part of public actors. Precisely because they operate in markets characterised by risk, and where the transaction costs for securing and maintaining contracts may consequently be high[10], private investors are an expensive proposition. The management of risk in this way becomes an important component of the partnership framework.

Regulating risk
'Risk' is a key element in the attempt to create a surrogate market for public-private enterprises. In this respect, the marketisation of public finances operates within a more general regulatory framework within which the control of risk functions as a condition of economic, and by extension social, stability (see Beck, 1992; see also Castel, 1991; Ewald, 1991; O'Malley, 1992). The manner in which risk is calculated and managed under the Private Finance Initiative varies for public and private economic actors, and relies on rather different models of economic rationality.

While a discourse of partnership stresses the benefits for government in 'exploring the possibilities for private finance' (DoE, 1993: 2), this intersects with a perceived private sector interest in securing low-risk arrangements with public bodies. That is, private actors may view such partnerships not as an extension of commercial 'disciplines', but as operating in a realm which is free from market risks. Guidelines for the PFI insist that private actors entering joint ventures with public bodies should not receive any indemnity that projected returns will be realised: 'market disciplines must operate' (DoE, 1993: 2). Indeed, the two core criteria for project appraisals under the PFI are based on value for public money, and the assumption of genuine risk on the part of private actors (HM Treasury, 1994).

At the same time, public bodies are protected from substantive risk through a number of formal regulations. The risk carried by public investors is held to a minimum through ceilings on public contributions, clear control relations within the partnership framework, and safeguards for minority public shareholders against majority decisions (DoE, 1993: 5-6). The Private Finance framework encodes an extended sense in which 'risk' is to be understood in relation to public investments, and develops strategies of 'detailed risk analysis' to inform the decisions of public actors (DoE, 1993: 19-20; Annex A).

Such organisational attempts to quantify and manage risk constitute the latter as something which may be precisely calculated, regulated and transferred. The *transfer of risk* emerges as one of the key components of marketisation processes, assuming equal if not greater importance than the transfer of management functions and development costs[11]. An inability to efficiently manage risk may be traced to the public sector culture which the Private Finance Initiative seeks to transform. In particular, 'design risk' is poorly calculated in relation to public capital projects which are prone to run over-time and over-budget:

> Part of the reason lies in the attitudes and culture of the public sector. The design of projects is usually in the hands of people whose interest is to design them to high technical standards

> rather than to strike a sensible balance between cost, return and risk. People for whom there are few rewards for taking commercial risks. People whose reputations are at stake if the risks crystallise. (HM Treasury, 1994: 6)

The appropriate 'culture' for risk is one produced in context of market disciplines:

> The obvious answer is to take many of these projects into the private sector, where they can be managed by people able to raise substantial amounts of risk capital in the markets. This would create a more focused and disciplined handling of risk. (HM Treasury, 1994: 6)

Planning and 'political' risks (that is, risk attaching to the vicissitudes of the parliamentary process) are at the same time retained by public bodies. Even as it configures a model of 'risk-sharing' between public and private partners, this framework re-states a distinction between the tasks of public authority and those of private accumulation.

Calculative rationalities

Whether in relation to a direct return on investments or in the form of 'design risk', calculations of public risk are at the centre of partnership decisions. However risk is secured and managed within a regulatory framework which imposes 'market disciplines' largely on private actors. Distinct calculative rationalities are imputed to public and private actors within financial partnerships:

> For the *public sector* it offers the benefits of combining increased capital investment from the private sector's resources, together with its disciplines and enterprise.... For the *private sector* the initiative offers opportunities to get increased business and make profits. (HM Treasury, 1994: 6)

While private investors are assumed, in line with a formal market model, to seek the highest financial return at a given level of risk (HM Treasury, 1994: 24), degrees of public risk are to be calculated against projected social outcomes. Benefits to a public body must always include a

> contribution to its core objectives, such as, for example, urban regeneration, employment growth or environmental improvements. Benefits may sometimes also include a financial return. (DoE, 1993: 5)

Public decisions and utilities, that is, are not simply reducible to an optimising market rationality. Rather these arise within a form of 'multiple entry book-keeping', which seeks to balance social, environmental and (possibly) political costs and benefits against economic costs and benefits (see Dunsire, 1990: 15).

Social objectives are specified in terms of quantitative measures - project appraisals under the PFI

> must contain an explicit statement of the benefit to the government body, compared with public sector finance. This benefit should be quantified and subjected to sensitivity tests.[12] (DoE, 1993: 5)

Measuring social benefits against economic costs involves a rather ambiguous calculus of what constitutes 'value' for the public investor. This cuts two ways. On one hand, a public/private distinction is underlined by the supposition of different calculative rationalities for these economic actors. Public actors are assumed to act on the basis of other than simply market criteria.

At the same time, the assumption of a special calculative rationality based on social criteria sits in a certain tension with one based on the economising imperatives of macroeconomic government. When making economic decisions about private finance arrangements, public actors must

> specify from *whose point of view* the choice of funding is to be optimised - usually this will be the government body promoting the project. (In most cases this will be equivalent to adopting the point of view of the Exchequer. Where tax considerations mean that this is not the case, the comparison must be made from the Exchequer's point of view.) (DoE, 1993: 13; emphasis in original)

This financial strategy imputes a coherent interest, or 'point of view', to different government bodies, based on the imperatives of macroeconomic management. In this way, the centre's priorities for economic government steer the activities of a ramified network of public-private agencies. Social outcomes are integrated into a cost-benefit calculus in line with a general strategy to reduce levels of public spending.

Such auditing techniques are not, however, identical to a private sector accounting model (cf. Bovaird, 1992). Within the framework of the PFI, there is an attempt to extend evaluation criteria to include issues of quality, equity, and social benefits. How effectively these criteria are able to displace a focus on high-level development objectives is debatable. Nonetheless, the conflation of revenue accounting with social policy objectives is rather more than a one-way movement from the social and the political to the economic. An 'economisation' of politics, in this case, results not simply in the sequestration of government in private places, but in the development of more intricate patterns of socio-economic management which bring private rationalities into the domain of government at the same time as they seek to quantify social outcomes.

Conclusion

This paper has looked in some detail at policy arrangements which seek to 'hybridize the private and the public' along market lines (Donzelot, 1991: 178). I have argued that financial partnerships between government bodies and private firms produce a version of 'the market' which implies different parameters for public and private actors in respect of rationality, interests and risk. Moreover, the regulatory arm of central government is deployed to establish contractual procedures, set thresholds for market entry, prescribe acceptable forms of access to private capital, design agency structures, and set process and performance objectives.

Such techniques of regulation problematise an attempt to attribute new forms of urban governance to a straightforward process of marketisation, where the latter is viewed as something like a 'rolling back' of government activity. Indeed, partnership arrangements under the PFI represent a way of bringing market activities *into* the field of government. In the urban domain, the activities, plans and decisions of private actors have become linked to programmes and strategies of government in often quite formal ways. This provides centres of government with new methods for calculating and regulating private activities, such that government objectives relating to urban and environmental development may be pursued through the 'harnessing' of public investments and management functions.

On these terms, the forms of marketisation represented by private finance arrangements institute a variable 'governance mix' in the field of urban development, based on a range of agents, interests, incentives and modes of investment. These patterns of association do not simply reproduce formal models of market behaviour in respect of private actors, nor do they indicate the wholesale deregulation of urban government. This is not to dispute, in respect of the Private Finance Initiative, that government is in some sense being 'marketised'. Rather it is to suggest that the scheme institutes a distinctive set of market relations between public and private actors. The latter emerge, not simply as consequences of a general shift towards a putative 'free market', but in the context of specific regulatory arrangements which may be steered in line with central government's strategies for managing the urban economy.

Notes

1. I distinguish 'governance' from 'government' in the sense that the former is not restricted to the practices of a public authority, but emphasises 'private' modes of regulating social and economic life, especially through economic institutions. In this sense, 'government' may be seen as a formal version of more general processes of governance. An expanding literature on issues of governance, particularly in a US context, has been closely associated with the new institutional economics of theorists such as Oliver Williamson, as well as with the more policy-oriented perspective of socio-economics (Williamson, 1985; Etzioni, 1988; Etzioni and Lawrence, 1991; Matzner and Streeck, 1991). A useful overview of these different approaches is provided by Swedberg (1995). For the place of governance within the policy domain, see also Aberbach and Rockman (1992); Atkinson and Coleman (1992); Kooiman (1993). For the model of governance as a political blueprint, see Hirst (1994).

In another context, rather different work on the question of governance has developed in response to Michel Foucault's discussion of government rationalities (Burchell, *et al*, 1991; Gane and Johnson, 1994; Rose, 1993). These accounts differ from the neo-corporatist perspective of socio-economics, in focusing on the range of contingent and local practices of government which organise a social domain. Such practices may have loose, or quite incidental, links with more formal governmental processes.

2. For discussion of these sorts of policy shift, see Lane (1985); Le Grand & Bartlett (1993); Self (1993).

3. The financial model of partnership is distinct from one based on policy coalitions which bring together a range of different actors; as, for example, in the City Challenge model of an association between local authorities, other local public sector agencies, TECs, educational institutions, businesses, tenants and residents, and voluntary sector bodies. Such partnerships tend to work within a grammar of 'community', and to emphasise processes of public consultation in the design and implementation of development projects (de Groot, 1992; Ram, 1995). The 'community' model of partnership bears the current emphasis on consultation and responsiveness to local needs, as well as playing a critical role (or not) in local processes of legitimation. As such, this use of 'partnership' touches upon questions of representation, local interests and democratic process within the new networks of urban governance (see National Council for Voluntary Organisations, 1993).

4. See DoE (1993), Annex A, 'Financing options: simple worked examples', and Annex B, 'Discount rate for financing comparisons'.

5. I am using this term in a slightly different sense from that generally developed within analyses of 'governmentality'. In the latter context, a process of *governmentalization* refers to the practical programmes through which moral, philosophical and political discourses are translated into technical strategies for administering social life (Foucault, 1991). Here, I am calling the market 'governmentalized' insofar as its supposedly 'free' operations are integrated into a coherent set of strategies for socio-economic management. This variation might be partly explained by the fact that 'governmentality' approaches have not been centrally concerned with the market as a domain of governance.

6. For a discussion of the market as a form which is 'instituted' within social relations and political processes, see Polanyi (1992).

7. The 'set-aside' requirement that 50% of local authority capital receipts must be used for debt repayment has been reduced - in some cases to 10% - in relation to a range of local government assets from carparks to crematoria. See DoE 1995b; 1995c; 1995d; 1995g.

8. For example, the PFI precludes partnership arrangements which would expand the public sector through deferred purchase, which is viewed as

> a form of government borrowing from the private sector [which] must not be used to evade public expenditure controls. (DoE, 1993: 19n)

It is worth noting here that deferred purchasing was one of the tactics used by local authorities to increase their spending under rate-capping. Similarly, private

> Deals that would...work *only* by allowing a public sector body to reduce its tax burden

through VAT or Corporation Tax concessions are unacceptable, as these simply reduce overall Exchequer revenue (DoE, 1993: 2; emphasis in original). The rationale is to maximise the effectiveness of public investments in urban development by tying these to private resources, but to regulate against government bodies using partnership arrangements as a form of public borrowing which would allow them to increase their spending budgets while 'evading' central controls.

9. Recent secondary legislation has created a new framework for the transfer of local authority companies into the private sector, and for the increased participation of local government in joint ventures through relaxing financial and legal controls on local authority participation in private sector-led agencies. See Appendix; see also DoE 1995b; 1995c; 1995d; 1995e; 1995f.

10. For a detailed account of 'transaction cost economics', see Williamson (1985). Le Grand and Bartlett, eds. (1993) offer a useful analysis of transaction costs in relation to quasi-markets in government.

11. This is evident in the guidleines for leasing agreements, where

> the *advantages in terms of the transfer of risk and, where appropriate, private sector management*, must outweigh the cost of leasing which is generally higher than outright purchase. (DoE, 1993: 8; emphasis in original)

Here, risk is introduced as a determining factor within a choice between competing governmental rationalities: on one side, the transfer of management functions to the private sector; on the other, the imperative to restrict public costs.

12. ie. tests should indicate the conditions under which public actors would lose or benefit within a given private finance option. See DoE (1993) Annex A.

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Appendix

**Private Finance Initiative in local government:
Statutory Instruments and secondary legislation.**

S.I. 1995/849 The Local Authorities (Companies) Order 1995.

1995 c.17 The Local Government and Housing Act 1989 (Commencement No. 17) Order 1995.

The Local Government and Housing Act 1989. Directions under Sections 68(1) and 69(1) [21 March 1995].

S.I. 1995/850 The Local Authorities (Capital Finance and Approved Investments) (Amendment) Regulations 1995.

S.I. 1995/1982 The Local Authorities (Capital Finance and Approved Investments) (Amendment No. 2) Regulations 1995.

1. I distinguish 'governance' from 'government' in the sense that the former is not restricted to the practices of a public authority, but emphasises 'private' modes of regulating social and economic life, especially through economic institutions. In this sense, 'government' may be seen as a formal version of more general processes of governance. An expanding literature on issues of governance, particularly in a US context, has been closely associated with the new institutional economics of theorists such as Oliver Williamson, as well as with the more policy-oriented perspective of socio-economics (Williamson, 1985; Etzioni, 1988; Etzioni and Lawrence, 1991; Matzner and Streeck, 1991). A useful overview of these different approaches is provided by Swedberg (1995). For the place of governance within the policy domain, see also Aberbach and Rockman (1992); Atkinson and Coleman (1992); Kooiman (1993). For the model of governance as a political blueprint, see Hirst (1994).

In another context, rather different work on the question of governance has developed in response to Michel Foucault's discussion of government rationalities (Burchell, *et al*, 1991; Gane and Johnson, 1994; Rose, 1993). These accounts differ from the neo-corporatist perspective of socio-economics, in focusing on the range of contingent and local practices of government which organise a social domain. Such practices may have loose, or quite incidental, links with more formal governmental processes.

2. For discussion of these sorts of policy shift, see Lane (1985); Le Grand & Bartlett (1993); Self (1993).

3. The financial model of partnership is distinct from one based on policy coalitions which bring together a range of different actors; as, for example, in the City Challenge model of an association between local authorities, other local public sector agencies, TECs, educational institutions, businesses, tenants and residents, and voluntary sector bodies. Such partnerships tend to work within a grammar of 'community', and to emphasise processes of public consultation in the design and implementation of development projects (de Groot, 1992; Ram, 1995). The 'community' model of partnership bears the current emphasis on consultation and responsiveness to local needs, as well as playing a critical role (or not) in local processes of legitimation. As such, this use of 'partnership' touches upon questions of representation, local interests and democratic process within the new networks of urban governance (see National Council for Voluntary Organisations, 1993).

4. See DoE (1993), Annex A, 'Financing options: simple worked examples', and Annex B, 'Discount rate for financing comparisons'.

5. I am using this term in a slightly different sense from that generally developed within analyses of 'governmentality'. In the latter context, a process of *governmentalization* refers to the practical programmes through which moral, philosophical and political discourses are translated into technical strategies for administering social life (Foucault, 1991). Here, I am calling the market 'governmentalized' insofar as its supposedly 'free' operations are integrated into a coherent set of strategies for socio-economic management. This variation might be partly explained by the fact that 'governmentality' approaches have not been centrally concerned with the market as a domain of governance.

6. For a discussion of the market as a form which is 'instituted' within social relations and political processes, see Polanyi (1992).

7. The 'set-aside' requirement that 50% of local authority capital receipts must be used for debt repayment has been reduced - in some cases to 10% - in relation to a range of local government assets from carparks to crematoria. See DoE 1995b; 1995c; 1995d; 1995g.

8. For example, the PFI precludes partnership arrangements which would expand the public sector through deferred purchase, which is viewed as

> a form of government borrowing from the private sector [which] must not be used to evade public expenditure controls. (DoE, 1993: 19n)

It is worth noting here that deferred purchasing was one of the tactics used by local authorities to increase their spending under rate-capping. Similarly, private

> Deals that would...work *only* by allowing a public sector body to reduce its tax burden

through VAT or Corporation Tax concessions are unacceptable, as these simply reduce overall Exchequer revenue (DoE, 1993: 2; emphasis in original). The rationale is to maximise the effectiveness of public investments in urban development by tying these to private resources, but to regulate against government bodies using partnership arrangements as a form of public borrowing which would allow them to increase their spending budgets while 'evading' central controls.

9. Recent secondary legislation has created a new framework for the transfer of local authority companies into the private sector, and for the increased participation of local government in joint ventures through relaxing financial and legal controls on local authority participation in private sector-led agencies. See Appendix; see also DoE 1995b; 1995c; 1995d; 1995e; 1995f.

10. For a detailed account of 'transaction cost economics', see Williamson (1985). Le Grand and Bartlett, eds. (1993) offer a useful analysis of transaction costs in relation to quasi-markets in government.

11. This is evident in the guidleines for leasing agreements, where

> the *advantages in terms of the transfer of risk and, where appropriate, private sector management*, must outweigh the cost of leasing which is generally higher than outright purchase. (DoE, 1993: 8; emphasis in original)

Here, risk is introduced as a determining factor within a choice between competing governmental rationalities: on one side, the transfer of management functions to the private sector; on the other, the imperative to restrict public costs.

12. ie. tests should indicate the conditions under which public actors would lose or benefit within a given private finance option. See DoE (1993) Annex A.