

Tullett Prebon Research, a blog by Dr Tim Morgan

The menace of the Vampire Squid

by Tim Morgan on February 14, 2013

Of all the pejorative terms that have been applied to the banking industry, “vampire squid” has to be my favourite. This term seems uniquely expressive, describing a malign living organism that extends its tentacles into all of the crevices of the host system whilst draining that system of resources.

Expressive though it is, applying the term “vampire squid” to the banks is quite mistaken. Britain’s real “vampire squid” is the sprawling administrative system of permanent government. This system – let’s call it “the squid” for short – clogs up the workings of government, undermines the public services, hamstring government policy, routinely menaces the liberties of the individual, and drains resources on such a scale that it is a major contributor to Britain’s chronic fiscal imbalance.

It can even be argued that the establishment “vampire squid” actually costs lives. We will probably never know quite how many people (within estimates ranging from 400 to 1,200) died unnecessarily as a result of the harrowing litany of neglect, ill-treatment and sheer incompetence described in the Francis report into Stafford Hospital. Investigations into a further fourteen hospitals suggest that Stafford was by no means an isolated case. The point here is that, whatever the clinical shortcomings may have been at Stafford, the big failure is surely one of management. What was happening went unnoticed by every tier of authority, from the hospital itself right up to the NHS and the Department of Health itself.

Let’s be clear that such failings do not result from an overall shortage of resources. Government spending on health increased by 92%, *in real terms*, between 1999-2000 and 2009-10, and has been essentially flat since then. Such increases, albeit at rather slower rates, occurred across the public services in the Brown era. Neither does the NHS lack management – rather, it has far too much. The number of managers employed by the NHS in England increased from 27,424 in 2001 to 44,661 in 2009, though it has since fallen back slightly, to 38,214 as of 2011.

If previous cases are any guide, no retribution will be handed out over Stafford, any more than it has been in earlier instances of incompetence across the public services. No-one of any seniority at all will be made redundant, stripped of his or her pension, or even deprived of the honours that are handed out so lavishly across the upper echelons of the squid. Effectively, the people at (or even anywhere near) the top are virtually immune from sanctions. The people who *are* hunted down are the whistle-blowers, the usually-junior, courageous people whose actions threaten to expose the squid from within. As we have been reminded today, an NHS which claims to be transparent actually imposes “gagging clauses” on employees in order to prevent whistle-blowing.

The “vampire squid” of the permanent establishment is hugely expensive. In America, about 3% of the Medicare budget is spent on administration. In Britain’s NHS, by contrast, administration absorbs 14p of every £1 of public funding, a cost excess of £10bn which is probably replicated across the public services. When the coalition government came to power, the number of civil servants employed by the Ministry of Defence actually exceeded the combined uniform strengths of the Royal Navy and the Royal Air Force. When British

forces were deployed in both Iraq and Afghanistan, the feelings of servicemen and their families about the bonuses (reportedly about £45m) paid annually to MoD civilians are probably best left to the imagination.

The costs of feeding the squid are visible, too, in overall statistics. In the NHS, spending increased by 97% in real terms between 1997 and 2007, yet output rose by only 36% over the same period, representing a sharp (31%) fall in value-for-money.

Governments, of both persuasions, have hardly helped. In health, the Conservatives fractured the previously-centralised NHS into an archipelago of expensively-managed “trusts” in pursuit of the chimeras of “choice” and “internal markets”, and Labour then imposed a target system which required numerous managers to fill in forms for other managers to read. Ritual “bonfires” of quangos inevitably turn into marginal exercises. When shortcomings within the squid are exposed, the response is depressingly familiar, and actually feeds the squid – a new inspectorate is created, and expensive inquiries are set up (for example, the latest report, which cost £13m, is the *fifth* investigation of the Stafford disaster).

As we have seen in the Green Budget published by the Institute for Fiscal Studies (IFS), the government’s deficit reduction plan is way off target, with the deficit set to be £65bn above expectations in 2015. Instead of crossing fingers in hopes of a recovery which looks implausible in the absence of thoroughgoing microeconomic reform, government needs to tackle the costs of the squid, and the huge handicaps and inefficiencies that it imposes on the economy.

What is needed is a squid-killer, whose weapons must include real transparency and a system of rigorous sanctions. St George famously dealt with a dragon – can we find a new champion to slay the squid?