

## The Big Con – the case against consultancies

Mariana Mazzucato and Rosie Collington's polemic on the need to draw a boundary between state and private activity — and rebuild public sector capability



© Chris Ratcliffe/Bloomberg

**Diane Coyle** FEBRUARY 15 2023

---

“It would be foolish to blame consultancies for all the problems that advanced capitalism has created,” state Mariana Mazzucato and Rosie Collington in their conclusion. Nevertheless, the authors of *The Big Con* blame consultancies for an awful lot, starting with: “The pristine PowerPoints, copy-and-pasted formulas for strategy and often ineffective tools that many consultancies employ.”

The book’s chatty subtitle — *How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies* — encapsulates the charge sheet. The focus is almost entirely on the UK, a pioneer of outsourcing by the public sector to private consultants, but the same issues arise elsewhere.

In the end the finger is pointed not at consultancies at all but rather at successive UK governments. For what the authors — a prominent academic economist famous for advocating state-led “missions” or “moonshots” and a PhD student — recommend is strengthening the civil service, rebuilding internal capacity within government, improving the process of contracting and evaluation of outsourced outcomes, and requiring consultancies to disclose conflicts of interest when they bid for public sector work.

The outsourcing of much government activity to the private sector began with Margaret Thatcher, prime minister 1979-90, alongside the privatisations of public corporations. The habit continued under Tony Blair's Labour government and the Third Way centrism in the late 1990s and early 21st century. Indeed it expanded as the Conservatives' Private Finance Initiative proved a handy means for New Labour to spend more on projects such as new school and hospital builds by pushing the (higher) costs to future years and off the current year's budget. Mazzucato and Collington blame the 1992 book *Reinventing Government* by US consultants David Osborne and Ted Gaebler for calling for a government that "steers more, rows less," arguing that a government incapable of rowing can't steer either.

*The Big Con* jumps between discussing any government use of consultants at all and public service outsourcing in particular, and draws heavily on media stories about money-wasting and scandal. But there is a significant debate to be had about where and how to draw the boundary between state and private activity — which is the real theme of this book although it is never made very clear.



We wouldn't want the government to manufacture its own stationery rather than buy it, nor hospitals to make their own wound dressings. Similarly with payroll services or couriers — although they were largely in-house in private and public sector alike until the 1980s. But what about IT systems? Or cataract surgery? Outsourcing the former seems not to have gone well in general, given the number of prominent, costly IT failures, while technological advance has made it easy and efficient for cataract operations to be contracted out to specialist private providers.

The book is a polemic, blaming the failures of outsourcing, IT included, on incompetence — or worse — on the part of the consultancies. It principally has in its sights the three big strategic consultancies (Bain, BCG and McKinsey) and the four big accountancy firms (Deloitte, Ernst & Young, KPMG, and PwC). It acknowledges that there is a place for some consultants with specialist knowledge, while also taking a swipe at some smaller firms en passant. There have certainly been plenty of news stories about eye-wateringly large payments to the big seven, egregious delivery failures, and fines for various regulatory breaches.

What do these many sorry tales tell us about the consultancy business? The economics of asymmetric information — whereby the hapless official can never know as much as the smarty-pants consultancy — and the principal-agent problem of conflicting interests (neither idea is cited in the book) would argue for outsourcing only activities that can be monitored.

Nobel laureate [Oliver Hart](#) and his co-authors argued in 1997, for instance, against privatising prisons, due to the perverse effects of the profit motive and the contracting authority's inability to monitor the quality of the service provided. Apply this to NHS hospitals, and it would point to outsourcing routine procedures such as those cataract operations but not cleaning hospitals. After all, bugs such as MRSA are invisible unless you're especially looking for them.

### **Improving the process of procurement, contracting and evaluation is surely a no-brainer**

Similarly, IT systems should be kept in house because nobody can tell how effectively they operate until they are up and running, and even then problems might take years to come to light. What can't be easily monitored needs to be done by those whose primary motivation is something other than cutting costs and maximising profits — public service, for example.

Sometimes the sensible boundary between public and private will shift because of technology. This was the case with payroll outsourcing for example: advances in computers and software made it genuinely more efficient to use external suppliers. And people generally will spot if they are getting the wrong amount of pay. A similar debate could be had about what else the NHS could sensibly outsource to specialist providers or pharmacies, given the many advances in medical procedures over the decades, although it is obviously too politically polarising to happen.

Where *The Big Con* is spot on is in noting how hard it is to wind the clock back: “Often the capabilities for managing the delivery of a service in-house would be completely lost after they had been outsourced, and so the costs of re-insourcing were very great.” Thus the same names keep winning new government contracts despite the various scandals. Among the book’s recommendations, those concerning rebuilding those capabilities in the public sector look rather forlorn as this would involve significant cost and time in hiring and rebuilding skills and knowhow.

But improving the process of procurement, contracting and evaluation is surely a no-brainer. A re-evaluation of the PFI by the Treasury in 2004 led to more thorough assessment of the costs and risks of projects, and a reduction in the number of projects and amounts of money involved. By contrast, government spending on consultants and outsourced services has continued to rise (to about £300bn a year or a third of government spending), particularly under the twin burden of pandemic response and Brexit on the public sector. We will never know how bad that is — if there’s a con, how big is it? — without rebuilding this particular bit of public sector capability.

**[The Big Con](#): How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies** by Mariana Mazzucato and Rosie Collington, *Allen Lane £25, 368 pages*

*Diane Coyle is Bennett Professor of Public Policy at the University of Cambridge*

*Join our online book group on Facebook at [FT Books Café](#)*