

Reform of Public Services

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1/ Introduction – historical rise of government spending

Reform of public services is ever present in the news. *Has there ever been a “steady state” of the State?*

Since the industrial revolution, the rising complexity of economic systems, the need for infrastructure, education, health, administration, social intervention has led to the expansion of government.

More regulation of the economy and society.

“Wagner’s Law” – government expands with GDP: empirical observation – not a “law” grounded in theory.

Peacock and Wiseman: pressure on spending, resistance to taxation. Significant increase in public spending only in exceptional circumstances (e.g. war – depression?).

Empire building and war.

2/ Pressure on spending in advanced welfare states:

- slower productivity growth in services – the “Baumol effect” (Baumol & Bowen, 1966)
- ever increasing needs and possibilities of medical care
- concerns for equality of access to education
- pressure on transfers – to reduce poverty etc. and then finance unemployment benefits
- more recently and in the future: pressure on pensions
- pressure from the political process (Buchanan & Tullock)
- David Cameron (late 1970s): government expands to protect populations of open economies (confirmed by Dani Rodrik).

3/ 1970s stagflation and spending squeezes

A clear turning-point, however, was the stagflation of 1970s: slower growth made increasing state spending difficult to accommodate.

Long boom, created wealth which allowed public services and transfer payments to expand (in most industrialised countries): in US, Johnson's Great Society programme to reduce poverty and strengthen civil rights.

Large public sectors even seen as a sign of economic and social advancement: Scandinavia advanced

1970s: this essentially-consensual expansion of government and public services broke down.

Slower growth and increasing pressure on spending led to rising public finance problems.

Rising public finance problems – rising pressure on taxes – tax revolts (in the US, the UK in the late 1970s, and later in the other countries of the AS group).

4/ The fiscal dimension of public sector reform very important

Limiting deficits and size of public sector in GDP has direct policy implications for public services.

First phase: cutting costs

Reducing services, restricting transfers: limiting unemployment benefits, changing indexation of pensions from wages to inflation etc – cutting public investment – cutting services

The search for efficiency

Ways to eliminate waste – re-examination of public sector activities, introducing competition with private sector into services – beginning with municipal services

Developing new management systems – to identify costs better (cost centres etc).

“Value of money”; the “3Es” (economy, efficiency, effectiveness).

Second phase: privatisation

Transfer/sale of nationalised industries and public assets to the private sector

A programme largely developed first in the UK, but widely adopted elsewhere

Government got out of business

Unions were weakened

The provision of services was “depoliticised”

Adam Tooze (The Guardian, 2 September 2021) : **The “basic thrust behind neoliberalism, or the market revolution [has been] to depoliticise distributional issues”.**

Third phase: reform of non-marketable public services

Most complex. How do you reform a public service which is not marketable?

- opening up some services to competition with private sector
- opening up recruitment to private sector managers
- developing performance indicators
- implementing private sector management practices
- separating the finance and the provision of public services
- creation of *quasi-markets*
- making labour contracts more flexible – individualising conditions
- reducing government bureaucracies – flat hierarchies, greater use of IT for managing and controlling administrative processes, etc.
- make citizens behave like *customers*, rather than *users* of public services: Voice/Exit

5/ New Public Management (NPM) in place of administration and bureaucracy

This was is more an academic concept, than a political or ideological programme.

Governments in OECD countries turned more to management consultancies to solve specific problems, rather than the academics who prefer macro, theoretical context.

	Administration	Management
<i>Objectives</i>	In general terms, infrequently reviewed or changed.	Broad strategic aims supported by more detailed short-term goals and targets reviewed frequently.
<i>Success criteria</i>	Mistake avoiding.	Success seeking.
<i>Resource use</i>	Secondary task.	Primary task.
<i>Structure</i>	Roles defined in terms of areas of responsibility. Long Hierarchies: limited delegation.	Roles defined in terms of tasks. Shorter Hierarchies.
<i>Roles</i>	Arbitrator.	Protagonist.
<i>Attitudes</i>	Passive : work-load determined outside system. Best people used to solve problems. Time insensitive. Risk avoiding. Emphasis on procedure. Conformity: national standards.	Active : seeking to influence environment. Best people used to find and exploit opportunities. Time sensitive. Risk accepting but minimizing. Emphasis on results. Local experiments: need for conformity to be proved.
<i>Skills</i>	Legal or quasi-legal. Literacy.	Economic or socio-economic. Numeracy.

Keeling, D., *Management in Government*, London, Allan & Unwin, 1972, p 91-92.

Beyond Bureaucracy

	‘Traditional’ management	‘New Wave’ management
Structures	Bureaucratic Hierarchical Centralised	Tight centre Broad, flat periphery Decentralised
Systems	Central ‘hands-on’ control Detailed oversight exercised through multiple tiers ;	Performance targets Cost centres, tasks and teams Internal markets/trading ‘Hands-off’ control
Staffing	Large staff corps Fixed, permanent Centralised bargaining	Small core Flexible, large periphery Localised bargaining
Subordinated culture	Sound administration Legal and financial probity Professional Quality in service delivery	Flexible management Measuring output Managerial Customer-oriented Quality in service delivery
Source : Stoker, G., Mossberger, K., <i>in</i> Stewart, J., and Stoker, 1995, p218.		

US: Osborne and Gaebler, *Reinventing Government*, 1992

1930s to 1960s: New Deal paradigm

During 1960s and 1970s, anomalies.

Many supporters of New Deal government were blind to them.

Persons on the right: free market society and a *laissez-faire* state.

Practitioners, particularly in state and local government, needed something more... to deal with the tax revolt, the sad state of public education, the runaway costs of prisons and Medicaid.

“public-private partnerships,”

“alternative service delivery,” “contracting out,” “empowerment,” “Total Quality Management,” “participatory management,” “privatization”, “load shedding”...

A new paradigm

- 1) steering, not rowing - it is not government's obligation to provide services, but to see that they're provided;
- 2) empower communities to solve their own problems rather than simply deliver services;
- 3) encourage competition rather than monopolies;
- 4) be driven by missions, rather than rules;
- 5) be results-oriented by funding outcomes rather than inputs;
- 6) meet the needs of the customer, not the bureaucracy;
- 7) concentrate on earning money rather than spending it;
- 8) invest in preventing problems rather than curing crises;
- 9) decentralize authority; and
- 10) solve problems by influencing market forces rather than creating public programs.

6/ Citizens as customers – encouraging “voice” and “exit” – Charterism and targets

The need to improve user satisfaction > citizens as customers.

Create markets and “exit” where possible.

Or strengthen “voice” (Albert Hirschman, *Exit, Voice and Loyalty*, 1970)

Charters guaranteeing citizens’ rights

Performance targets

7/ Weaknesses of NPM – problems of coordination

Roderick Rhodes

- Managerialism leads to internal concerns of organization – economy, efficiency and effectiveness of systems not taken into account
- NPM obsessed with objectives that are often ephemeral. It does not take into account the quality of the relationship between purchasers and providers, which affects the effectiveness of systems.
- NPM too results oriented – which are hard to measure and control when services are provided by networks of actors responsible for specific tasks.
- There is a fundamental contradiction between competition between providers and the view that government must guide the work of providers.

Characteristics of markets, hierarchies and networks

	Markets	Hierarchies	Networks
Basis of relationship	Contract and property rights	Employment relationship	Resource exchange
Degree of dependence	Independent	Dependent	Interdependent
Medium of exchange	Prices	Authority	Trust
Means of conflict resolution and coordination	Haggling and the courts	Rules and commands	Diplomacy
Culture	Competition	Subordination	Reciprocity

Source: Rhodes, R.A.W. et al, *Decentralizing the Civil Service: From unitary state to differential polity in the United Kingdom*, Open University Press, 2003.

8/ New Directions of Public Sector Management: a “Third Wave”?

Late 1990s new concerns about:

1/ “governance”

2/ “partnerships”

3/ “joined-up government”/“whole government”

4/ “trust” and “transparency”

ICT and the emergence of e-government

Globalisation > greater pressure on governments to support national competitiveness

“Big data” – anxiety over “clouds” and “government by Google”

GFC > pressure on spending, in Europe especially

9/ *Complex objectives of welfare spending*

Nicholas Barr, “Economic Theory and the Welfare State: A Survey and Interpretation”, *JEL*, 1992, vol. 30, issue 2.

Efficiency

Marco efficiency: a certain fraction of GDP should be allocated to welfare, to avoid distortions and cost explosions

Micro efficiency: policy should ensure the efficient division of total welfare state resources between different types of benefits

Incentives: the organisation of benefits should minimise adverse effects on labour supply

Supporting living standards

Poverty relief: no individual or household should fall below a minimum standard of living

Protection of accustomed living standards: nobody should face unexpected and unacceptable cuts in living standards

Income smoothing: institutions should enable individuals to reallocate consumption over their lifetime

Inequality reduction

Vertical equity: involves redistributing income to poorer families

Horizontal equity: differences in benefits should take into account age, family size etc.

Social integration

Dignity: benefits should be delivered so as not to humiliate recipients

Social solidarity: benefits should be delivered so as not to humiliate recipients

Administrative feasibility

Intelligibility: the system should be easy to understand

Absence of abuse: benefits should not be misused

10/ Managing the complexity of public services

Increasing complexity of public service delivery stemming from goals and increasingly complex organisational structures (purchaser-provider split, competition, cooperation, networks, etc.), has led to complexity theory entering management.

It draws on the analysis of complexity in sciences; the broader understanding of “post-Newtonian” science, and its possible implications in systems analysis.

Not so much chaos as weather phenomena.

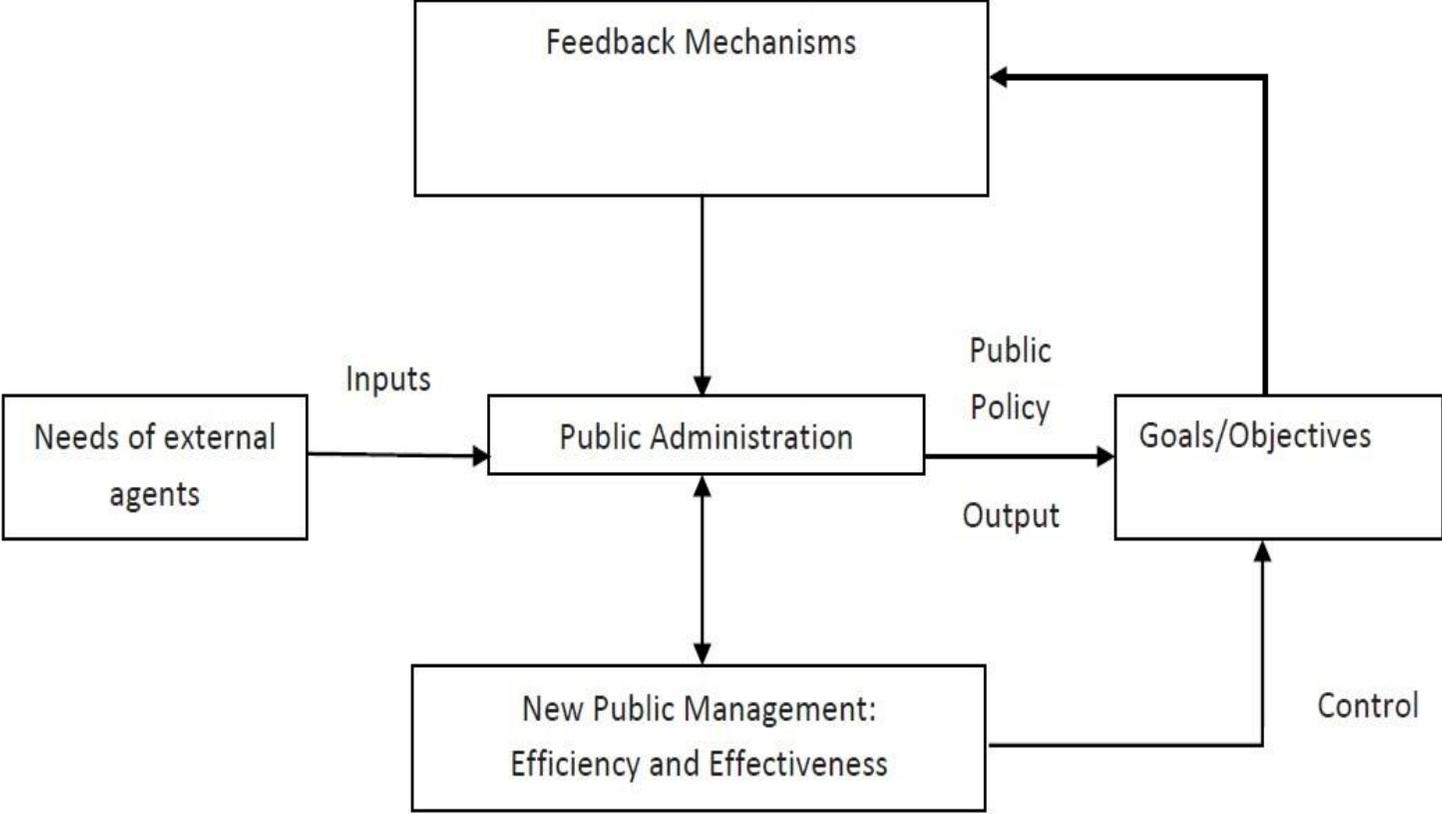
Management needs to take into account non-linearities (bifurcation and especially “emergence”) as well as path dependency.

Establishing “values” as “attractors” (i.e. elements of order, patterns of replicated behaviour for given periods).

Feedback and evolving control systems.

Towards “Public Service Management”

Resolving democratic problems using decentralized experimentation, rather than control from the center and conformity



Matei, A., Cătălina, A., "The New Public Management within the Complexity Model", *Procedia - Social and Behavioral Sciences*, Volume 109, 8 January 2014, Pages 1125-1129.

11/ Covid-19: Massive challenges to governments everywhere

Uncertainties about the disease: effects, treatment, evolution, vaccination

Health – growth trade-offs (lockdowns, border closures): changing over time

Political challenge as individual rights are restricted: mental health, political backlash

National responsibilities to resident populations: historical imperative of government

International concerns

Solidarity

Self-interest: no nation will be able to go it alone in the long run

Vaccine development, manufacture and distribution are all gigantic tasks

Macroeconomic constraints and possibilities – debt and debt sustainability

Managing trade flows and spill-overs for globalisation

Managing economic restructuring – modulating state support and making markets work

TAKEOUTS

Neoliberalism led to a significant retrenchment in the roll of the public sector in the range of activities it manages – privatisation of firms operating in competitive industries especially.

The spending on welfare and public services has not really been reduced as a share of GDP – on the whole.

Public demand for health, education and social protection remains strong.

The organisational forms of public service providers are variable and involve public and private bodies: markets, hierarchies and networks.

Complexity is still growing

Budget constraints pose permanent financing problems

Taxes have been cut, but public deficits and debt have grown.

Covid-19 has seen a renewed surge in direct government action – long term consequences remain unclear.