

Course 4: New Public Management and Beyond

From Mont Pélérin (1947) to a global network



Milton Friedman (in light coat and with hat, in the centre) with friends in an excursion at the first meeting of the Mont Pelerin Society in 1947.



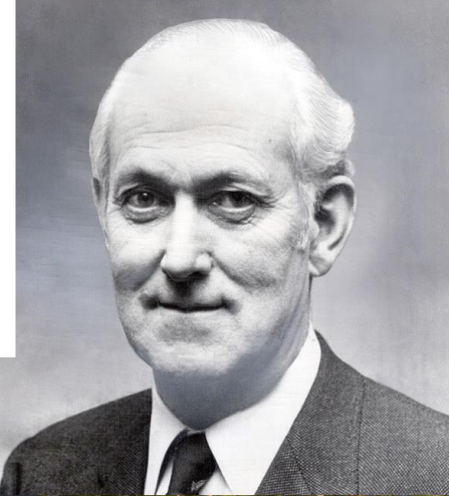
Karl Popper (back row), Ludwig von Mises (front row to the right) and other participants during a session at the first meeting of the Mont Pelerin Society in 1947.

OUR FOUNDER

Antony Fisher

Our founder, Antony Fisher, served as "one of the few" in the British Royal Air Force in WWII and saw firsthand the impact that could be achieved by the will and determination of a small group.

Our people



1981



Ayn Rand: *Atlas Shrugged*
Fraser Institute
Manhattan Institute
Pacific Research Institute
Institute for Liberty & Democracy
(in Peru)
National Centre for Policy

1955



Charles Koch



Virginia (next to Washington DC)
Atlas Network is based in Virginia
University of Virginia
George Mason University:
Marginal Revolution University
Mercatus Center

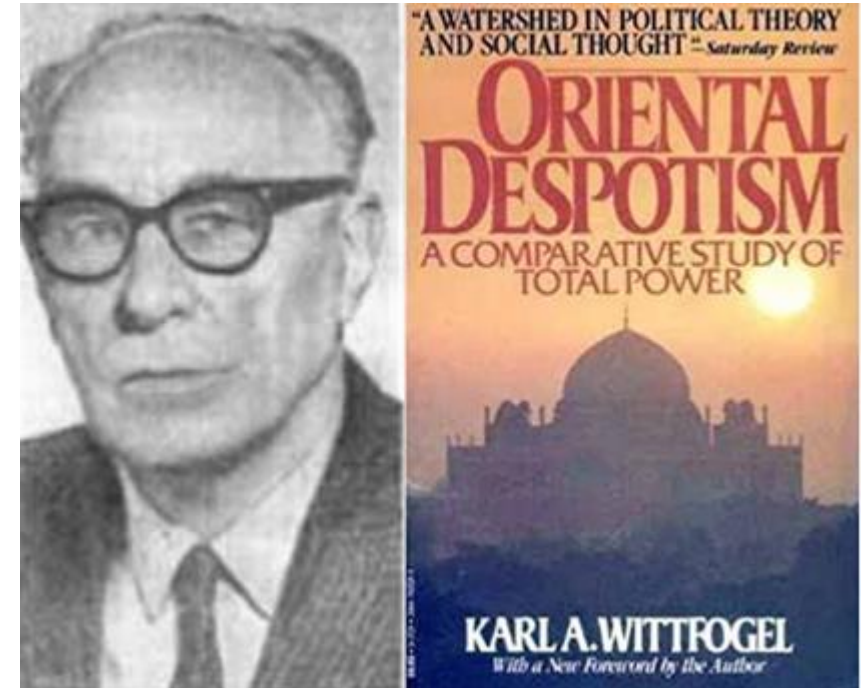
Cato Institute

Outline

- 1/ The (ever-) Expanding State
- 2/ The 1970s stagflation and public choice theory
- 3/ The search for alternatives: efficiency, privatisation, non-marketable services
- 4/ The emergence of New Public Management
- 5/ Weaknesses and beyond NPM
- 6/ *The Entrepreneurial State* & Moonshots (Mariana Mazzucato)
- 7/ The deepening complexity of public services and welfare

1/ The (ever-) Expanding State: Origins of State Power

Monarchs, the **military and colonies** in Europe (sovereign services/ *services régaliens*)



“Hydraulic despotism”
bureaucracies to manage
irrigation systems >
TOTAL POWER
MAYBE?

The amazing fall of military spending... until now?



*At the start of this century,
something amazing happened:
governments worldwide started
spending more on healthcare
than on the military*

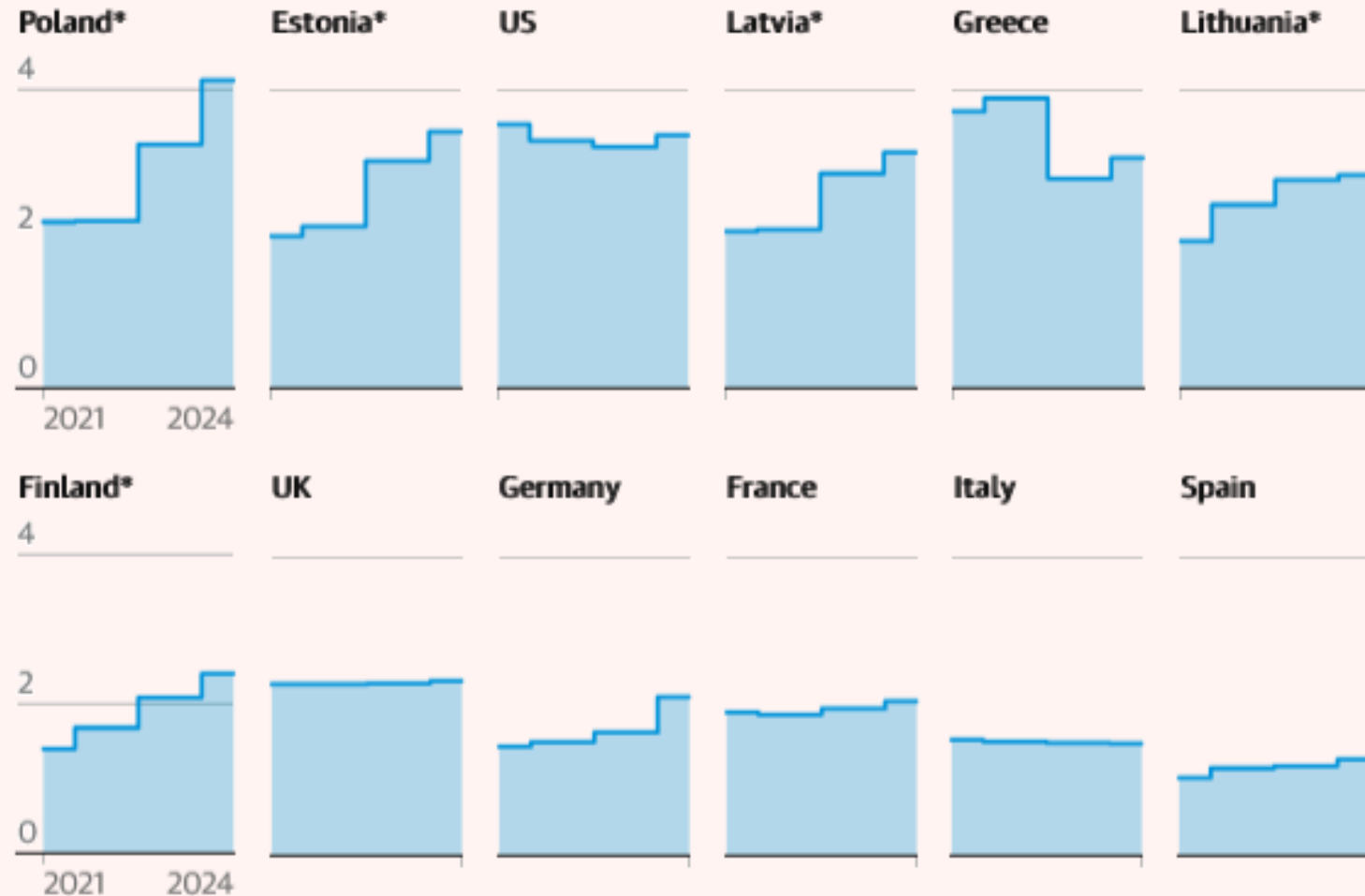
*The level of violence is not
constant...*

[Yuval Harari, May 2024](#)

What now? Burden-sharing in NATO? Nuclear Proliferation?

Defence spending as a percentage of GDP

Selected Nato members



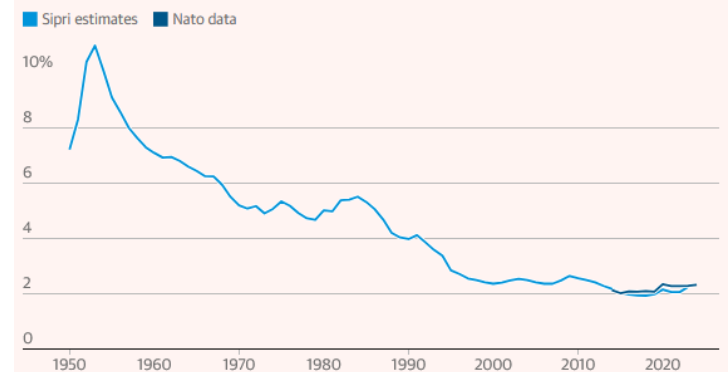
Guardian graphic. Source: Nato. Notes: 2023 and 2024 are estimates. *Shares a land border with Russia, Kaliningrad or Belarus

**“Trump’s return means UK must swiftly find a way to increase defence spending”,
The Observer,
Sunday 16 February 2025**

[Peter Walker](#)
Senior political correspondent

UK defence spending fell sharply in the 80s and 90s

Spending on defence as a % of GDP



Guardian graphic. Source: Stockholm International Peace Research Institute 1950-2023, Nato 2014-2024

Some key characteristics of govt. spending

State action is national

Very little cross-border spending solidarity: e.g.

EU budget wrangles > EU budget of only a little more than 1%.

The “West” did not create a global vaccination programme during Covid (\$50-80 billion)

Difficulties in getting to \$100 bn transfers to emerging countries for global warming

“Soft budget constraints”

Janos Kornai – China today?

Governments can often run deficits for a long time – especially major economies

But they can go bankrupt

Industrial Revolution > public services

Infrastructure, sanitation/health, education, administration

“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?).

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. – unemployment benefits
- more recently and in the future: pressure on pensions
- David Cameron (late 1970s): government expands to protect populations of open economies (confirmed by Dani Rodrik).
- pressure from the political process (Buchanan & Tullock)

2/ 1970s stagflation and spending squeezes

- Slower growth made increasing state spending difficult to accommodate.
- Post-war Long boom > created wealth > easier financing of public services and transfer payments
- Large public sectors even seen economically and socially advanced: Scandinavia advanced
- Consensus on Keynesian Welfare State (UK especially) broke down
- Tax revolts (in the US, the UK and elsewhere)

Public Choice Theory

James Buchanan and Gordon Tullock, *The Calculus of Consent*, 1962.

“Pork-belly politics” and “Log rolling”

Political process always pushes up government spending: special interests can mobilise more effectively than the general public

Tip O’Neill: “all politics is local” (Speaker 77-87)

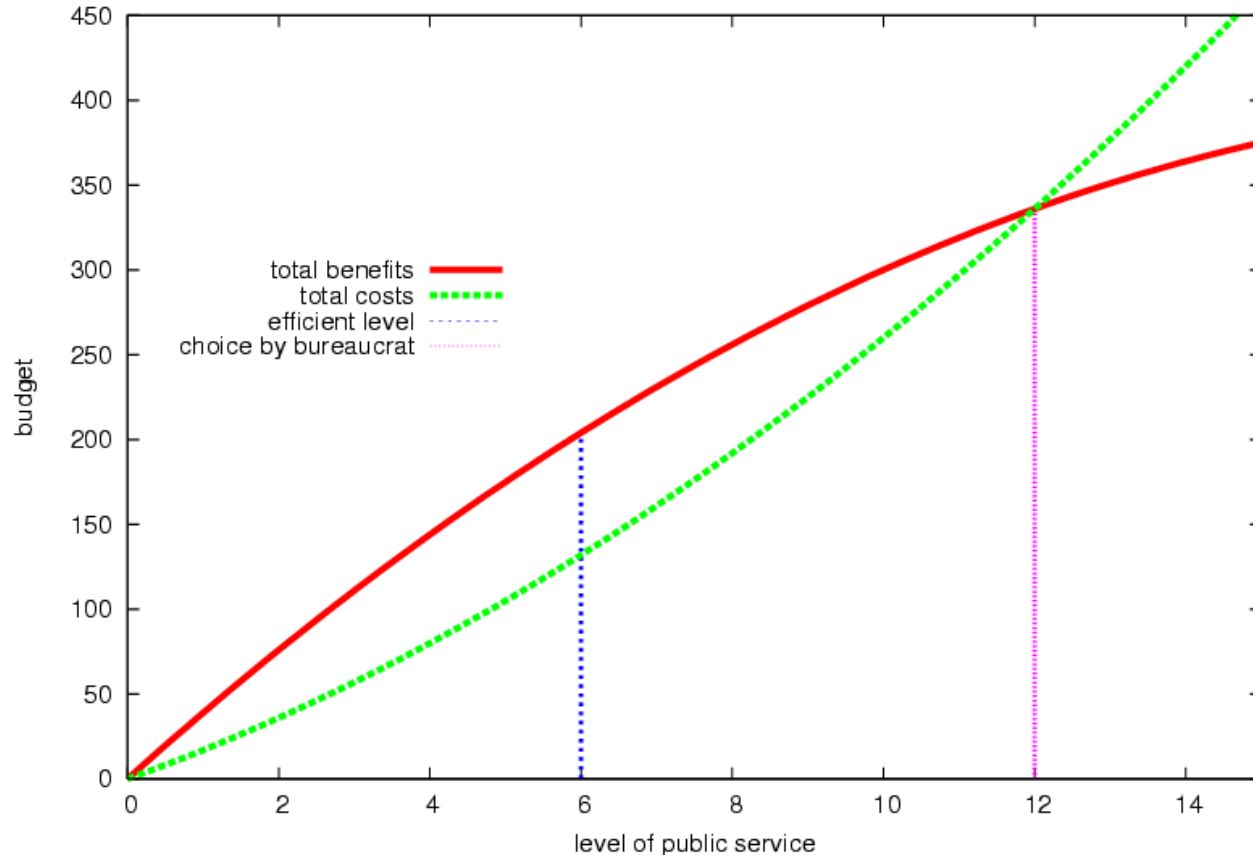
(Is this true in the UK, say? Dunleavy: Treasury control)

W. Niskanen: budget maximizing bureaux

- Government “agencies” (and non-profits) do not sell their products and services.
- They obtain budgets from a “sponsor”
- Their utility is linked to salary and size of bureau
- Not necessarily corrupt > pursue professional considerations
- They will always push for greater production/output
- Marginal cost will exceed marginal utility: structurally inefficient

The structural “inefficiency” of government

Figure 8 : Niskanen's Model of Bureaucracy



Humphreys' Introduction - Yes Minister



Methodological individualism

Thatcher “[no such thing as society](#)”

In the [social sciences](#), **methodological individualism** is a method for explaining social phenomena strictly in terms of the decisions of individuals, each being moved by their own personal motivations.

[Wikipedia: Methodological individualism](#)

See [The Trap](#) by Adam Curtis (2007):

human beings as rational, **suspicious** calculators > game theory developed at RAND during the Cold War ([John Nash](#))

...but it did not work on women (the secretaries) who trusted each other

Elinore Ostrom: why the prisoner's dilemma? People can communicate.

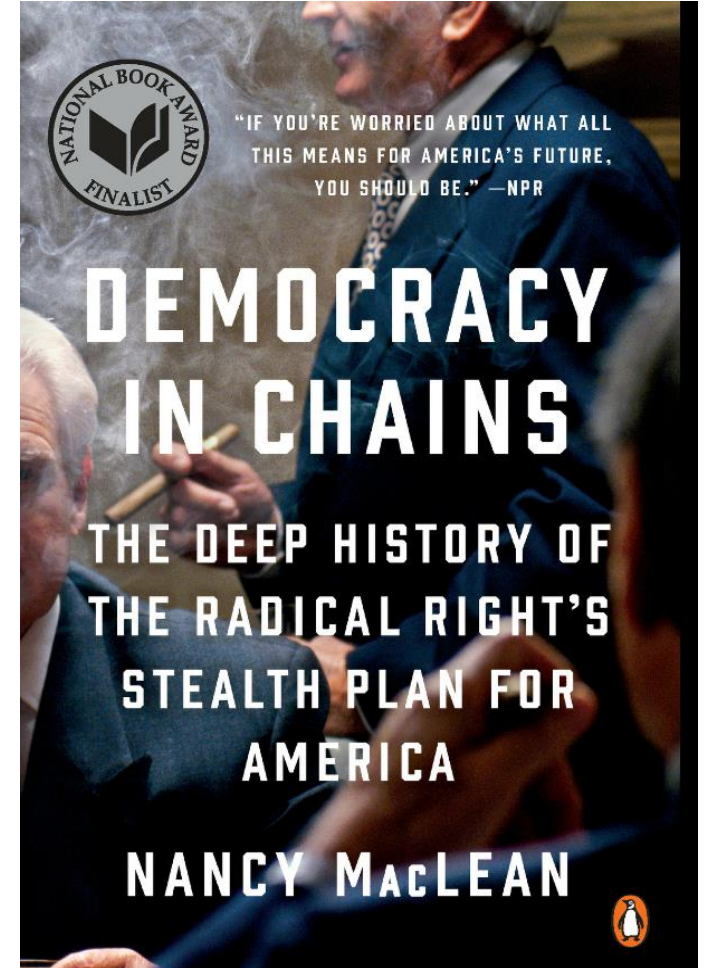
Richard Layard: “helping other people” is essential to [How to be Happier](#).

Public Choice Theory as white backlash?

- 1955 the US Supreme Court, second *Brown v. Board of Education* segregation to be dismantled with “all deliberate speed”

Buchanan not “uniquely racist or insensitive to ... equal treatment... And yet, somehow, all he saw in the *Brown* decision was coercion”

Nancy MacLean, 2018



Other weaknesses

- **Political business cycle**

- Tax cuts and/or increased public spending before elections (in France – rise of deficit in 2024!)
- Retrenchment after elections

> **aggravation of the business cycle**

- **Lack of knowledge**

- demand management through $G + T$ too complex (lags)
- Civil servants/government not good entrepreneurs

3/ The search for alternatives (1970s onwards)

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).

Privatisation – Mrs T’s greatest export

Transfer/sale of nationalised industries and public assets

A programme largely developed first in the UK,
but widely adopted elsewhere
Government got out of business
(Latin America, Iraq, etc.)

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”.**



Margaret Thatcher

Reforming non-marketable public services

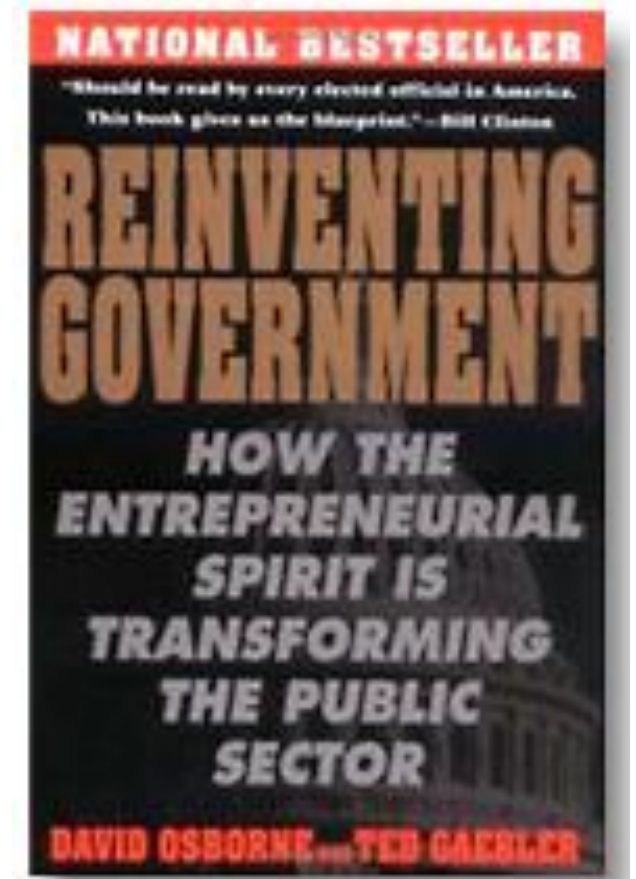
Most complex. How do you reform a public service which is not marketable?

- 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

4/ Towards New Public Management (NPM)

Osborne and Gaebler, *Reinventing Government*, 1992

- 1930s to 1960s: New Deal paradigm
- During 1960s and 1970s, anomalies.
- Practitioners, particularly in state and local government looking for new ways to deliver services with slower increases in resources.
- “public-private partnerships,”
- “alternative service delivery,” “contracting out,” “empowerment,” “Total Quality Management,” “participatory management,” “privatization”, “load shedding”...



Practical solutions > a new paradigm > exported internationally

- 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.

Beyond Bureaucracy (Max Weber)

	‘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., in Stewart, J., and Stoker, 1995, p218.

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 customer “voice” (Albert Hirschman, *Exit, Voice and Loyalty*, 1970)
- Charters guaranteeing citizens’ rights
- Performance targets – use and abuse



5/ 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.

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

6/ Mariana Mazzucato, *The Entrepreneurial State* (2013) and *Mission Economy* (2021)

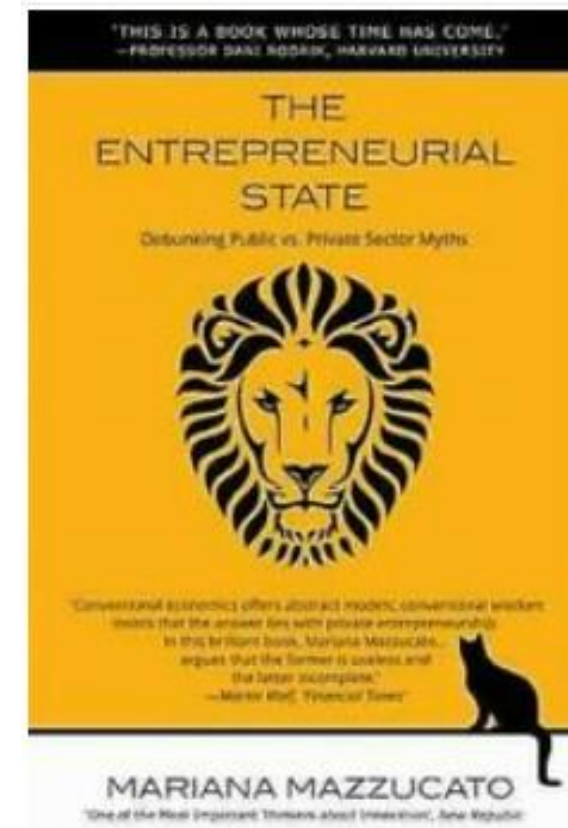
Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, 2013

MM challenges mainstream view of governments as bureaucratic

Government “de-risks” private sector activities – addresses market failures

Govt often leads “general purpose technologies” ...

... vital to the “mass production system”



2013

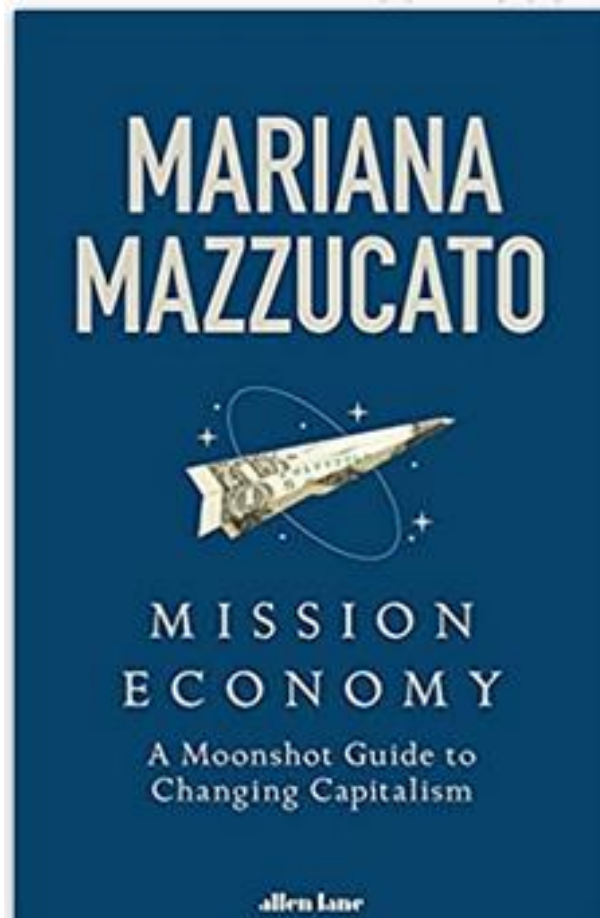
Key (hi-tech) technologies

Aviation, space, IT, life-sciences, nanotechnology, clean industries AND Internet

iPods, iPads and iPhones: microprocessors, RAMs, hard-drives, lithium-ion batteries, LCDs – and software (http/html, SIRI, GPS)

And yet, companies like Apple game the tax system

Mission Economy: A Moonshot Guide to Changing Capitalism, 2021



- World's major challenges > a different approach to PPPs
- New confidence to tackle “wicked problems”
- Govt projects by “moonshots”
[Kennedy “landing a man on the moon” Congress speech 1961](#)

Large-scale, focused missions

6 attributes defined Apollo

- 1) vision infused with a strong sense of purpose;
- 2) risk-taking and innovation;
- 3) organizational dynamism;
- 4) collaboration and spillovers across multiple sectors;
- 5) long-term horizons and budgeting that focused on outcomes; and
- 6) a dynamic partnership between the public and private sectors (Mazzucato 2021a: 60).

Mission Maps

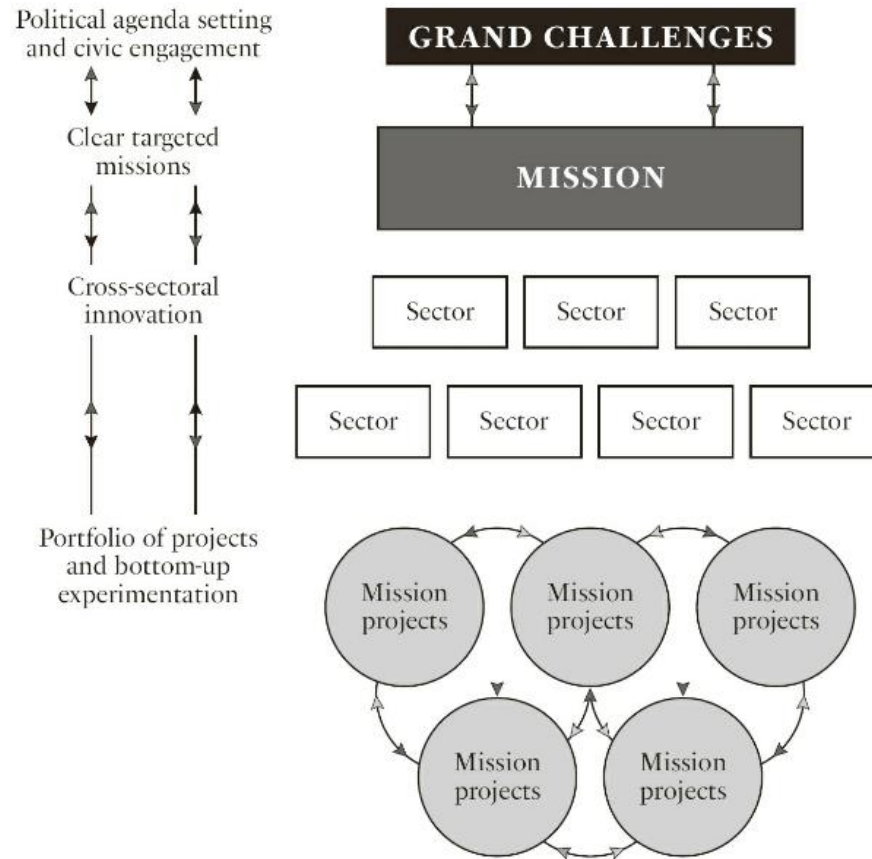


Figure 5: A mission map

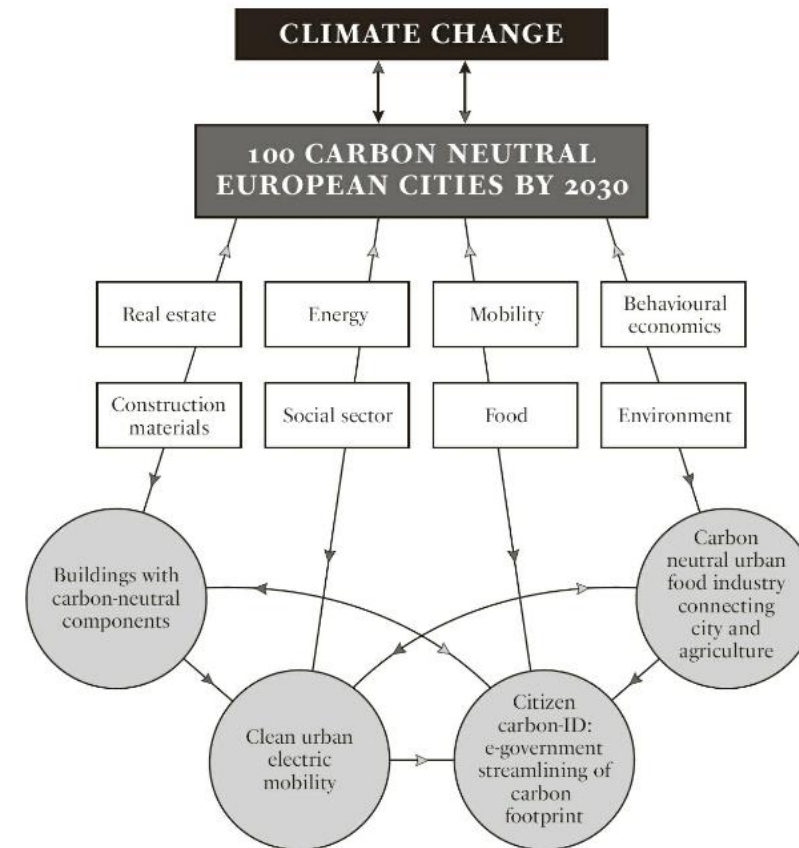


Figure 7: A mission map for 'Climate Action' (SDG 13)

Missions maps to tackle

- Clean oceans
- The future of mobility
- Ageing society
- Citizen health and wellbeing
- Digital transformation

Seven key pillars to a better political economy

1. A new approach to value
2. Missions “co-create” and “co-shape” markets (not just fixing)
3. Organizations – capabilities requiring cooperation, not just competition (to take risks, learn under uncertainty, etc.)
4. Long term finance
5. Distribution and inclusive growth
6. Partnership and stakeholder value
7. Participation and creation

Operation Warp Speed > Vaccines in a year

Moncef Slaoui



First, called
Manhattan Project 2

Then OWS –
faster than the speed
of light (Star Trek)

- Six vaccine projects selected – two for each technology including *mRNA*.

- \$10 the \$17 billion
- R & D and rollout

Gustave F. Perna



- Pfizer/BioNTech
- Moderna
- AstraZeneca

7/ Complexity: the 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

Barr continued:...

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

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.

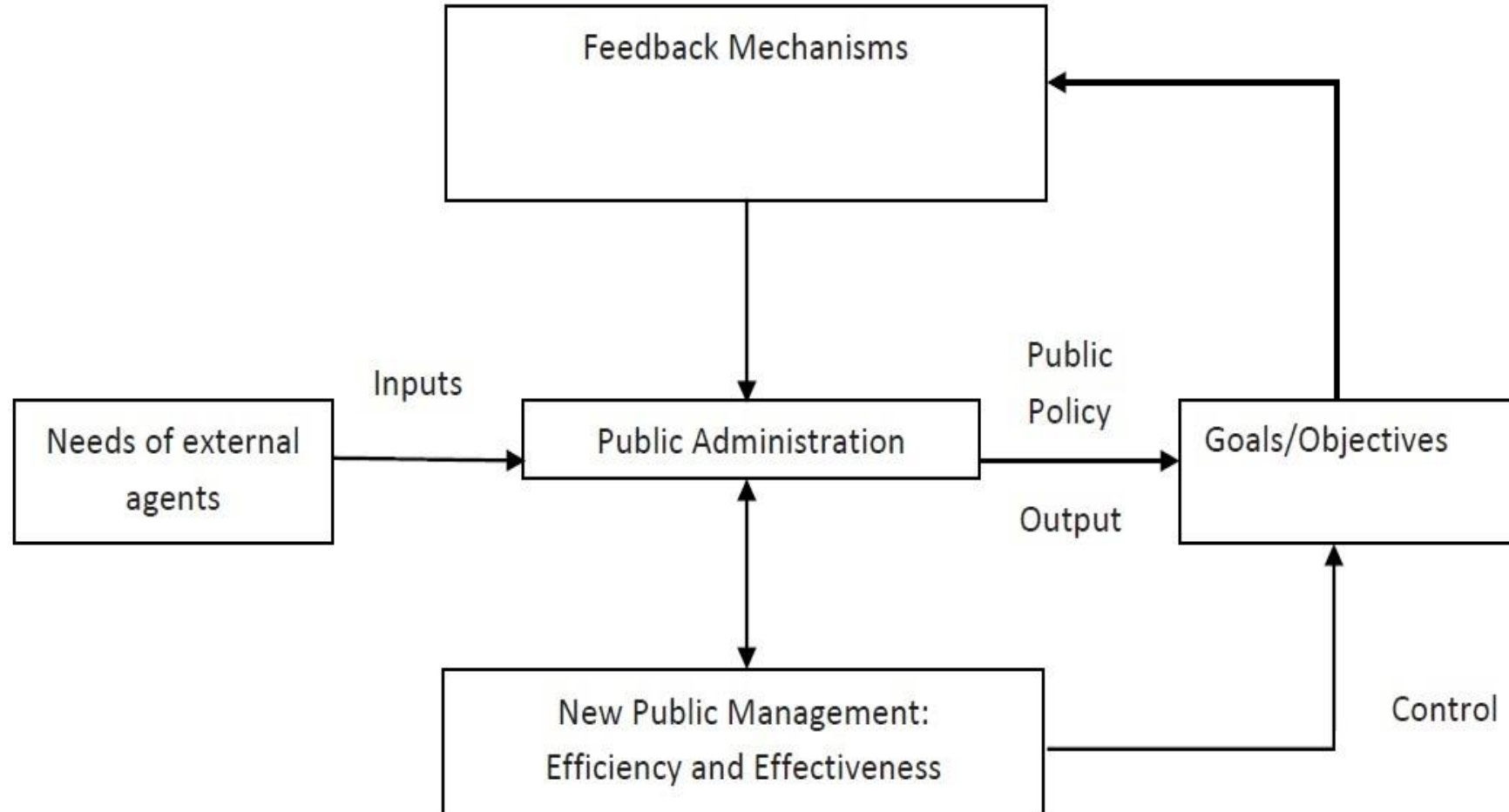
Management needs to take into account non-linearities (bifurcation and especially “emergence”) as well as path dependency.

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 with decentralized experimentation, rather than control from the centre and conformity



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

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 direct public sector organisation of a range of activities it produces – privatisation of firms operating in competitive industries especially.
- BUT, the spending on welfare and 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.
- War in Ukraine > greater defence spending in the “West”, possibly nuclear proliferation elsewhere.