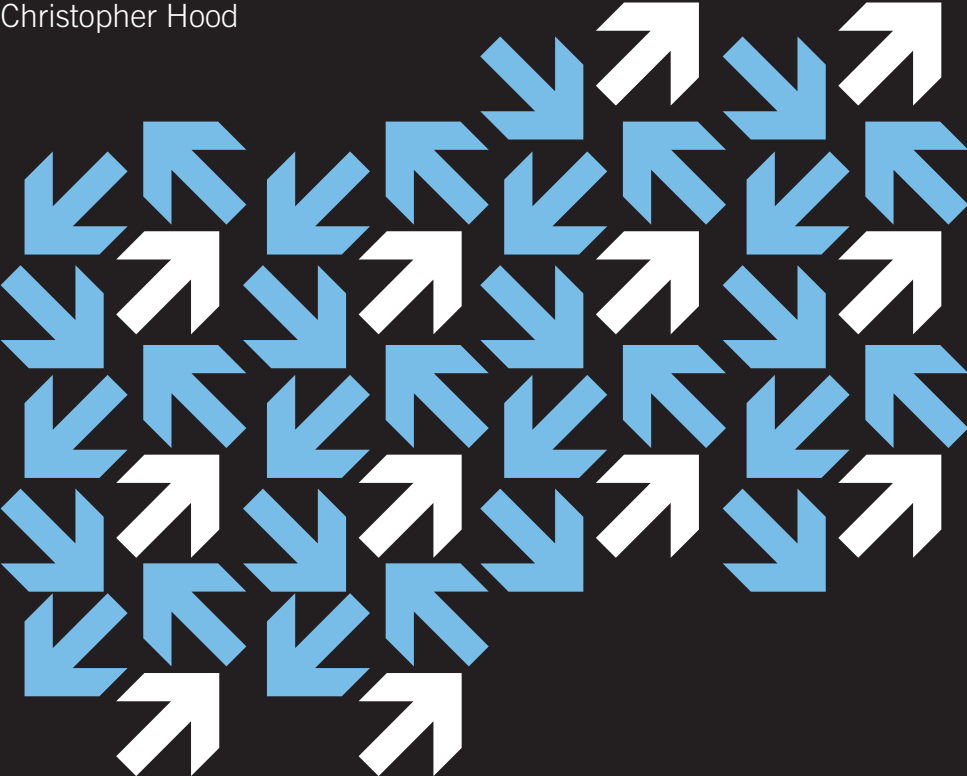


Reflections on Public Service Reform in a Cold Fiscal Climate

Christopher Hood



2020 Public Services Trust
at the RSA



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Telephone: 01793 413000
www.esrcsocietytoday.ac.uk

About the Author

Christopher Hood (www.christopherhood.net) is Gladstone Professor of Government and Fellow of All Souls College Oxford. He was previously Professor of Public Administration and Public Policy at the LSE (1989-2000), and before that worked at the Universities of Sydney and Glasgow. More recently he was Director of ESRC's Public Services research programme (2005-10) (www.publicservices.ac.uk). His publications include *The Limits of Administration* (1976), *Bureaometrics* (with Andrew Dunsire, 1981), *The Art of the State* (1998), the *Government of Risk* (with Henry Rothstein and Robert Baldwin, 2001), the *Politics of Public Service Bargains* (with Martin Lodge, 2006) and *The Blame Game* (forthcoming 2010).

Introduction to this series

The Commission on 2020 Public Services is a major inquiry into how public services should respond to the significant societal challenges of the next decade. The Commission is developing a practical but compelling vision of the priorities for public action to address the emergent challenges facing society in 2020. The Commission has three aims:

- 1** To broaden the terms of the debate about the future of public services in the UK.
- 2** To articulate a positive and long-term vision for public services.
- 3** To build a coalition for change.

This series of essays represents a working partnership between the 2020 Commission and the Economic and Social Research Council (ESRC). As part of our commitment to rigorous, evidence-based research, we jointly commissioned a series of experts to examine the key issues in public services. Two broad themes emerged: one considering future relationships between citizens, state and society; the other exploring the future delivery of public services.

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Reflections on Public Service Reform in a Cold Fiscal Climate

Abstract

If, as is now generally expected, the 2010s prove to be a time when there are strong fiscal pressures on the public services across the United Kingdom, and in many other countries as well, the political pressure will be for reforms that cut the cost of government and the public services while minimising any loss of quality and quantity. There are historical precedents for significant public-sector reforms in conditions of fiscal stringency, and this paper briefly sketches out and assesses three main reform strategies for public services in such conditions. They are termed ‘resetting recent reforms’ (taking reform themes of the recent past, such as targets and rankings, and reorienting them for an age of fiscal consolidation), ‘system redesign’ (involving more radical changes in the ways services are provided or basic incentive structures for public services, for instance over funding mechanisms for devolved governments and local government) and ‘East of Suez moments’ (involving choices about areas of public services to be abandoned to focus resources on existing or new ones). Those three types are not mutually exclusive, none of them is a monopoly of one political party or ideology as against another, all of them have accompanying disadvantages, but the first and third may be more quickly deployable than the second.

1. Background: Austerity and Public Service Reform – A Problem for Every Solution?

The 2010s are expected to be a time of strong fiscal pressures on the public services across the UK,¹ whatever parties are in government in its various parliaments and

1 And in many other countries as well: see Pollitt 2010.

assemblies.² The political pressure will therefore be for reforms that cut the cost of government and the public services without significantly reducing the quality and quantity of service provided - at least for those public services that are most salient for marginal voters in marginal constituencies in determining their choice of party at elections.³

Finding reforms that fit those electoral requirements will be demanding for at least three reasons. First, much of what has been called public service reform in the UK in the recent past was essentially about doing 'more with more', and indeed about providing voters with reassurance that sharply increased spending on public services was producing better outcomes for citizens rather than just higher salaries for public service workers or more money for contracting firms. Examples of such 'more for more' developments include the ever-more elaborate inspection and audit regimes that have been developed for services such as education, health and social care, and the ubiquitous and much-debated target and KPI systems for performance monitoring and improvement that have spread across the public services over the past decade and a half. Can this well-known array of reform measures be plausibly re-vamped for an era of austerity calling for 'more with less', 'the same with less' - or even, in some cases at least, 'less with less'?

Second, another familiar public-sector reform recipe over the past few decades, under both Labour and Conservative governments, has been outsourcing, privatisation, private financing and more business-style management of public services. There is little systematic evidence about the overall effects of such reforms on cost saving, and certainly no consensus among policy experts or in the academic world that such reforms have significantly cut costs overall. Indeed, in some cases, such as the switch from subsidised public enterprise to subsidised private provision for train operations since 1995 or the payment-by-results 'QOF' framework that was introduced in 2004 for general practitioners, such reforms have plainly served to increase rather than decrease costs. Could it be different this time, if the pressure is really on for cost-saving?

Third, many of the widely-canvassed schemes for lowering the cost of government without decreasing the quality of public services tend to be of the

2 See for instance Hood, Emmerson and Dixon 2009; Institute for Fiscal Studies 2009; Wilks 2010: 3ff.

3 The electoral salience of public services varies substantially over time (see Halpern and McLean 2009: 285), but in the recent past the most electorally salient public services in the UK have been health and education, along with police and immigration services. The electoral salience of public services greatly declined relative to voters' macroeconomic management concerns between the mid-1990s and the late 2000s and that decline was already underway before the late-2000s financial crash and recession (Ibid). But public services are still likely to remain electorally important and indeed their relative salience to voters may increase again if and when economic recovery occurs.

‘spend to save’ variety. Examples include: ambitious ICT mega-projects for radically re-engineering dealings between governments and citizens, beloved of public-service reformers of all political stripes; mass dismissals from the public service or radical ‘deprivileging’ of public servants to achieve big savings on wage, bonus or pension bills;⁴ major organisational restructuring exercises to cut waste and sharpen policy focus; volunteer or citizen-service schemes for providing some sorts of services. Whatever their other merits or otherwise, such schemes tend to involve large upfront expenditures, for example in agreed departure payments for shedding staff, IT system development costs, costly organisational restructurings or other set-up costs, in return for the promise of savings (and possibly quality improvements as well) down the line. Spending to save is often an attractive prospect if the resources can be found. But the substantial upfront funding needed for spend-to-save schemes is by definition less likely to be available in austerity conditions than in the fat years. So what if, as with many developing countries today or as in its own experience with spending cutbacks in the past (when capital spending has almost always been hit along with other categories of spending in times of fiscal stringency⁵), the UK turns out to have limited scope for ‘spending to save’ in public service reform in the 2010s, and instead has to put more emphasis on saving without spending?

Such reflections are sobering. But before we conclude there is ‘a problem for every solution’ over public sector reform in a cold fiscal climate, it should be remembered that significant public service reform has been achieved at times and places in the past under similar austerity conditions. Perhaps the most dramatic example from the UK is the case of the late 1940s, when against the background of sharply falling public spending and a halving of civil service staffing in the face of post-World War II demobilisation and massive public debt, health services and the public utilities were reshaped into a form that has survived into the present day in the first case and which lasted for more than thirty years up to the privatisation era in the second. New Zealand in the late 1980s offers another example of major central state restructuring in the face of substantial spending cutbacks, a stagnant economy and a severe currency crisis, with reforms that involved a dramatic reshaping of the traditional civil service ‘bargain’ and of the responsibilities of ministers and public

4 For an empirical assessment of the Thatcher government’s attempt to ‘deprivilege’ the UK civil service in the 1980s, see Hood 1995, especially 113. The analysis shows how staff numbers and pay costs were cut, how pay comparability with private sector employees was reduced for lower-level staff, and suggests on the basis of 13 tests that ‘deprivileging’ applied mainly to the lower ranks rather than to the upper-level mandarins.

5 See for instance Dunsire and Hood 1989; Hood, Emmerson and Dixon 2009.

servants, along with other major policy changes, including deep cuts in industrial and agricultural subsidies and a switch of emphasis from income to consumption taxes.⁶ Finland's budgetary reforms of the 1990s are a further example.⁷ Cases such as those indicate that 'an open hand at the Exchequer' is not always prerequisite for public service reform. So could the 2010s be another era of public service reform in a cold spending climate?

2. Three Possible Scenarios: Resetting Recent Reforms, System Redesign and 'East of Suez' Moments

Against that background, this paper briefly sketches out and assesses three broad reform strategies for public services in an age of austerity. Those three types are here loosely dubbed 'resetting recent reforms', 'system redesign' and 'East of Suez moments'. No claim is made here that those three types are either mutually exclusive or jointly exhaustive, and indeed they are likely to overlap substantially at the margins.

By 'resetting public service reforms', the first and perhaps most obvious possibility considered here, is meant taking the reform measures that have become familiar during the fat years of the recent past, such as high-pressure performance targets, high-stakes audit and inspection regimes and business-type management of public services, and to re-engineer those well-known measures for a significantly colder fiscal climate. The second possibility, here labelled 'system redesign', is to move beyond those familiar recipes to a more basic re-shaping of public services that radically alters provision structures or creates more incentives for providers to save rather than to spend, or to balance service quality and effectiveness against tax or borrowing costs. And a third, here termed 'East of Suez moments' (a reference to the historic decision by Harold Wilson's Labour government in 1968 to abandon most of the chain of overseas military bases Britain had formerly maintained from the Mediterranean to the South China Sea⁸), is to withdraw state provision from some existing domains of public services altogether so that the diminished resources can be concentrated more effectively on a narrower range of concerns. None of those options can be expected to be easy or painless, but a sober assessment of the reform prospects for the coming decade suggests that each of them may merit some attention.

6 See Scott 1996; Schick 1996; Boston 1997.

7 See Pollitt 2010: 18.

8 See Pickering 1998.

Resetting Recent Reform Measures for a Colder Climate

Perhaps the most obvious place to start thinking about public service reforms for an era of austerity is to explore whether and how far the reform measures adopted in the recent ‘fat years’ can be adapted for the colder fiscal climate in prospect. And on the face of it there does seem to be some scope for such re-setting.

One possible candidate for such resetting is the much-discussed performance target system that has been operating across UK central government as part of the public spending regime since the late 1990s (and in fact operated on a partial basis long before that, including the target systems applied to the production of munitions and military materiel in both World Wars of the twentieth century, and caseload targets that have long been applied in tax or welfare organisations). In principle the target approach could be re-focused to put a greater weighting on input, cost reduction or productivity measures relative to measures of service output, coverage or customer satisfaction. Indeed target systems are commonly used in this way, from the so-called ‘Manpower reduction targets’ applied to every UK government department from 1979 to 1994 to more recent ‘efficiency savings’ targets. Another case in point is the much-discussed annual deficit reduction targets adopted by Canada’s Liberal government under Jean Chrétien and his successor Paul Martin from 1993 to 2006.⁹

Similarly, the performance measures used for comparative rating systems in services such as schools, health trusts and local authorities could be re-focused to put more stress on productivity measures as against administrative measures of output or various forms of customer ratings. It is remarkable that research has revealed no correlation at all between how hospitals in England in the early 2000s scored on the then prevailing ‘star ratings’ measures of service quality and how they rated on measures of hospital productivity.¹⁰ It might be even argued that league tables or rankings are better suited for an era of straitened resources than targets that focus on absolute performance levels. After all, this is an age of price-comparison websites, and even and perhaps especially in conditions of resource scarcity or decline, organisations or provider units can still compete against one another over productivity or value for money.

Could other recent reform themes also be reoriented for a cold climate? The high-stakes audit and inspection schemes whose development and extension, as

9 See Joyce 2009; Aucoin and Savoie 1998.

10 See the research on this subject by Mary O’Mahoney and Philip Stephen, summarised at <http://www.publicservices.ac.uk/research/metrics-targets-and-performance/>

noted earlier, has been such a marked feature of public service reform in the UK and particularly England over the recent past could in principle be more closely focused onto cost containment as well as service quality. The controversial bonus schemes that have been progressively introduced for senior civil servants and public managers generally over the past two decades could in principle be linked more closely in the future to demonstrable cost-cutting relative to output in the units or organisations those individuals head as against the more intangible aspects of their perceived performance that those bonus schemes have reflected up to now. Procurement and outsourcing regimes could be modified to exert more downward leverage on prices, for instance by relaxing protectionist rules about who is entitled to tender or by pooling resources among different organisations or authorities to exert monopsonistic buying power, as has recently been seen in the case of English police forces. Financing regimes (such as the PFI financing rules) could in principle be overhauled to encourage tougher price competition between public and private sector organisations for the provision of facilities and projects.

Some revamping of recent reforms along these lines would no doubt be possible, and would have the advantage of building on recent effort and experience. And some of the change could probably be achieved simply by the signalling processes that come from setting new directions at the top of government and making new appointments to key positions, without elaborate and costly restructuring of the organisational machinery (after all, in the Callaghan Labour government's cuts of 1976, once the new direction of travel was established, departments tended to spend even less than was planned in the new climate of austerity, contrary to the stereotype of budget-maximising bureaucrats). But all of the types of re-setting mentioned above have some attendant drawbacks and limits as well.

For example, while they are often highly effective in focusing public managers' attention onto overriding political priorities, target systems have well-known limitations, whether they are applied for resource reduction in lean times or for service improvement in an era of expansion. The most commonly observed limitations of such systems are ratchet effects, threshold effects and distortion of outputs or inputs.¹¹ Indeed, when applied to cost-saving, efficiency targets are very likely to trigger ratchet and threshold effects that keep cost reductions below what is otherwise achievable. It was precisely those effects that led W. Edwards Deming

11 See Hood 2006 for an account of these effects.

(2000), the famous manager-engineer often seen as a crucial contributor to the post-World War II Japanese miracle, to develop his contrasting model of total quality management through continuous improvement.

An example of significant output distortions created by targets intended to reduce costs is the so-called 'Manpower reduction' targets applied to government departments by the Thatcher and Major Conservative governments from 1979 onwards. These targets were scrapped in 1994 because they were seen to be encouraging departments to shed staff in ways that did not cut operating costs and in some cases increased them (for example by encouraging key staff to go off the payroll for target purposes by expensive severance or early retirement deals, and then hiring the same people back at higher cost as consultants who did not count for the targets).

In fact, to use targets as an effective instrument of input reduction, it is all the more necessary to have robust indicators of output to ensure that managers are incentivised to improve productivity and to find better forms of delivery rather than going for the 'low-hanging fruit' by simply slashing services to users indiscriminately and opportunistically. But those indicators may come at a political cost, in the sense that output indicators that point to falling output or declining levels of service in hard times are likely to be much less popular with elected politicians than indicators that point upwards in the good times, and so there is a political temptation to make statistical series that could bring bad news an early casualty of spending cuts.

League table systems or tournament forms of competition are less likely to produce ratchet or threshold effects than ranking systems, but they can still produce output distortions if only some of the relevant output is measured in the ranking system. And indeed, reorienting audit and inspection regimes to apply downward pressures on spending as well as upward pressures on performance would not be problem-free either. The remits of many of the organisations operating such regimes are laid down in legislation, which might need to be changed to achieve a different emphasis, and that is a slow, heavy-lifting route to reform. Perhaps more to the point, the organisational culture and skill bases of many of the organisations would be hard to change overnight away from a predominantly professional-improvement orientation, even with key changes in top appointments. Indeed, arguments for slimming down those oversight organisations and their activities to release resources for hard-pressed front-line services may be hard to resist in austerity conditions.

Realigning top civil servants' bonus systems to reward cost-cutting achievements might also provide powerful direct incentives for such individuals to promote a leaner style of government. But as the continuing debate over the design of reward systems in the financial sector indicates, it is very difficult to align individual incentives with long-term collective benefit. It would be far from easy to design bonus systems that prevented public managers from securing the sort of short-term savings that led to higher costs in the medium or longer term (for instance, by heavy cuts on maintenance activity, hiring freezes or scrapping of capacity that has to be expensively re-established later, as in the defence cuts of the 1920s). Moreover, the sort of knowledge needed to effect savings intelligently may be more likely to lie at the front line of public services (where the rubber hits the road) rather than in the top directorates. It may be that the sort of incentives to achieve that would be less like the much-criticised top-level bankers' bonuses and more like those proposed by Sir Edwin Chadwick (1854: 219), reflecting on his experience in the Poor Law Commission in the early nineteenth century, by which the lower-level employees of a public organisation would be able to benefit financially from staffing reductions in their units by being allowed to appropriate some of the wage costs saved in their own pay packets. And those kinds of measures take us into the second category of reforms mentioned earlier, involving system redesign that goes beyond refocusing reform measures that have become familiar in the recent past.

Basic System Redesign: 'Economical Reform' Revisited

While there is something to be said for a strategy of simply turning round and resetting the reform measures that have been employed in the recent past for an age of austerity (because it builds on experience and capacity, and deals with the familiar rather than the unknown), any such strategy has its limits. If so, a more basic reshaping of public service provision systems may need to be considered. Such system redesign can take place at the level of citizen-government interactions (for example by more or less obligatory co-production as in compulsory recycling schemes or obligations for military or social service by citizens) or at the level of redesigning the incentive structures of government institutions to create more incentives for cost containment.

(a) Redesigning Provision Structures

One historical example of the first type of system redesign is the combination of mail delivery passenger transport in eighteenth-century England, which Jeremy

Bentham hailed as a combination that both speeded up the post and served travellers better, because the travellers acted as inspectors of the postal system and complained about every delay.¹² Another is the substantial de facto reduction of personal medical service available to the civilian population in Britain during World War II, when many family doctors were conscripted into the armed forces.¹³ Other examples are the redistribution of responsibility between individuals and state service providers that came with the introduction of income tax self-assessment obligations in the UK in 1996 (some two centuries after the first income tax) and the more recent case of obligations to sort garbage into different categories, linked in many cases to a reduction in the incidence of general refuse collection. Possible future applications of this sort of reshaping of citizen-government interactions might include burden-shifting from tax-financed provision to other forms of provision, for instance by further efforts to ‘responsibilise’ citizens in areas such as crime and health (that, is to put more responsibility on individuals to protect themselves or their health, perhaps linked to new forms of technology, as in the powerful claims being made for a new era of personal, predictive and preventive medicine linked to new methods of testing and scanning)¹⁴; volunteer or citizen-service schemes for some kinds of provision, even perhaps the use of new tagging technologies to make more use of prisoners in some areas of public services.

(b) Redesigning Institutional Incentives

As far as the second type of system redesign is concerned, namely redesign of basic incentive structures to create more incentives for cost containment within government institutions, there are also some historical precedents, even although some of them pre-date modern forms of democracy.

One notable example is the so-called ‘Economical Reform movement’ in Britain in the late eighteenth century which was initiated by the Yorkshire Association formed in 1779 to lobby for a reduction of ‘places and pensions’ in the public service at a time of high taxation during the war of American Independence. The economical reform movement led to significant changes in the 1780s when reforms

12 ‘Such are the advantages of this little combination!’ Witnesses to the least fault; the motive of reward substituted for that of punishment; economy of informations and prosecutions, the occasions of punishment rendered rare; and the two services, by their union, made more convenient, more prompt and more economical!’ (Bentham 1931: 425-6).

13 Britain’s World War II Director of Army Medical Services recalled in his memoirs a press conference in the USA during WW2 when he was asked what was happening to the health of the UK population when so many doctors were absent in the armed services. ‘I said, “This answer is not for publication – their health is much better since they have had to do without doctors!”’ (Hood 1950: Vol 2: 36).

14 For an example of the concept of ‘responsibilisation’, see Garland 2001.

of the royal household and the civil service advocated by Edmund Burke, the famous Whig reformer, led to a reduction in patronage and patents to those with influence at Court, particularly for the supply of stationery to government departments, one of the key operating expenses of government at that time. Radical reform of procurement in that area led to the creation of HM Stationery Office in 1786, which was designed to ensure that procurement of parchment, pens, sealing wax and the other elements of what was then the leading edge of government information technology – the eighteenth-century equivalent of today's costly ICT systems, it should be noted – were bought only through public and open competition. That development marked a significant step in strengthening of central Treasury expenditure control over departmental spending by adding a powerful new lever to that department's tool-kit.

Nor is that the only example of successful reform pressures for cost containment in government and public services. Coming closer to the modern democratic era, the so-called 'Anti-Waste League' that was created in Britain by the press baron Lord Rothermere after World War I, attracted significant support from middle-class class voters who had been hit hard by the tripling of income tax during the war and a drastic fall in living standards for anyone living on fixed incomes from securities. The League's short-term electoral success (culminating in three by-election successes in the south of England in 1921) panicked the then Liberal-Conservative coalition government led by David Lloyd George to move abruptly away from the high-spending post-war reconstruction policy on which it had been elected in 1918 and to set up the Geddes Committee on National Expenditure (comprising a group of business people who had close connections with government, many having served as ministers or senior civil servants, and including the President of the Income Tax Payers Society). The Geddes committee effected public spending cuts of more than £100 billion in current money terms, most of it falling on defence, but some in other domains, such as post-14 education, the then equivalent of higher education today.¹⁵

More recent examples of 'tax revolts' are Mogens Glistrup's anti-tax, anti-bureaucracy Progress Party which came from nowhere to become the second largest party in the Folketing in the 1973 Danish general election; the famous and controversial Proposition 13, limiting state property taxes to one per cent of the cash value of any property, which was approved by California voters in 1978; the fuel tax protests by truckers in the UK and some other European countries in 2000 which

¹⁵ See Macdonald 1989; Hood Emerson and Dixon 2009; Peden 2000: 168.

caused the UK government to scrap its previous 'fuel tax escalator'; and the current 'tea party movement' in the United States.¹⁶

Twenty-first century equivalents of the 'Economical Reforms' of the 1780s that aimed to change the incentives that are built in with the bricks of the current public spending system would need to engage with some basic financial architecture. For example, it is often claimed that the current design of government in the UK – notably the traditional preference for general-fund taxation rather than tax hypothecation and the established arrangements for fiscal transfers among levels of government - provides little or no incentives to save or to promote fiscal responsibility for players outside the Treasury. For example, the devolution arrangements of 1999 and the much longer-lived 'Barnett formula' for allocation of public expenditure by territorial units within the UK (originally introduced in the 1970s in anticipation of the devolution measures planned by the Labour government of that time) on which they were based, gave devolved governments or assemblies little or no tax-raising powers and linked their spending to that of England through a formula arrangement. That meant that such governments had every incentive to seek to ratchet up English or UK expenditure and no real electoral incentive to restrain their own overall spending, though of course they could reorder priorities within their spending blocks. To change that would mean a major re-vamp of the institutional structure of the UK, following or perhaps extending the fairly modest proposals made by the Calman Commission in 2009¹⁷ for reducing the UK income tax level by 10p in Scotland and giving the Scottish government the power to determine the level of taxation it wished to impose on top to fund its own services.

The same point about skewed incentives broadly applies to the arrangements for local government around the UK. Those arrangements present similar incentives, with central government setting the business rates on a uniform basis, largely formula-driven funding and local taxes that are often noted to form a lower proportion of public spending than in most other advanced democracies.¹⁸ Local authorities that had to raise more of their funds from locally levied taxes would have much stronger incentives to balance their expenditures against the tax costs.

System redesign along such lines might potentially lead to a radical transformation of provision structures and political incentives over spending. But the potential problems with such approaches are not too far to seek. They typically involve heavy

¹⁶ See Smith 1998.

¹⁷ See Commission on Scottish Devolution 2009.

¹⁸ See Blöchliger and Petzold 2009: 31, Fig 7.

upfront costs in transaction and negotiation, potentially involving long periods of haggling with organised interests over small print or institutional details when the need is for immediate spending cuts. Given disparities in income and wealth across the countries and municipalities of the UK, there would have to be fiscal equalisation mechanisms to replace existing formula funding systems. Changing local taxation systems has proved to be a political landmine in the past; after all, it ended Margaret Thatcher's career. And if greater tax powers were linked to abilities to issue bonds or borrow, the Treasury's ability to control UK public spending might be curtailed; and such developments might even further the sort of secessionist politics that the devolution arrangements of a decade ago were intended to restrain. System redesign is often a slow fix and is certainly not for the faint-hearted. To adapt the philosopher Otto Neurath's (1932) famous metaphor about the use of language, such measures require a complicated rebuild of the ship of state in the midst of a hurricane rather than in a convenient and sheltered dry dock.

Doing Less with Less: 'East of Suez' Choices

To the extent that there are limits to reforms that involve either turning round existing measures to focus more squarely on cost saving or on more radical system redesign, a point must eventually be reached where reform must start to focus on the scope of existing commitments rather than on finding lower-cost forms of providing existing services or benefits. After all, Adam Smith concluded the final book of his 1776 *Wealth of Nations* (in which he considered how to align revenues with expenditures) by observing that if new sources of revenue could not be found, for example by taxing Ireland or the colonies: ['Great Britain'] 'should endeavour to accommodate her future views and designs to the real mediocrity of her circumstances.'¹⁹

In similar vein, in the 1930s, following on the famous report of the [US] President's Committee on Administrative Management (1937) that recommended major reorganisation of the federal executive branch in the United States to achieve greater efficiency, Lewis Meriam and Laurence Schmeckebier (1939, Chapter 2) argued from their analysis of federal expenditure that substantial savings could only come from cutting services and to a lesser extent from staff reductions, but could not come from organisational restructuring or greater process efficiency because less than 20 per cent of federal expenditure went on the running of government agencies at that time, and most of that was spent on salaries.

¹⁹Smith [1776] 1812: 760.

And in the 1980s, on the basis of observations of OECD countries' attempts at cutbacks in the 1970s, Tørben Beck Jørgensen (1982, 1985, 1987) argued that policy makers entering circumstances of continuing fiscal restraint after a long period of growth were likely to begin with incremental cutbacks (choosing quick wins with low search costs, such as pruning budgets at the edges, hiring freezes, deferring capital or maintenance spending). As the money saved from such tactics declines over time, and other costs arise from the distortions those forms of cuts inevitably produce, policy makers will tend to move to 'managerial' style cutbacks. That means turning their attention to more basic re-engineering of public organisations and their relationship with their clients to increase productivity, often involving shifting burdens at the margin between providers and recipients of services (as in the 'Ryanair' or 'Easy Council' no-frills model with top-ups being pursued in some local authorities today). But even these approaches have their limits, and at some point, according to Beck Jørgensen, cutbacks have to be conducted in a strategic way, focusing on priorities rather than on efficiency and on choosing which activities, programmes and agencies to retain rather than re-engineering provision systems. Beck Jørgensen argued that the search costs (expressed for example in demands for high-cost analytic research) tended to be higher in what he called the managerial style than in the incremental style, and highest of all in what he called the strategic style.²⁰

But service or sector abandonment by the state is far from unknown. Perhaps the biggest twentieth-century example is the withdrawal of the state from most of its imperial responsibilities in the decades after World War II, in the British and other empires (for example Portugal and Angola or Belgium and the Congo), echoing other eras of imperial retreat. Cases of state abandonment of technologically-obsolete services such as telegraphs (which Max Weber a hundred years ago declared to be the backbone of the modern Western state)²¹ are not far to seek either, and indeed in voice telephony over the past quarter-century many European states have moved from a complete public-sector monopoly of such services through regulated private provision to the total abandonment of price control and licensing for all areas of voice telephony.

Other domestic examples of service abandonment made for cost-cutting reasons independent of technological obsolescence include the widespread

²⁰ Pollitt (2010: 21-5) makes a similar point in discussing the pros and cons of three cutback-management strategies that he describes as 'cheese slicing', 'efficiency gains' and 'centralised priority setting', and which closely resemble Beck Jørgensen's three categories.

²¹ See Gerth and Mills 1948: 213.

withdrawal of municipal public conveniences in recent decades, the abandonment of coastal defences and the dredging of river mouths in numerous places and New Zealand's abandonment of its formerly extensive public works programme in the 1980s, with the closure of its former Public Works department and withdrawal of most public funding for such activity. Within Britain over 4,000 miles of the state-owned railway network (nearly a quarter of its 18,000 miles in 1963) was closed down between 1963 and 1973 after the then government accepted the famous (or infamous) Beeching report of 1963, *The Reshaping of British Railways*, which had recommended that a third of those 18,000 miles of mostly rural branch and cross-country lines should close, with other lines to be kept open for freight only, and many stations to close even on the lines that remained open for passenger traffic.²² And the example from which the title of this section is taken is the late 1960s decision, already mentioned, to abandon most of Britain's previous 'East of Suez' military commitments.

Even abandonment of welfare or subsidy programmes is far from unknown, although 'salami-slicing' tactics are more commonly applied to such programmes for political reasons, as in the case of Swedish welfare state cutbacks in the 1990s.²³ For example, a short-lived period of universal provision of federal old-age pensions for people over 70 in Australia in the mid-1970s was replaced by an income test shortly afterwards and subsequently by an asset test as well that was imposed by Bob Hawke's Australian Labour Party government in 1985.²⁴ Even more radically, perhaps, David Lange's Labour government in New Zealand abandoned most of New Zealand's agricultural subsidies virtually overnight in the late 1980s.

The costs and difficulties in the way of this approach are obvious enough, since selective quantum cuts will often be far more politically divisive than across-the-board reductions. Even cost-cutting exercises that have commonly been regarded as successful in the recent past, such as the Program Review initiative to reduce the deficit conducted by the Liberal government in Canada in the 1990s, with strong political support, often stop short of radical reallocations.²⁵ And quantum cuts, such as the UK Liberal-Conservative government's cuts to post-14 education under the

22 These cuts were opposed by the Labour party in opposition at the time, but were not reversed under the subsequent 1964-70 Labour government: see Gourvish 1974.

23 See Lindbom 2007.

24 In fact the asset test, pushed hard by the Australian federal Treasury at that time in the expectation that it would substantially reduce the tax costs of pension provision, realised only a fraction of the savings originally envisaged as a result of the concessions that were made to interest groups during the policy process (see Marsh 1985).

25 See Joyce 2009; Aucoin and Savoie 1998.

'Geddes axe' in 1922, can have heavy long-term electoral costs. Nevertheless, as the examples given above indicate, this category of reforms is far from an empty box.

Conclusion

Three points can briefly be made in conclusion to this short review. The first is that the three types of cost-cutting reforms discussed here are not mutually exclusive or necessarily jointly exhaustive. It may well be that public services reform for the coming austerity decade will need to comprise some mixture of all three. And it may be too that the second type, of basic system redesign, can come in more varieties than the two discussed here.

The second point is that the phasing of these types as described by Tørben Beck Jørgensen, as noted earlier – going from incremental cutbacks through 'managerial' reforms (or broader system redesign as explained earlier) to quantum or strategic cutbacks - has an elegant analytic logic, but that logic may conflict with political logic in some cases. The lead-time for 'East of Suez moments' is not necessarily longer than 'system redesign' strategies and electoral cycle considerations may also favour early use of the former. It therefore seems likely that reforms of the first type, and possibly of the third type as well, may need to precede the second type. Given that system redesign may have a vital part to play in any longer-term process of adapting public services to a cold fiscal climate, the policy challenge is therefore to prevent the more quickly deployable first and third options from undermining the pursuit of the second in the medium term. That is a tall order, but the historical examples noted earlier demonstrate that it has been done before.

The third point is that none of the three types discussed here is a panacea or 'silver bullet' for solving the problem indicated at the outset of this essay – that is, for achieving reforms that cut the cost of government and the public services without significantly reducing the quality and quantity of service provided (with the electoral qualifications as before). The difficulty of combining those two objectives is clear enough,²⁶ and all of the three strategies discussed here have accompanying disadvantages. But nor is any of them a monopoly of one party or political position as against another. After all, as the examples given above indicated, even 'East of Suez' choices can be and have been made by governments of very different political persuasions.

26 See Pollitt (2010: 27) for the challenges it poses for political and managerial leadership.

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