Public Management Reform and Economic and Social Development

By
Michael Keating*

1. Introduction

Most OECD Member countries have sought to renew their systems and structures of public management in the last 10-15 years. Some started earlier than others and the emphasis will vary among Member countries according to their historic traditions and institutions. There is no single best model of public management, but what stands out most clearly is the extent to which countries have pursued and are pursuing broadly common approaches to public management reform. This is most probably because countries have been responding to essentially similar pressures to reform.

Indeed, public management reform did not develop out of a vacuum. The drive for public management reform was fundamentally a response to the increasing dissatisfaction with government performance in maintaining economic and social development. OECD Member countries were reforming their public services because of concerns about economic performance, the changing needs or demands of citizens and institutions, and a decline in confidence in government.

* Michael Keating is Visiting Fellow, Australian National University, and former Secretary, Department of Prime Minister and Cabinet.

Thus, the most important drivers of the public management reforms over the last 10-15 years have been a set of concerns that:

- the level of taxation, the budget deficit and/or public debt was too high, and could become even worse if no action were taken;
- government programmes too often failed to achieve their objectives and/or were not cost effective so that they did not represent value for money;
- the administrative machinery was not sufficiently responsive to the needs of clients including ministers themselves; and
- government itself was part of the problem, having become too big and too intrusive.

In addition to these concerns, most recently a conviction has been growing that the greatest challenge facing OECD Member countries is to achieve what the OECD Secretary-General has termed a better balance between economic and social development. In particular, there is a risk that the necessary public support for an open economy and the associated structural adjustment will not be maintained unless economic policy is complemented by effective social policy. At the same time, the necessary programmes of fiscal consolidation are increasing the strains on social policy, especially where there is a perception that social policy is effectively being asked to cover or repair the failures of economic policy. But much of the traditional approach to social policy is also seen as part of the problem rather than as the solution, with increasing concern that too much of the assistance provided so diminishes the incentives to "self-help" that the recipients develop a culture of dependency and are effectively encouraged to drop out of society. Indeed, the traditional concern of social policy for income distribution is increasingly becoming superseded by a concern for the "social exclusion" of some groups who, due to a combination of factors, are effectively marginalised from society.

The purpose of this paper is to analyse and develop as far as possible the linkages between public management reforms and economic and social development. How have the changes to public management been influenced by and in turn contributed to economic and social development? A better understanding of these issues is central to the role of public management in the wider OECD policy agenda of fiscal consolidation, economic growth and social development, as well as democratic governance.

There are a number of difficulties in seeking to draw out the linkages between economic and social development and public management reform. First, although there have been significant attempts at evaluation of the reforms in Australia, Finland, New Zealand and the United Kingdom, only a limited amount of evaluation has been undertaken in most OECD Member countries to date. This is mainly because the reforms are being introduced progressively. Much of the work is pioneering and involves a considerable amount of "learning by doing". This means that the reforms are still sufficiently new that in many cases it would be premature to pronounce on their eventual impact. Furthermore, those responsible for the reforms have been preoccupied with their introduction and have had inadequate time to review the past. The sheer scale of a full formal evaluation of such a comprehensive package would also be very daunting and inherently difficult as it would need to break new ground and develop new techniques for evaluation. In at least some countries, there may also have been some doubts as to whether such an effort would be justified, especially as it would be most unlikely that the sponsoring governments would wish to reverse the principal directions of the reforms. Rather, the fact that more and more countries are pursuing reforms along broadly similar lines suggests that there is at least anecdotal evidence of their success.

Second, the scope and nature of the material available to assist in any assessment of the impact of public management reform varies considerably among OECD Member countries. This mainly reflects the different pace and extent of reform in different countries, but it also reflects different emphases on transparency and accountability, often as a vehicle for imposing discipline on executive government and/or individual programme managers. This in turn inevitably means that references to particular countries are biased towards those which have been most active in reforming public management and in publishing material which bears on the outcomes achieved.

Third, it is inevitably difficult to determine what can be attributed to public management reforms in any precise sense, and especially in the sense of causality. While it is possible to describe changes in management processes and the intentions lying behind them, what is really of interest is what difference did the changes make to the eventual outcomes of economic and social policy and the cost effectiveness of those outcomes. It is impossible to say with any certainty, however, to what extent actual changes in policies and outcomes should be attributed to changes in public management processes.

In addition, this paper looks ahead at emerging concerns and possible responses. For these various reasons, the paper is to some extent speculative, and many of the linkages considered may be plausible or persuasive without necessarily being proven.

What is reasonably certain is that the purpose of public management reforms has been to support better policies, programmes and outcomes. The first part of the paper, which describes the reforms, therefore concentrates on drawing out how the pressures for economic and social development have strongly influenced the character of public management reform. It is the nature of the responses to these demands by the public for improved economic and social development which provides perhaps the most compelling links with public management reform.

The second and third parts of the paper consider more directly the contribution of public management reforms to economic and social development respectively. What has been achieved in terms of improved outcomes? Have the reforms delivered in terms of their expectations? How might public management further evolve in response to the emerging challenges? In this latter respect, the third part of the paper on social development is inevitably forced to confront the question of what is expected of social policy and the role of the state in this regard. The analysis is not, however, intended to represent an evaluation of social or economic policies.

What emerges is that public management reform is necessarily evolving from an initially relatively narrow focus on programme administration to embrace broader questions of policy-making. This is because it is increasingly being realised that the success of government programmes is critically dependent on the policies which established and authorised those programmes. Similarly, the reforms of public administration are not only aimed at administrators in the public sector, but they are increasingly intended to improve the incentives and change the responses of individuals and agencies in the private sector. Public management reform therefore has necessarily had to broaden its scope and encompass the policy-making machinery and its interaction with the rest of the community.

This has naturally led to an extension of the reform agenda to embrace wider issues of governance, including the decision-making mechanisms and information systems which have shaped government programmes. It is now even extending to the role of the state and the relations between the government (and levels of government), legislatures, interest groups and the public at large. This paper argues that these types of issues cannot be avoided if a better balance is to be achieved between economic and social policies by more closely integrated policies that better complement each other. It is these broader issues of governance, going beyond the management of public programmes, that are fundamental to the key question of how modern democracy can be adapted to help countries resolve the problems they are facing. The final part of the paper accordingly opens up a discussion of these broader linkages between public management reform and democratic governance and their relevance for economic and social development.

In sum, the scope of this paper is necessarily broad, but there is a particular interest in:

- how the requirements of policy have influenced the direction of public management reform;
- the extent to which the introduction of new procedures and information systems has improved the quality and transparency of government decision-making, and hopefully as a consequence engendered more public support for those decisions;
- the scope for reducing the burden on government by creating better incentives for self-help and efficiency and effectiveness within government programmes; and
- the linkages with democratic governance.

2. The Boundaries of Public Management Reform

Perhaps the nature of the links between public management reform and economic and social policy is best reflected in the extent to which they share common intellectual foundations and the extent to which they are facing problems which are inter-related and require an integrated response. Thus, in most OECD Member countries public management reform has involved a major cultural shift in response to a new paradigm of public management which attempts to combine modern management practices with the logic of economics, while still retaining the core public service values. This new management paradigm emphasises results in terms of "value for money", to be achieved through management by objectives, the use of markets and market-type mechanisms, competition and choice, and devolution to staff through a better matching of authority, responsibility and accountability.

In place of the old paradigm which was largely process and rules driven with an emphasis on hierarchical decision making and control, the new public management environment is characterised by:

- a focus on results in terms of efficiency, effectiveness, quality of service and whether the intended beneficiaries actually gain;
- a decentralised management environment which better matches authority and responsibility so that decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;

- a greater client focus and provision for client choice through the creation of competitive environments within and between public sector organisations and non-government competitors;
- the flexibility to explore more cost effective alternatives to direct public provision or regulation, including the use of market-type instruments, such as user charging, vouchers and the sale of property rights; and
- accountability for results and for establishing due process rather than compliance with a particular set of rules, and a related change from risk avoidance to risk management.

These all-important changes in the management environment mirror the emphasis on the supply-side which has received so much attention in strategies for economic development over the last 20 years, and the shift to a more active social policy which is more targeted to the needs of the individual and aims to encourage better outcomes through self-help. It means that public management reform is necessarily very broad, encompassing not only changes to improve the efficiency and effectiveness of the government sector, but also reforms to improve performance incentives in the private sector and in the community at large. Furthermore, many of the changes in the management environment for public administrators have depended upon making changes to programmes to incorporate, for example, new approaches to funding and/or financial controls so that clients have more influence or there are better incentives for producers. These key features of the reforms to improve public management, as broadly defined, are further examined by considering the changes in a number of specific areas below.

2.1. *Improved Policy Capacity*

In terms of achieving a better integration of economic and social policies, perhaps the most important public management reforms are those directed towards an improvement in the policy-making capacity of governments. It is at the centre of government that the main responsibility for policy co-ordination lies, so that improved arrangements for the integration of economic and social policies will very likely affect the role of central agencies, Cabinet arrangements and even the machinery of government. However, reforms affecting policy-making capacity are not limited to the internal arrangements for the management of government business. Indeed, it is in this area that reforms can impinge most readily on the broader issues of governance and relations within and between governments and with the public at large. As such, reforms in this area can be especially sensitive, and ministers have often played a prominent role in their development.

To the extent that they are publicly available, there is particular interest in the views of ministers regarding public management reforms, and especially their assessment of the impact on policy development of the reforms. For the most part, ministers have been supportive of the reforms in general, including most interestingly where the changes were initiated by their predecessors .

It is in the approaches to the development of policy capacity that differences among OECD Member countries are probably most pronounced. Nevertheless, given the learning process that all countries are currently going through, it is possible to discern some lessons from the experiences of other countries. At worst, it should be possible to obtain a better understanding of what might or might not work elsewhere and, in fact, there do seem to be some common themes emerging regarding the development of an improved policy capacity.

Two considerations which stand out in particular are: (1) a number of reforms which are intended to reduce the load on ministers and the centre of government in order to allow them to concentrate on the development and the co-ordination of policy; and (2) improvements in the quality and comprehensiveness of the infor-

Box 1. **The Views of Ministers**

In **Finland**, as part of a review of public management reforms, the views of a previous ministerial committee guiding and monitoring the reforms were obtained. The ministers considered that the thrusts of the reform policy had been correct and that the main results had been streamlining the administration, increasing efficiency and enhancing the service orientation.

In **New Zealand**, while accepting the basic thrust of the reforms and believing that public sector performance had improved, some ministers considered that the reforms had adversely affected elements of the collective interest, such as policy co-ordination, support for collective decision-making and policy advice, including adequacy of information flows for policy decisions. As a result further reforms have since been introduced to strengthen strategic management and overall policy co-ordination.

In **Australia**, the former government made it clear that it was particularly pleased with the changes it made to rationalise the number of departments in order to improve the co-ordination of policy and the Cabinet's strategic focus, and more generally with the changes it initiated to improve the budget process. The subsequent government has essentially retained these changes, and in addition, the Prime Minister has commented favourably on how the public service has become more responsive while still maintaining its professionalism.

mation coming forward and on which policy decisions are based. The objective of improving policy capacity in these two ways has in turn involved a range of reforms affecting:

- the machinery of government;
- the role of central agencies and Cabinet procedures;
- the nature of the information sought; and
- consultation with other interested parties, including the role of the legislature.

2.1.1. *Machinery of Government*

A number of OECD Member countries have introduced changes to their machinery of government in recent years, at least partly with the intent of improving their policy capacity. Australia and Canada, for example, have reduced the number of separate ministries (departments) by consolidating previously separate but closely related ministries. This has greatly improved policy co-ordination in the affected areas and reduced the load on the Cabinet with fewer internal disputes now being brought to the Cabinet for resolution.

Other machinery of government changes which are similarly intended to allow the Cabinet to concentrate on the more strategic issues involve the separation of policy development from service delivery. The Nordic countries have traditionally followed this approach to a significant extent, but in recent years countries such as the United Kingdom and New Zealand have established separate agencies to deliver well-defined services, where ministers are meant to be at arm's length from day-to-day management so that they can effectively focus on policy. A number of other OECD Member countries have also partially followed this course, but there is a concern about the future quality of policy advice if this separation weakens the feedback between operations and policy advising. In addition, such separation may reduce the flexibility of ministers to adjust policy in response to changing circumstances or new ideas.

Devolution of delivery functions to another (lower) level of government is another alternative means of reducing the burden on the national government in the interests of allowing the national government to focus on setting the strategic policy directions. OECD Member countries with a federal system of government have traditionally pursued this approach, not always with success. In recent years, however, the United States and Canada have reassigned significant responsibilities to their states and provinces, and Australia has adopted a new approach to working co-operatively with the states to achieve a rationalisation of their respective roles and responsibilities. Similarly, in unitary countries such as Japan, France and Italy, as well as Spain and Greece, there has been a move to increase the authority of regional government, both to reduce the burden on the national government but also to bring the decision-making on what are essentially local issues closer to the people immediately affected.

2.1.2. *The Role of Central Agencies and Cabinet Procedures*

The principal aims of reforms affecting central agencies and the Cabinet have been to reduce central control of operational detail in order to refocus the attention of the centre on their proper functions, which are the co-ordination and the determination of policy and priorities where a whole-of-government approach is called for precisely because of the significance of the policy interactions involved. Experience suggests that where this is done well, the power of the centre is reinforced, as many of the old control mechanisms did not work but merely divided responsibility so that no-one was responsible. It is, of course, particularly necessary to establish the authority of ministers and the Cabinet in times of rapid change. Necessary decisions about structural reforms and the development of economic and social policies can only be successful if they are driven by ministers.

A clearer focus on the strategic dimensions of policy in this way enhances the authority and influence of ministers. When ministers clearly set out their objectives and values, the bureaucracy is then in a better position to respond with expert advice directed towards what it is exactly that ministers are trying to achieve. In this way, the bureaucracy becomes more responsive to the government of the day instead of being left in the position of trying to second-guess ministers and consequently intruding their own values and policy goals. In response to these concerns, New Zealand has introduced a formal system of strategic management that attempts to encourage a dialogue between ministers and their departments by linking the key results expected from departmental management to the government's longer-term strategic goals.

Governments have also experimented with their Cabinet arrangements in order to better address the most difficult issues. For example, the difficult decisions required to achieve major reductions in budget deficits can be facilitated if the budget process is driven by a small committee of like-minded ministers which include, or are backed by, the Prime Minister, before being brought to the full Cabinet for endorsement. Such a committee may not only be responsible for achieving the required budget targets, but can at the same time serve as a vehicle for the development of much good policy.

The particular role of central agencies then becomes the co-ordination of the advice coming forward to ensure that all relevant facts and views are drawn to ministers' attention in a readily comprehensible manner. The essential responsibility of central agencies is to ensure that Cabinet decisions are properly informed. A key adage is that there should be no surprises, either at the time of Cabinet consideration or later. Beyond this, the responsibility of central agencies for co-ordinating policy includes looking ahead and drawing attention to possible future problems and policy inconsistencies. In this capacity, central agencies have acted as a catalyst for policy development, but consistent with the general thrust of the reforms, it is increasingly recognised that this should not extend to taking responsibility away from the responsible minister and his or her department.

2.1.3. *Better Information for Policy Development*

The quality of the information being used to support policy development is closely related to budgetary and financial reforms discussed further below. Essentially, the shift to a focus on results has required programme objectives to be more clearly established and then measures or indicators of performance to be developed against which the efficiency and effectiveness of progress towards those objectives can be assessed. In Canada, for example, an extensive system of "Programme Review" has examined all programmes and performance measurement and review are now integrated more fully into expenditure management, policy development and programme delivery. Similarly in Australia, Finland, New Zealand and Sweden, the reporting requirements for budget systems now must include references to outputs and outcomes, and while there are still many gaps, the quality of the information is gradually being improved.

None of this, however, is easy, and there is the risk that what gets measured determines what gets done. While the performance information can inform the decision-making process, policy judgement continues to be very important in assessing and using the performance information available. Where the quality of the annual information coming forward is insufficient to support a full-scale policy review, countries can establish a regular programme of evaluations that are more comprehensive and allow a more in-depth consideration of the issues. Where necessary, these can also be supplemented by major reviews external to the government. In Australia, for example, all agencies are required to prepare rolling evaluation plans covering the next three to five years, and a high proportion of the decisions to vary policy in each budget have followed consideration of those plans.

These improvements to the quality of performance information coming forward by whatever means are not only intended to meet the immediate needs of policy-makers: they should also underpin the new emphasis on accountability for the results obtained. This new accountability emphasis is an important feature of the public management reforms, representing an essential *quid pro quo* for the devolution of authority to managers under the reforms. In the longer-term, the public availability of this improved performance information should, however, also support better policy, both by drawing on a wider circle of informed advice and by keeping the public service up to the mark.

2.1.4. *Improved Consultation*

Consultation in the development of policy, particularly with those most directly affected, is not new. Indeed, as noted in *Consultation and Communications* (OECD, 1997a), several OECD Member countries have established constitutional or legal rights for public consultation, including Finland, Portugal, Sweden, Switzerland and the United States.

In response to the decline in public confidence in government with citizens less willing to "trust" governments, there has been a shift towards a more open and participatory decision-making process in a number of OECD Member countries. This goes beyond the "corporatist approach" which engaged key economic groups in some OECD Member countries to embrace a more diverse range of interests and needs.

There are, of course, obvious dangers that the policy process might be captured by special interests or otherwise frustrated and that government could become subject to the whim of public opinion polls and avoid the necessary but difficult decisions which need to be taken in the public interest. On the other hand, consultation can help in avoiding mistakes, particularly in highly technical areas. It can also assist in educating the public regarding the true nature of the options and choices involved, and at best help build a coalition of support for government policies where difficult decisions are required.

Possibly reflecting the balance of these considerations, the recent Ministerial Symposium on the Future of Public Services stressed that government authorities must retain some control over consultation procedures, including methods and timetables, who is consulted and what questions are asked. At most, it would seem that public participation should complement rather than replace traditional policy processes, and at present it would seem that the role of consultation is frequently limited to informing the policy debate rather than controlling the policy debate with the government in the end weighing up the various views and taking the final decision.

2.2. Improved Budgetary Outcomes

The government's annual budget is, of course, the principal vehicle for the expression of government priorities. At best, the budget management system adopted can assist government decision-making so that it achieves an allocation of resources consistent with its priorities. Alternatively, the system can, at worst, be so dysfunctional that resources are allocated in an *ad hoc* way and do not reflect any real consideration of government priorities. In addition, the financial management system, from which the budget is first created and then maintained, has a major influence on management structures, processes and culture.

2.2.1. Budget Decisions

Not surprisingly, therefore, the public management reforms of the last 10-15 years in many OECD Member countries have concentrated heavily on financial management and budget systems. The quality of decision- making is improved by tightening budget discipline with the intention that all proposals to spend and to save should, as far as possible, be considered at the same time so that they can compete on their merits. In almost all OECD Member countries the discipline required to achieve the desired balance between public and private spending has at some time or other been provided by setting and enforcing high-level budget targets, such as the size of the budget balance, or the share of public outlays or taxation to GDP, or by establishing a target level of savings to be achieved in the budget. At present, European countries wishing to join the single currency have committed themselves to achieving a number of fiscal targets which is imposing a significant discipline on them. For such a system to work, however, all decisions to spend or to tax should, as far as possible, be brought together in one decision-making exercise, and be integrated into a common fiscal framework, such as the annual budget, which minimises the number of off-budget entities and allows a full reconciliation of all individual decisions with the high-level target(s).

Another device which can help encourage some restraint is to press ministers not to propose new initiatives unless they can fund them from savings elsewhere in their portfolio. In Canada, for example, the new Expenditure Management System requires departments to fund any new initiative or priority through reallocation of their existing funds, thus creating an additional incentive for efficiency. In the Nordic countries, Australia and the United Kingdom, this type of approach to portfolio budgeting has been extended to allow the relevant minister to decide how best to achieve a pre-determined savings target for his or her portfolio or the detailed allocation of funds among programmes where the government is introducing major new policy initiatives. This devolution of decision-making authority to individual ministers has the advantage that it reduces the load on the Cabinet by allowing ministers to determine priorities within their portfolio. It can also increase the sense of ownership by ministers of what are sometimes quite difficult decisions and thus help to maintain Cabinet solidarity.

As noted earlier, the quality of information used in the preparation of the budget in a number of OECD Member countries is being improved through the provision of performance indicators and programme evaluations. Attention is also being paid to establishing the full cost of services by introducing internal charging systems incorporating the cost of many common services which were previously provided at no charge to programme managers. Some countries, notably Australia, New Zealand and Iceland, have extended this principle by shifting to accrual accounting and away from the cash accounting approach traditionally favoured by governments. The aim is that decisions will be properly informed about the true costs of programmes, and resource allocation and management consequently improved.

Greater transparency of information similarly assists decision-making and also reinforces necessary budget discipline. For example, a multi-year budget framework means that ministers and the public are fully informed about the total costs of new proposals rather than just the first year costs, which are often misleadingly low. In addition, a number of OECD Member countries, including Australia, the Netherlands, Sweden and the United States, have used a reliable and firm series of forward estimates showing the minimum costs of continuing existing policies and programmes to enforce fiscal discipline. Accountability for fiscal rectitude can be greatly enhanced by making forward estimates for government outlays, and possibly even for revenues, publicly available. In Australia, for example, tables are provided in each budget that show how the current set of forward estimates vary from the previous set and how much was due to government decisions and how much was due to factors beyond the government's direct control.

2.2.2. *Improved Resource Allocation and Management*

A firmer set of forward estimates for every programme and for each agency's running costs is an essential underpinning for devolution from central agencies to programme managers. As a number of OECD Member countries have found, including Australia, Canada, Denmark, New Zealand and the United Kingdom, control can then be maintained through insistence on tight adherence to the bottom line along with a framework of performance targets, incentives and performance measurement, rather than by central agencies getting involved in the detail and being required to approve many minor variations to programmes, staffing and running costs. Within agencies, individual cost centres can then be established so that line managers become responsible for living within their budgets instead of transferring that financial responsibility to the budget bureau every time they experience a shortage of funds. A multi-year budget framework also allows programme expenditures to be better planned. Managers can carry-over funds, thus reducing the waste associated with the end of the financial year "spend-up" as managers seek to avoid being penalised in next year's budget for underspending this year. In a few countries, managers can also borrow ahead, which allows them to respond more flexibly to unforeseen circumstances. Agencies are then held accountable for the achievement of results from the funds at their disposal instead of only being accountable for the stewardship of those funds.

These changes to financial management have produced a substantial change in the culture of the public service in those OECD Member countries where these reforms have been carried through. Multi-year budget frameworks provide a more stable planning base and the incentive to pursue efficiency savings is enhanced when managers have some confidence that they will be allowed to keep some of the proceeds. A number of OECD Member countries, including Australia, Denmark and Sweden, have introduced resource agreements and/or a form of efficiency dividend which provide for a fair distribution of productivity gains between the treasury and the respective agency, and also keep managers up to the mark in their pursuit of greater efficiency.

The counterpart of devolution is greater accountability. Managers must be able to show that they have deployed their resources so as to achieve "value for money". The development of performance measures and indicators, and a regular cycle of evaluations to determine cost-effectiveness, should be part of management responsibility. In New Zealand, legislated appropriations reflect each agency's agreed level of output; in the United Kingdom, annual performance agreements specify performance targets against which the agency will be assessed.

In order to meet the demands of economic and social development, however, it is not always sufficient to evaluate the efficiency and effectiveness of individual programmes. Instead, evaluations need to be expanded to encompass groups of related programmes and even allow for a re-examination of programme objectives. This can lead to the questioning of what needs and whose needs the state should be responsible for and how these needs might best be met. As a consequence, fiscal consolidation has, for example, been assisted by tighter targeting of expenditures in order to better protect the position of the most needy with the limited funds available.

The other substantial set of reforms to improve the allocation of resources in the budget sector and to assist devolution and reduce the amount of control by central agencies have been various initiatives to develop internal and external markets. The introduction of competition by contracting out can apply to both the services which governments purchase on behalf of others and on their own behalf, but it is in the latter area that central control has usually been most interventionist, perhaps because of the sensitivity of public servants making decisions about service levels apparently on behalf of themselves. However, the introduction of user charging for services such as accommodation, car fleets and printing, which used to be internal to government, means that instead of a central agency assigning accommodation, for example, to each agency and effectively determining each agency's needs and standards, agencies can make their own decisions about what they need in terms of what represents the most effective way to spend their budget and they then become accountable for those decisions. In a number of OECD Member countries, common services are now being charged for in this way and the experience has typically been that demand has dropped when users are confronted with price signals, which suggests that the previous central controls were less than fully effective in achieving their avowed objective of preventing waste. In recognition of the increased application of user charging in OECD Member countries, the OECD has established *Best Practice Guidelines for User Charging for Government Services* (OECD, 1998).

The introduction of user charging has inevitably led to an investigation of the possibilities for competitive tendering and contracting more services out. In a sense, contracting out is not especially new, having become standard practice for the construction of roads and buildings in most OECD Member countries over the last 50 years or more. What is new about recent initiatives for contracting out is the types of areas where it is now being introduced. However, once internal markets are developed for common services it is a fairly natural extension to investigate the possibilities for sourcing these and other services from outside the public sector.

The pursuit of market-type mechanisms in this way has not only been to increase efficiency and reduce costs, important as these are undoubtedly are. It has also represented a deliberate attempt to promote choice and competition. Because so much of the public sector has typically not been exposed to competition, and has shown a tendency to inefficiency, there is a concern that public providers are insufficiently responsive to client needs. Indeed, too often public employees or their spokesmen have equated what is good for their clients with what is good for themselves

This has led some governments, that continue to acknowledge that they still have a responsibility to fund particular services for particular groups of people, to pay more attention to the distinction between *funding* a service and *providing* a service. Again, governments have long purchased some services from private suppliers on behalf of particular groups of citizens. Examples include the refunding of medical expenses and the subsidising of private rental expenditure. However, the recent interest in extending this purchaser/provider split is part of a much more conscious and deliberate effort to promote competition, choice and more responsive public services. It is driven by the degree of dissatisfaction with the traditional approach to providing social services in particular and their perceived failure to either create the right incentives to control costs or to respond effectively to client needs.

Where there is a concern that the client is not always sufficiently informed to be the best judge of his or her needs, such as for medical and associated services or education and training programmes, public funds may be provided to an expert fund-holder who then acts as a purchasing agent on behalf of a group of clients. Alternatively, where there is no reason to question consumer sovereignty, such as the choice of childcare, it is possible to provide the designated client with a voucher entitling them to a prescribed quantity and quality of the service, or simply to reimburse the client up to a certain amount for their expenditure on the relevant service.

Such initiatives are still at the experimental stage and are not without their problems as regards the regulatory framework to ensure quality of service, rights of access and cost control. Nevertheless, in testing the desirability and feasibility of contracting out, it is likely that governments will increasingly be making their decisions around the answers to such practical questions rather than adopting a purely ideological stance for or against in advance,

2.3. *Corporatisation and Privatisation of Public Enterprises*

Outside the United States, public enterprises have typically accounted for a very large part of the public sector, and as recently as 1980 they encompassed half, and often much more than half, of total public employment. These enterprises were established where it was believed that the market constituted a natural monopoly, such as the production of electricity, gas, water supply, and many transportation and communications services, and/or where it was believed that the service fulfilled a social purpose, such as banking and some other financial services. Thus, the public enterprises were seen as a vehicle for government intervention to correct market failure or to improve on market outcomes. Ministers accordingly intervened closely in the management of these businesses, but often without being clear about what exactly they were trying to achieve.

Reform in this area, therefore, focused initially on clearly establishing what exactly were the objectives for these enterprises and what exactly should be expected from them. The intention being that ministerial intervention should then be limited to the approval of corporate plans consistent with these objectives, with a particular focus on any non-commercial objectives which effectively required a subsidy from the government's budget, or failing that from other more profitable parts of the enterprise. Where this process of corporatisation has been fully carried through, it has given these enterprises a much more commercial focus, and the change in culture has made them much more active in pursuing the very large potential efficiency gains which had accumulated under the previous management regime. However, in some OECD Member countries (particularly in continental Europe), recent moves to corporatise raise doubts whether there is still a blurring of the boundaries between the social and commercial activities of these enterprises, in which case performance could continue to suffer.

A second key strand of the reforms affecting public enterprises has been the introduction of much greater competition. This partly reflects changes in technology and thinking which has led to the conclusion that the extent of natural monopoly is much more limited than previously believed. It is this combination of corporatisation and competition which has revolutionised the performance of these enterprises wherever the reforms have been introduced. The competition has forced them to become market-oriented, to become responsive to their consumers and to pursue efficiency. Corporatisation has given them the means to do so.

Furthermore, once corporatisation and competition have been introduced, it is frequently then difficult to justify retaining these reformed public enterprises in the public sector, so that many have now been privatised. At the very least, privatisation then has the additional advantage of locking in the benefits of corporatisation. The tensions in this process are where elements of natural monopoly still exist or where it is considered that the enterprises should meet substantial social obligations which would commercially disadvantage them. In principle, the latter obligations can be financed by a direct appropriation from the budget, and in some (but not necessarily all) eyes this has the advantage of true transparency so that the community can take a considered decision about how much it wants to spend on this particular social purpose. In practice, however, there can be some quite difficult administrative issues and high transaction costs associated with funding non-commercial services from the budget in competitive markets and where these services cannot be readily distinguished from those services which can be supplied profitably.

Consequently, while there seems to be little or no reason for not pursuing the corporatisation of public enterprises, there are some limits to privatisation and some form of regulation will continue to be appropriate where elements of natural monopoly continue to exist, and/or where there are significant social purposes which a free market is unlikely to meet.

2.4. *Regulatory Reform*

Much of the drive for regulatory reform has come from a concern that continuation of economic development is dependent on establishing more flexible and competitive markets. A second concern has been with the cost to business of complying with the volume of regulation.

Regulation is, however, a major instrument of public policy. It is inevitable, therefore, that any substantial programme of regulatory reform will encompass the processes, institutions and even the culture of the government itself.

Not surprisingly, therefore, the environment and culture associated with the new public management has been conducive to regulatory reform. The particular contribution of the new public management to regulatory reform has been to establish an orderly process of regulation review which takes as its starting point exactly what it is that a body of regulations is trying to achieve and then setting out as clearly as possible the costs and benefits of these regulations. In effect, and as noted in *The OECD Report on Regulatory Reform* (OECD, 1997*k*), the processes underpinning regulatory reform "should be designed so that regulations are based on principles of good decision-making."

Consistent with this philosophical approach, the OECD has established the following 10 principles for producing efficient and transparent regulations:

1. Is the problem correctly defined?

2. Is government action justified?
3. Is regulation the best form of government action?
4. Is there a legal basis for regulation?
5. What is the appropriate level (or levels) of government for this action?
6. Do the benefits of regulation justify the costs?
7. Is the distribution of effects across society transparent?
8. Is the regulation clear, consistent, comprehensible, and accessible to users?
9. Have all interested parties had the opportunity to present their views?
10. How will compliance be achieved?

Fundamental to this approach to regulatory reform is a change in culture which reflects the new public management philosophy. This does not necessarily mean deregulation. Frequently, this is unlikely to be successful because it is incomplete as a general policy of government. Indeed, too often deregulation has focused on the regulatory instruments, and not on the broader systems that were responsible for those instruments. It has also been too reactive, rather than focusing on the problems which regulation should be trying to resolve. Instead, the objective then becomes how to improve the quality of regulation and not just how to limit the amount of regulation.

Typically, the traditional focus of regulation has been on control of some process, whereas the starting point in designing regulations under the new public management is that the focus should be on the outcome to be achieved. This then leads on to the question of whether there is a better alternative to the old-style command-and-control regulation. In particular, the rigidity of this type of regulation means that it cannot handle diversity or adapt over time to new technologies and conditions. Other lower cost and frequently more effective policy instruments include: information disclosure, economic incentives and disincentives (for example, involving the use of tax instruments), tradable property rights (particularly useful for the environment or where it is necessary to limit access to resources such as fishing in Australia, Canada and Iceland), performance-based approaches, risk-based liability (where insurance premiums reflect performance), and persuasion.

Until recently, there was no regular examination of regulation and its costs similar to the way as expenditure programmes are reviewed in the annual budget.

Furthermore, such costs were frequently less than transparent and consequently, not well understood. Indeed, sometimes this was the attraction of regulation as it was easier to shift the costs in this way to the private sector than have them exposed and paid for through the budget.

A large number of OECD Member countries have now put in place plans for regulation review. There is, however, a need to give the review process teeth. One possibility is to have a sunset clause which requires regulations to be resubmitted for review from time to time. It can also help if the review process is independent of those responsible for the particular body of regulation in order to minimise the chances of regulatory capture. If the responsible agency is located at the centre of government, this may not only increase its power, but should also improve the co-ordination of regulation so that multiple objectives are integrated and related policies are treated coherently. As the above-mentioned OECD study noted, "This co-ordination system is the focal point for bringing economic and social objectives within the decision process."

2.5. *Service Quality Initiatives*

As noted at the beginning of this paper, there has been a decline in confidence in government, largely reflecting increasing scepticism about the efficacy of many government programmes. Often, the critics include the intended beneficiaries of these programmes. As citizens have become better educated and informed, and individuals have become more conscious of their rights, people are less inclined to accept without question what the programme administrator is seen as dictating on their behalf. They want value for their money and expect standards of service which match the best available in the private sector. In addition, the public is now demanding that it be consulted as policy is developed, and this has extended to the implementation of policy. Indeed, the implementation of policy and the actual delivery of services on the ground lend themselves far more readily to widespread public involvement, and it is at this level that local knowledge is often of most advantage.

Essentially, what the public is demanding are services which are more responsive to their particular needs and which are more accountable directly to them for performance. To a significant extent, the Nordic countries have always been more sensitive to these concerns, but in other OECD Member countries these considerations are now influencing a number of reforms affecting the quality and delivery of services. Indeed, the OECD has suggested that making government more client-oriented is a central element of making it more performance-oriented.

First, as part of the commitment to better performance and accountability, governments are starting to set out the standards of service which they are prepared to commit to. In the case of the United Kingdom, for example, these standards have been incorporated into a "Citizen's Charter". Belgium, France and Portugal have similarly issued high-profile documents describing the standards expected, while other countries have started down the same path, but for a more limited range of agencies. The development of performance standards along these lines has typically required countries to consult with users on their needs, and aspects of the service which are particularly important to them, to improve the information on available services, to improve the physical availability of services, and to provide for complaint and redress mechanisms if service levels or quality fall short of commitments.

Second, there has been a very substantial development of administrative law. People are now much more willing and able to contest government administrative decisions through a plethora of appeal bodies which have been established for this purpose and ultimately through the courts. Whereas once the authority of the state was largely accepted as a given and without question, now decisions can be questioned precisely because they were made by, or on behalf of, the state. Associated with this process of administrative review is a much more transparent and open process of decision-making. Citizens now enjoy considerable rights of access to information regarding themselves, and in some countries (including Australia, Germany, France) they can demand statements of reasons for decisions affecting them or their businesses.

While there have undoubtedly been some costs associated with these developments, there have also been some gains in responsiveness and accountability. At its best, these developments in administrative law have forced agencies to re-examine their administrative systems to reduce the potential for citizen dissatisfaction, often with an overall gain in efficiency.

Third, the focus on the needs of each individual client is leading to a "whole-of-client" approach to service delivery involving much better co-ordination of the range of services which best meets the particular client's needs. The aim is to avoid the mix of services being influenced by the boundaries between the different sponsoring agencies, so that from the client's point of view the group of services are delivered seamlessly and ease of access to the variety of services needed is improved. Some of the innovations to achieve this include:

- one-stop shops, or first-stop shops, where related services of different agencies are delivered, or at least accessed, jointly or where the client's eligibility is initially assessed on behalf of the various related agencies;

- the use of interactive technology so that clients can track the information about all services across agencies which could be relevant to their needs; and
- case management or budget-holding where the case manager acts as a co-ordinator of the different services on behalf of the client.

Fourth, the delivery of services is being opened up to competition to promote efficiency, quality and choice, and not necessarily in that order. As noted earlier, contracting out is not exactly new in the public sector, but it used to be largely confined to instances where the government itself was the client or to fairly standardised services for which the delivery allowed a minimum of discretion. In other words, contracting out was limited to instances where it was considered to be fairly straightforward to specify the terms of the contract and to monitor the contractor's performance against those terms. These considerations are, of course, still fundamental and should be a key determinant of the eventual extent of contracting out.

What has changed, however, is a recognition that citizens are not all the same and that a responsive public service will allow for differences in services in response to differences in individual needs. The advantage of introducing competition and choice into the provision of services is that they become much more accountable to the client and there is pressure to improve quality when the client can choose among different service providers and deal with another provider when dissatisfied.

Currently, this is probably the area of public management reform where policy thinking is least developed and where governments will most need to learn and adapt in the light of experience. For some services it is difficult to specify and monitor all the conditions which should govern the service delivery in an arm's-length contract. Some flexibility and discretion for the service provider may be appropriate; for example, when the programme is serving multiple objectives which the government itself is unable to or does not wish to prioritise, or when it is difficult to anticipate client needs and the amount and mix of services which will best meet those needs. Indeed, it has been argued that the traditional legal contract with tight performance specifications would change the nature of the service and the relationship with the client. More generally, tightly specified contracts risk losing the benefits of devolution by restraining the creativity of autonomous management with niggling conditions.

Apart from the inherent difficulties of writing and monitoring contracts for some services, there are a number of other problems which need to be addressed. These include, first, the issue of cost control, where a contracted agent might be less disposed to ration services, so that much depends on whether it is possible to devise other effective incentives for the contractor to restrain costs. Second, some difficult accountability and equity issues can arise where the government loses direct control over the delivery of a service, for example in terms of access to that service. It may be possible to be sufficiently prescriptive in the contract specifications for this not to be a problem, but where the contractor necessarily must maintain some discretion, because, for example, the client's future needs cannot be anticipated precisely, then responsibility for such subjective issues as equity can become blurred. In such circumstances, monitoring the performance of the contract can also be very difficult. Third, where there is a need to maintain flexibility and discretion it is not always clear where accountability lies. This can mean, for example, that when something goes wrong clients can experience some difficulty before they obtain redress. Fourth, a contractual relationship may reduce the government's capacity to vary policy, for example in response to unforeseen budgetary exigencies.

For these various reasons, there would seem to be limits on the scope for the state to contract out the provision of services for which it still accepts the final responsibility. Where the state's coercive powers are engaged or where privacy considerations predominate, some may even come to the conclusion that contracting out would on balance be inappropriate.

The key issues which need to be addressed if contracting out is to achieve greater efficiency while maintaining or improving service standards are outlined in the OECD *Best Practice Guidelines for Contracting Out Government Services* (OECD, 1997*b*). In particular, where the state's responsibility is principally to ensure equitable access to quality services at a reasonable cost, the scope for contracting out should rest heavily on:

- how far it is possible and desirable to specify all the relevant considerations in the contract;
- the state's capacity to monitor the contract and apportion accountability obligations between the contracting parties to the satisfaction of all concerned;
- create incentives so that it is in the contractor's interest to fulfil the spirit as well as the letter of the contract; and
- provide meaningful sanctions to enforce the contract provisions if necessary.

To the extent that these conditions can be met, contracting out can improve performance by:

- forcing agencies to specify the objectives of the programme and clarify the responsibilities of the service provider;
- improving the measurement of performance against these objectives;
- rewarding and sanctioning performance, including through competition for future business; and
- providing greater choice with services becoming more responsive to individual client needs.

While writing contracts with an external supplier can, therefore, represent a challenge and the transaction costs can become significant, it also needs to be remembered that many of the same issues should be addressed if the alternative of providing the service internally were adopted. In order to ensure the appropriate managerial devolution and accountability, it would still be desirable as far as possible to agree within the organisation on the definition of the tasks, outputs, outcomes, performance measures, and systems for monitoring and reporting. In effect, the difference between contracting out and "contracting in" is largely one of degree, reflecting the desirable balance between precision and flexibility in the specification of the tasks and responsibilities, and sometimes some particular accountability considerations.

3. Linkages with Macro-economic Performance

The public sector, as the instrument for carrying out government policies, impacts heavily on economic performance. It is not just a matter of the size of the public sector – although as a major purchaser and employer, the public sector can directly influence overall resource allocation. Even more importantly, the public sector affects business production decisions and costs through a myriad of controls, services, subsidies and taxes. It also affects the pattern of demand by redistributing income and purchasing power in favour of some groups and/or services. By setting the legal and administrative environment in which private activity takes place, the public sector can also influence national economic efficiency, the rate of innovation and the direction and speed of structural adjustment.

In examining more closely the impact of public management reforms on macroeconomic performance, it is convenient to distinguish three channels:

- monetary and fiscal policy;
- competition and structural adjustment, especially through reforms of public enterprises; and
- changes in regulation.

All three channels can affect allocative and dynamic efficiency and therefore the supply side of the economy and its potential growth. The first channel is also the principal vehicle for macro-demand management over the medium-term.

3.1. *Monetary and Fiscal Policy*

Macro-economic performance is normally judged by the rate of economic and employment growth and the rate of inflation. In fact, judged by these criteria, economic performance is not as bad in the OECD Member countries as is often popularly imagined. Inflation is down almost everywhere, and by 1994 per capita GDP was 55% higher in OECD Member countries than in 1970, which was a slower rate of increase than in the previous 25 years, but as fast as during most of the previous 100 or more years since the industrial revolution. What stands out is the different trade-off regarding the distribution of that economic growth between employment growth and the rate of increase in real wages. In the United States, employment has grown strongly and real wages hardly at all, while the opposite has occurred in many continental European countries.

Monetary policy is generally credited with having played a significant role in those OECD Member countries where inflation has been brought down. In particular, a requirement that monetary policy should target inflation and greater independence for the central bank in pursuing that target have helped establish the credibility of monetary policy and thus reduce inflation at a more acceptable short-run cost. While the public management reforms were not closely linked to these changes in monetary policy, they were conducive to establishing a better understanding of the respective responsibilities and accountability obligations of a central bank and a government.

The link between fiscal policy and public management reforms is for the most part through the impact of the reforms on public expenditure. This has led some people to interpret the success of the reforms in terms of the extent to which they have been able to limit the size of the public sector. By contrast, some other people associate the reforms with programmes of fiscal consolidation, which they perceive, along with deregulation and structural adjustment, as being largely responsible for increasing unemployment. Both views are essentially flawed. On the one hand, there are quite significant variations in the size of government among countries which do not seem to be linked to differences in their macro-economic performance, and the reforms are more concerned with effective government than with the size of government *per se*. On the other hand, in the many OECD Member countries where there has been a tendency for domestic demand to outstrip domestic supply, it is difficult to see why fiscal consolidation necessarily leads to unemployment; at most, there might be some adjustment problems as labour is shifted to the traded goods sector, but those problems relate more to the pace of adjustment, and in the longer run, fiscal consolidation in these countries should strengthen the fundamentals for continuing economic growth.

To the extent that the reforms have influenced economic performance through fiscal policy, the main channels of influence are the level and structure of taxation, which can affect incentives to work and to save, and public saving, which forms a large part of total national saving and probably an even larger part of discretionary saving. Thus, it is by restraining outlays and, therefore, taxation and/or the fiscal deficit that public management reform can potentially contribute to macroeconomic demand management and performance.

Judging by the share of general government outlays in GDP and the overall budget balance, it is not immediately obvious that public management reforms have achieved a great deal in restraining the size of government. Public debt has been continuing to increase in most OECD Member countries. Somewhat greater success has been achieved in some OECD Member countries in stabilising the ratio of general government outlays to GDP in the late 1980s; but in response to the recession in the early 1990s, the share of outlays rose again. In addition, budget deficits were brought down in the late 1980s, and several OECD Member countries (including Australia, Finland, Germany, Japan, Norway, Sweden, Switzerland and the United Kingdom) managed to balance their budgets or even achieve surpluses, but these were not sustained and they fell back into deficit during the 1990s recession. Most OECD Member countries since then have made progress in reducing their budget deficits, including the structural component.

These summary statistics do not, however, indicate what might have occurred in the absence of public management reforms. If the statistics are examined in somewhat greater detail it is possible to discern that the reforms may have made a modest contribution to restraining public outlays. In particular, the countries which led the way in financial and budgetary reforms, such as Australia, Canada, Denmark, the Netherlands, New Zealand, the United Kingdom and the United States, seem to have been rather more successful in restraining their expenditure growth and, in general, in reducing their budget deficits. In some of these countries, the share of outlays is actually lower than a decade ago, and in others it shows signs of stabilising. Furthermore, if public debt interest payments are excluded, then general government outlays on services and transfers had peaked as a proportion of GDP by the mid-1980s in most OECD Member countries. Of course, in another sense, that merely serves to illustrate the virtuous circle which can be expected from reducing the budget deficit, with the consequently lower interest payments creating more room for other expenditures, or tax cuts.

These summary statistics also beg the question of just what the reforms might have been expected to achieve. As suggested in *Governance in Transition* (OECD, 1995a), the reforms have:

- helped bring about a greater focus on medium-term budget targets;
- helped ensure that micro or programme decisions are consistent with these targets or made in the knowledge of their impact on achieving the targets;
- helped to achieve budgetary control at agency level, through cash-limiting arrangements; and
- given management additional tools with which to achieve these targets, particularly flexibility.

In attempting to take this analysis further, it might be expected that the reforms would affect most directly those services which the government produces itself. The direct government production of services within the budget sector is, however, much less than the total of government outlays. A crude comparison is given by comparing the share of general government employment, which for most OECD Member countries is between 15 and 18% of total employment, whereas government outlays are around 40% of GDP, and for many countries closer to 50%. Nevertheless, as one rough indication of the impact of reforms, it is of some interest that the government sector's employment share has stabilised on average since the early 1980s and in many OECD Member countries has fallen since then.

Employment is, of course, not a very good indicator of the change in output, despite its traditional use for this purpose, because of the difficulty of directly measuring output in the budget sector. It is even less satisfactory as a surrogate for output when more and more services are contracted out. For these reasons, there is no readily available overall measure of productivity which would be of most interest in assessing the impact of the public management reforms.

Instead, it is necessary to use partial indicators of productivity performance in the general government sector. For example, surveys of government managers show strongly that their ability to manage efficiently has improved. Similarly, studies of particular services typically show improvements in productivity that, to a significant extent, would not have been possible without changes to the public management framework. In New Zealand, for example, it was found that the information available to management for making operational decisions has improved and this was used to benchmark offices and bring down costs. Most recently, a 1996 New Zealand study of productivity change in four agencies since 1987-88 found mixed evidence: in one case clear productivity gains, likely productivity gains in two cases and no evidence of productivity gains in another.

The documented cost savings from some particular reforms such as from contracting out are also typically quite significant at around 20%. There is some debate whether levels or quality of service were always maintained while these savings were being achieved. What does seem clear is that effectively implemented contracting out can lead to productivity improvements. Experience also suggests that the requirement to market-test can act as the catalyst to other reforms which improve the productivity of ongoing in-house production by about the same order of magnitude.

The limited quantitative evidence available on productivity changes across the general government sector is more difficult to interpret. Estimates for the United States (based on annual surveys of selected federal services by the Bureau of Labor Statistics) suggest that productivity grew at an annual rate of 1.5% in the 20 years to 1989, but this was really prior to any impact from the reforms. The Swedish Ministry of Finance estimated that in the central government sector productivity increased by 0.7% annually between 1980 and 1990, and that financial restraints brought about a great deal of these productivity increases, with decentralisation and computerisation also assisting. In Australia, the Department of Finance estimated productivity change in the budget sector as a whole, on the assumption that there had been no change in output except in those areas where there were specific indicators of output such as workload, and found an average annual rate of increase of about 2.5% over the period 1987-88 to 1991-92.

What emerges is support for the proposition that public management reforms can and have improved productivity in the production of government services. It is highly probable that some of these productivity gains have been used to improve services and not all have been returned to government. Nevertheless, it would seem that expenditure on these services and other forms of direct government consumption have fallen relative to GDP since around the early 1980s, broadly in conjunction with the introduction of the reforms.

Increasing the efficiency of service provision is generally a preferred means of reducing outlays. It typically does not disadvantage the client at all, and should assist in releasing resources for further economic and social development. However, because of the relatively small size of public employment relative to total government outlays, especially in some countries, fiscal consolidation typically cannot be limited to improvements in efficiency. There is also a need to address the effectiveness of programmes. Indeed, the principal opportunities for savings result from a re-examination of the purpose and design of programmes.

In Canada, for example, the system of Programme Review asked ministers to apply six tests to their programmes and services: the extent to which they were in the public interest; the necessity for government involvement rather than the private sector; appropriateness of the federal role rather than other levels of government; scope for partnerships with the private sector; scope for increased efficiency; and affordability. The review covered about CAN$52 billion worth of spending, and has led to structural changes in what the federal government does and how it delivers programmes and services, with savings of nearly 20% of total departmental expenditure. In Australia, where exhaustive expenditure reviews have been going on for some years, the gross savings in budget outlays from the resulting changes to policy between 1985-86 and 1995-96 amounted to some AUS$27 billion, but with offsetting spending on new policy of AUS$20 billion. In effect over the 10-year period the changes resulting from expenditure reviews amounted to some AUS$47 billion in current prices, or about 45% of the average annual total of budget outlays during the period.

What the experience with expenditure reviews has demonstrated is that it has often been possible to do more with less by better targeting programmes to direct assistance to those most in need, or to improve benefit-cost ratios. In some OECD Member countries, however, a degree of fatigue may be emerging as the easy savings options have been taken up. In particular, governments have found it very difficult to restrain their expenditure for social purposes which continued to rise relative to GDP in all countries except Belgium, Ireland, Luxembourg and the Netherlands. The principal driver of increased social expenditure has been health and often related community services for the elderly and disabled. Public spending on education as a proportion of GDP has broadly stabilised for the OECD as a whole, with demographic changes facilitating a reduction in relative expenditure on education in some OECD Member countries, while the lowest-spending countries have tended to increases their expenditure on education relative to GDP. The aforementioned countries which have reduced social expenditures relative to GDP have generally managed to achieve their reductions by restraining cash benefits. Reduced outlays on unemployment benefits have also stabilised total expenditure on cash benefits relative to GDP in the United Kingdom and the United States. In addition, countries seem to have found it relatively easy to vary expenditure on programmes which are perceived to embody a high degree of discretion, such as labour market programmes and housing benefits.

By contrast, one of the underlying problems in achieving greater expenditure restraint seems to be the notion that pension payments are an entitlement which the recipients have contributed to through their taxes. This problem is most severe when the taxes are effectively hypothecated, and governments have found it easier to change eligibility conditions and to a lesser extent rates of pensions when they are financed out of general revenue. Second, the ageing of the population and technology have made it particularly difficult to restrain the cost of health care. Third, while education expenditure has generally been favoured by demographic trends over recent years, enrolment ratios for higher education and formal training have continued to climb, particularly in those countries which were lagging behind, and there has been some increase in expenditure per student.

In some instances, industry transfers are also seen as substitutes for social expenditures. This is probably most true of agricultural subsidies which have declined only slightly in most OECD Member countries over the last 10 years, although this partly reflects a shift away from less efficient price supports. Other business subsidies are still absorbing 2% of GDP on average in OECD Member countries, and their contribution to economic and social development must be at least questionable.

Seen against the background of these various pressures to spend, it could be argued that public management reforms could hardly be expected on their own to reduce government outlays. As noted in *Governance in Transition*, "Budget targets are not self-executing, nor is it always within the grasp of the government to meet them, no matter how strong its determination." Where the management reforms, and particularly multi-year budget frameworks, have probably helped most is in pointing up the nature of the choices which society faces, and forcing decisions on those choices when high-level budget targets are imposed. However, even where an evaluation unequivocally points to a programme performing poorly it is not always obvious whether more or less should be spent for this purpose. Obviously, the programme should at least be modified, but the programme's supporters could logically argue that the "needs" which the programme was intended to serve are as pressing or more pressing than before. Fundamentally, a judgement has to be made. The public management reforms can greatly assist that judgement, but it is the role of elected governments to make the necessary choices and to provide the political leadership to engender the necessary support for those choices.

What is clear is that in the absence of any evaluation and performance information it is much harder for the political leadership to justify decisions to save money from programmes. Indeed, the experience of fiscal consolidation is that arbitrary expenditure reductions, such as across-the-board cuts, cannot be used to achieve significant reductions in outlays. OECD Member countries which have made substantial expenditure reductions have succeeded through targeted reductions involving discrete policy decisions as part of a process of comprehensive expenditure review.

While it cannot be proven, it is suggested that the reforms of budget processes and financial management have played a key role in underpinning those processes of expenditure review and rational decision-making. It is much easier to change a programme and make some savings in the process when measures of its performance or evaluations demonstrate that it is not achieving its objectives cost effectively. A multi-year approach to budgeting can highlight emerging problems, such as the impact of demographic changes on social expenditures, and encourage governments to address them. In the absence of this sort of material, it is more difficult to justify and explain decisions to make programme savings and thus begin to obtain the necessary community support to sustain them. In effect, expenditure reduction must reflect "good policy" at the micro-level as well as in terms of its macroeconomic impact if it is to be sustainable, and the public management reforms have been very much directed to better-informed and more transparent decision-making that can be more readily justified.

3.2. *Reform of Public Enterprises and Competition*

Even 15 years or more ago, before the public management reforms and privatisation had begun to have an impact, public enterprises constituted only about 10% of the total economy of a typical OECD Member country. Their share of investment was usually higher at around 15% or more, and their share of employment lower at around 7%, with, of course, significant variations among OECD Member countries. However, public enterprises frequently occupied what was thought to be a strategic place in the economy, and this was often the reason why they were in the public sector.

It was essentially this line of thinking which needed to change if the performance of public enterprises was to improve. First, changes in technology and the increased scope for international competition through globalisation, along with new attitudes, have called into question the pervasiveness of the so-called natural monopolies in many of these areas. At most, the natural monopoly would seem to be limited to some network elements, and it is possible to introduce competition among users of the network by establishing a separate access regime. Second, the experience of using these enterprises to pursue some social or strategic purpose was frequently not really successful. Too often, the confused messages and objectives they received meant that they did nothing very well. Where the public management reforms have given a much greater commercial focus to their operations their performance has very much improved.

In those OECD Member countries that have fully corporatised their public enterprises, most now operate at a profit. Where they continue to make losses, as in the public transport area, these losses are typically smaller, being more commensurate with an independent assessment of the external benefits from their services and their social obligations. Most importantly, their better financial performance has usually come through improved efficiency rather than through higher charges. First, the increased competition has greatly reduced their market power and hence their capacity to raise their charges. Second, where they still have sufficient market power they are now typically subject to price regulation, which frequently only allows them to increase their prices by less than the general inflation rate – a form of regulation which, unlike the old-style rate-of-return regulation, requires these enterprises to pursue maximum efficiency and optimum size and not over-invest.

The available evidence suggests major improvements in productivity as a result. In Australia, for example, corporatisation of the common services to other departments in the general government sector, and the introduction of competition and consumer choice through contracting out, has transformed a 10% loss into near break-even along with a 34% reduction in staffing over a four-year period. In the business sector, the total factor productivity of government business enterprises increased at an average annual rate of just over 2% between 1979-80 and 1984-85, by 4-5% between 1984-85 and 1989-90, and by more than 6% between 1989-90 and 1992-93. These changes compare with little change in total factor productivity for the private sector over the whole 13-year period.

For European railways, the OECD Secretariat has found that "the evidence suggests that some of the efficiency differences between companies are related to the degree of autonomy under which railways operate. [While] research on postal services within Europe also suggests a link between efficiency and the degree of regulation and managerial autonomy of postal service companies" (OECD, 1997*k*).

The introduction of the SOE (State-Owned Enterprise) framework in New Zealand has similarly led to a much leaner and more efficient government business sector, although there is still scope for further improvement. Prices appear to have often fallen in real terms while output quality has, where there is evidence, generally increased.

As discussed in the next few pages dealing with the outcomes from regulatory reform, increasing competition is probably the single most important driver of improved performance by public enterprises. However, without the changed management environment through corporatisation, it is difficult to see how these enterprises would have lifted their performance or survived the competition. Furthermore, because the improvements in public enterprise productivity have largely been passed on to customers through lower relative prices, the reforms have made a significant contribution to lowering costs and increasing national competitiveness.

The contribution of privatisation over and above corporatisation to improved performance is more variable. In some instances most of the improvement in performance came through corporatisation (see OECD, 1995*d*). In other instances, it might be doubted, however, whether entrenched poor management or union positions would alter sufficiently fast without the spur of a change in ownership through privatisation. In particular, a publicly owned enterprise seldom faces the salutary threat of a take-over or bankruptcy, nor the continuous monitoring of the stock market. Consequently there is always a risk that wages and/or employment can be too high, assets under-valued to boost apparent profitability, and excessive investment as managers pursue size rather than rate of return. Furthermore, privatisation does permanently lock in the benefits of the more commercial approach, whereas while public ownership continues there is always the possibility of government intervention for political ends, and thus, arguably, it is impossible to guarantee the competitive neutrality of public enterprises. Finally, privatisation can be a catalyst for government to review the scope for increased competition and accordingly change the regulatory regime.

Apart from these risks of a retreat from the benefits of corporatisation, however, many would argue that there is no economic reason in principle to sell a well-performing and profitable public enterprise. Experience suggests that a firm's performance has more to do with the competitive and regulatory environment in which it operates then with ownership per se. Furthermore, there is a risk that the proceeds from privatisation will not all be used to reduce the level of public debt, and, even if they were, the loss of the future income stream from the enterprise may be as significant as the reduction in future debt servicing. The financial gain from privatisation depends upon the net present value of future returns being higher under the new management than under government ownership. The available studies do not provide compelling evidence that this is usually the case where the enterprise has been fully corporatised prior to sale. This is perhaps a good test of how well the public management reform involving corporatisation is thought to have worked by those in financial markets in the best position to know. On the other hand, in some OECD Member countries considerable public funds are still being injected into propping up publicly owned enterprises in industries where it is difficult to discern any lasting return. In such cases, grasping the nettle of privatisation might be the only way to turn that situation around.

3.3. *Regulatory Reform*

An efficient, well-functioning regulatory system provides essential support for economic development, including through the definition of property rights and contract law, the enhancement of competition and correcting for various forms of market failure. Nevertheless, when judged by these standards, the potential for regulatory reform to improve economic performance remains considerable.

As noted in *The OECD Report on Regulatory Reform* (OECD, 1997k), regulatory reforms "could be expected to result in major productivity gains in virtually all sectors, outside the United States." Using an international economy-wide model, the Secretariat estimated that "the regulatory reform programmes [envisaged] could increase GDP in the long run by up to 1% in the United States, by up to 4.5% in the United Kingdom and by up to 6% in Japan, Germany and France." The driving force behind these output gains is productivity, with the long-term employment effects being critically dependent on the extent to which productivity increases feed into wage claims. According to the Secretariats analysis, "If only three-quarters of the efficiency gains are reflected in higher wage demands, the unemployment rate could drop by up to 1 percentage point in continental European countries."

This assessment is based on the substantial differences in performance across OECD Member countries in the sectors studied, which cannot be explained in terms of resource endowments, on the actual experience with regulatory reform in some OECD Member countries, and on a range of national studies. In Europe, for example, labour productivity increases in the manufacturing industries most affected by the Single Market Programme were double those of the other sectors. The European Commission found that the gains from this dismantling of technical barriers to trade and the consequent increases in competition amounted to some 3 to 7 percentage points of GDP. In Australia, analysis by the Industry Commission found that extension of competition and regulatory reforms in the utility and transport sector would increase Australia's GDP by 5.5 percentage points, and possibly more if combined with labour market reform.

In individual industry sectors the gains already realised from deregulation in favour of strengthened competition are impressive. Since deregulation, for example, airfares have dropped significantly, productivity in road haulage industries has increased substantially (by as much as 50% in the United States and the United Kingdom), and there have been major improvements in services and efficiency in telecommunications, with average prices falling by as much as 63% in the United Kingdom and by 41% in Japan.

Two other points of interest from the Secretariat's analysis are: first, the gains might be even larger if an even more comprehensive programme of reform were adopted and was not limited to what is currently best practice, a programme which might also increase the dynamic efficiency gains as well as the static resource allocation gains. Second, the gains are less in the United States because of the progress it, and to a lesser extent the United Kingdom, have already made in regulatory reform.

In assessing the scope for reform, it is useful to distinguish three functions of regulation. First, there is economic regulation, which aims at altering market conditions and behaviour. It is mainly this type of regulation where any reductions have occurred, sometimes accompanied by regulation to strengthen competition. Second, there has been a proliferation of social regulation since the 1960s to meet increasing demands for government action in areas such as health, safety, the environment, and consumer and labour protection. It is in this area that the application of regulatory quality standards and more disciplined decision-making processes can produce more cost-efficient policy instruments. Third, the demands of government and business for information have increased and this has led to increased process regulation covering reporting requirements and data collection. There has been some modest reduction in this so-called red tape, principally where the requirements were outdated or not useful, with the main reform strategy being simplification and cost reduction.

Overall, the available crude measures suggest that at present the volume of regulation is continuing to increase, and also, because of increasing complexity, regulation is becoming more costly to administer. In the United States, for example, it has been estimated that the costs of administering the regulatory system is more than US$15.5 billion and compliance costs are of the order of 10% of GDP. It is not possible to reach any overall conclusion about the more important question of whether the quality of regulation is getting better, but what is certain is that there is still plenty of room to improve.

In a few sectors, notably finance, some parts of transportation and communications, and electricity, gas and water supply, there has been some significant deregulation and an increase in competition. However, much of the deregulation in these sectors was driven by rapid technological change that rendered the old regulations obsolete to the point that it was obvious that they were holding back economic and social progress.

The aforementioned report concluded that, "In half a dozen sectors, it is fair to say that there are fewer economic regulations in 1997 than in 1980, and that citizens have benefited substantially as a result, though at varying rates across countries." However, while the cost of economic regulation is probably declining on average and on a net basis, this is being more than outweighed by the growing cost of social regulation. Programmes of regulatory management associated with public management reform have nevertheless made an overall positive contribution by slowing the rate of growth of new regulations by 20-35% in various governments, and helping to reduce the cost burdens of new regulations.

It is also important to remember that progress should not be measured purely by the reduction in the amount of regulation. Indeed, frequently such measures provide an exaggerated picture of success when a large volume of no longer significant regulation is repealed. Rather, the focus should be on regulatory *quality*. In this respect, there is a general trend to greater cost-effectiveness in OECD Member countries. New market-based mechanisms, involving economic incentives and disincentives, and tradable property rights, are increasingly being used instead of the old command-and-control-style regulation. The confusion and cost of complying with differing regulatory regimes is also being reduced by intergovernmental agreements to adopt uniform regulations or to recognise each other's regulations. Indeed, in this respect, the European Union has been a driving force for improving the quality of regulation and competition in Europe, and similar benefits are now being derived from trade agreements.

Where progress is being made in reducing the amount of regulation, it is largely in the older forms of economic regulation which rarely produced net benefits, and the shift to social regulation has been accompanied by a greater focus on genuine market failures. There is, however, more of a tendency to resist benefit-cost analysis for social regulation, and this form of regulation continues to be driven more by short-term political imperatives than by overall social welfare considerations.

Looking to the future, perhaps the most hopeful development, which is very much related to the public management reforms, is the change in culture which is occurring. Government officials are increasingly willing to question regulatory need and design which is reflected by the fact that a large number of OECD Member countries are now conducting regulatory impact analysis, establishing new management capacities, and adopting regulatory reform policies.

There is also a greater consciousness that the administration of regulation can make a difference. The speed and transparency of regulatory decisions and more openness to consultation have helped reduce business uncertainty, which is one of the major and unseen costs associated with regulation.

Nowhere, however, do the proponents of regulation yet face anything approaching the severity of the annual budget review of spending programmes, the probing by a central agency as powerful as the budget office with a parallel responsibility to control the cost of regulation, nor the transparency of the annual budget statements covering the cost and performance of spending programmes. Indeed, at present there is a risk that governments will seek to reduce budgetary costs by substituting regulations for spending programmes and thus pass the then hidden costs on to the private sector, and/or use regulations as a revenue-raising device. Further, public management reform to strengthen the central review and transparency of regulations could be most effective in guarding against such dangers.

4. Linkages with Social Development

Public management reform, and what might be called the new social policy agenda, largely stem from similar concerns. In particular, the concerns driving the evolution of social policy over the last decade or more have been:

- whether social policy in its present form will continue to be affordable because of high unemployment, the ageing of the population, and in some countries a narrowing of the tax base;
- the effectiveness of social policy in terms of the income redistribution achieved for the effort involved, and whether the right people are receiving the right assistance; and
- whether welfare dependency has not itself become a problem and whether changes are not needed to make work pay.

The extension of public management to embrace the broader issues of governance is most relevant to how these key issues for future social development are being addressed. First, public management has had to develop a decision-making framework and an information base for addressing these issues. Second, the evolution of public management to encompass broader issues of governance touching on the role of the state relates very closely to the issues that social policy is also now starting to address.

4.1. *The Purpose and Objectives of Social Policy*

In considering the role of the state in promoting social development, the prior question is increasingly being asked: "what is the role and purpose of social policy?" The rational decision-making processes and evaluation associated with the new public management is driving such questions and is leading to a clearer understanding of the objectives of social policy.

The original intentions for the welfare state seemed to reflect a broad community consensus in favour of state intervention to maintain incomes when people's regular earnings were interrupted through unemployment or declined following retirement. It was recognised that this form of social insurance would involve some redistribution of income, both vertically and between generations. However, because of the close nexus between entitlements and contributions, there were limits to the scope for such redistribution. Indeed, broad support for the welfare state was maintained by carefully balancing the amount of cash income redistribution – a balance which is now threatened by slower income and employment growth. In addition, the state also guaranteed access to certain essential services, such as health care and education, which, inter alia, ensured a wider basis of support for the welfare state than just those who gained from the cash income redistribution.

Fifty years on from general acceptance of the welfare state, the extent to which these original principles and purposes remain relevant is being questioned, as is the question of whether there have been some changes that bear on the purpose and objectives of social policy. For example, the changes in labour force participation over the last 20 years have meant that the two-income family has become the norm. Typically, such families are better able to accumulate some cash reserves, and interruptions to the earnings of one of them is today of somewhat less immediate concern. At the same time, the relative position of the elderly has improved substantially so that they no longer constitute the main group of poor people.

These changes have prompted a switch in government income support in many OECD Member countries to give more attention to poverty alleviation and somewhat less to the objective of income maintenance. Where income support involved a flat payment and an income-related payment, eligibility for the former and/or its generosity has been tightened in most countries.

Generally, a degree of convergence is emerging among OECD Member countries with regard to their income support policies. At the same time as most countries are tightening public pensions to give greater emphasis to poverty alleviation, Australia, which traditionally paid means-tested flat-rate pensions financed from the budget, has now moved to incorporate an element of income maintenance into its retirement incomes policy by forcing private provision of super-annuation. Both these developments partly reflect a concern about the future viability of the public pension system. Whether their pensions are publicly or privately financed, all countries share this concern as long as these pensions are financed on a pay-as-you-go basis from existing revenue. Indeed, some countries are tightening assistance as a way to preserve the welfare state by removing any excesses that have developed.

Accordingly, many OECD Member countries are moving to change all or part of their pension schemes to accumulation schemes where the benefits eventually paid will reflect the sum of the accumulated contributions. While this should improve their financial viability, it will limit the amount of income redistribution possible through pension systems. There might be some opportunity to increase income redistribution through the interaction of the tax system and pension savings schemes, but at the moment such redistribution often provides bigger benefits to those with higher incomes who benefit most from tax concessions.

When it comes to the provision of state-sponsored services, there is equally a changing view regarding the equity objective. Should the state focus on *equality* of treatment in terms of the same for everybody, or should the objective be to provide *equitable* treatment, which would allow for differences in needs. Or, a third alternative is whether the aim should be to achieve equality of opportunity. The difference between the first two alternative interpretations of equity could be described as a shift from a focus on process to outcomes, and, as such, it parallels the changes in thinking about the purposes of the public management of programmes. The third alternative of equality of opportunity could still involve additional assistance to the most needy but would imply less positive discrimination on their behalf than an attempt to achieve equality of outcomes.

What public management reform can contribute to this debate is to draw out the implications of these issues so that a greater clarity of purpose should emerge for social policy. The eventual answers are likely to be that the equity objectives of a social programme depend on the nature of the programme. Equality of treatment can still be the primary consideration in some areas; most notably in judicial or quasi-judicial situations which can involve the use of the state's coercive powers, or where there is an entitlement to a pre-determined level of assistance. In other areas, however, the new public management paradigm emphasises equality of outcomes or opportunity. This can mean that some citizens need more assistance than others, or at least different types of assistance. For example, it would now be quite acceptable for a child with learning difficulties to obtain additional tuition specifically directed to his or her particular problems. Thus, for those services where the service provider is deliberately given much more discretion regarding the quality and quantity of service – such as health, education and active labour market assistance – because of the desirability of tailoring decisions to the individual client's needs, then performance should be assessed much more in terms of the outcomes achieved.

This multiplicity of purposes for social programmes also means that evaluation of their performance, and assigning priorities and co-ordinating them will always be inherently difficult. Whereas economic development is often summarised by only one measure – gross domestic product – it must be doubted whether any such single measure of social progress is possible. At most, a frame of reference for social policy would be what is happening to income distribution, but this on its own is not a sufficient standard of social development. Nor does it correspond sufficiently closely to many of the objectives of social policy. Instead, in making decisions about social policies and programmes, recourse must be had to a variety of indicators, including several for each separate area of social policy, as no one indicator will adequately describe both what is intended and performance against those intentions. At present, much remains to be done to improve decision making in this area, and improved public management will require a higher priority for the development of social indicators, preferably of a quality that will permit international comparisons so that countries can learn from each other's experience.

4.2. *Role of the State*

The changes in the approach being taken to equity are fundamental to the reconsideration of the role of the state in delivering social programmes. Even the shift in the language can be significant. Today, much of the discussion refers to clients, who are typically seen as having entitlements, rather than referring *to citizens*, who were more often seen as having obligations and responsibilities.

Historically, the original responsibilities of government rested very heavily on law, order and public safety. Equality of treatment under the law is at the heart of traditional notions of justice, and not surprisingly therefore the main functions of the state were to ensure that everybody was treated in the same way, with a heavy emphasis on precedent. As the modern nation state developed, the state became responsible for more services such as electricity, gas, water supply, roads, railways, post and telephones; services which were, however, fairly standardised and virtually the same for all citizens. Even when the role of government was expanded a century or more ago to include a new, more complex social service such as education, this was in response to a view at the time that the quality of schools was suffering because of too much unsatisfactory variation of teaching standards in private schools. In many countries, it was believed that the quality of education would be improved through a centrally determined curriculum and control of teaching methods. This often led to the state insisting on being the sole provider of the service with a heavy emphasis on the procedures governing the delivery of services rather than on outcomes.

Once it is recognised that similarity of treatment is not necessarily a virtue because clients are not all the same, and that their individual needs can vary, then the uniform state provision of services can lose its advantage. Indeed, big bureaucracies are often not very flexible or adaptable to new or differing needs. The public management reforms have attempted to make the management of public programmes more sensitive to individual and local needs by devolving authority for many decisions to the point of interface with the client. However, frequently the quality of service is best enhanced by the state contracting out provision of services to much smaller agencies which clients can choose from and more readily identify with, and which are better able to service their particular needs.

For some services, it might be objected that clients are not sufficiently informed to necessarily make the best choice in their own interests. In such cases, it is possible to introduce a case manager who, in consultation with the client, can choose among the range of services and providers available. Typically, such case managers also operate within a budget constraint which reflects the degree of disadvantage or other relevant circumstances of their client or clients.

Performance bonuses for the case manager can be incorporated into this system to reward the cost-effective achievement of positive outcomes. In the United Kingdom, for instance, the budget-holders who purchase health care services on behalf of their patients are allowed to keep any profits and reinvest them in improvements which should lead to better services and expand their client base. Similarly, the case managers of labour market assistance in Australia are given a bonus payment for good performance in terms of the outcomes achieved by placing long-term unemployed people in continuing employment.

These changes to the public management framework are especially important if social policy is to reduce welfare dependency and to encourage people to be more active in helping themselves. As noted in *Beyond 2000: The New Social Policy Agenda* (OECD, 1997c), if social policy is to develop in a more active direction then it will not be sufficient to continue carefully controlling entitlements to income support according to detailed rules and procedures. Instead, case managers will need to work closely with their clients to determine how their entitlements can actively be used to support activities that will lead to re-entry into employment.

In effect, governments are distinguishing between the role of the state as a purchaser and as a provider. Increasingly, it is becoming recognised that as a purchaser, the state could at least potentially continue to fulfil its present responsibilities without necessarily directly providing all the services for which it is presently responsible. Indeed, the state's principal responsibilities are typically better defined by decisions about what assistance should be made available, for whom and how much. Logically these key decisions can remain separate from decisions about who provides the service. Where the state's central concern is to ensure equality, decisions about who provides the service – in effect the choice between purchase and provision – would, as previously noted, then seem to rest heavily on the nature of the service, the difficulty of writing and monitoring contracts for the provision of that service, and assigning accountability for the performance of that service.

4.3. *What Has Been Achieved So Far*

Many of the most interesting developments in the implementation of social policy in favour of devolution, and especially the opening up to competition and choice, are relatively new, and it is therefore difficult to properly evaluate their achievements at this stage. Nevertheless, some important trends can be discerned.

4.3.1. *Income Security*

The dispersion of household incomes has grown since 1980, particularly in the Anglo-Saxon countries and less so in continental Europe and the Nordic countries. The prime cause of this increase in income inequality has, however, been the broadening of the distribution of hourly earnings amongst individuals, and, therefore, is not directly attributable to social policy, although in some countries it may reflect economic policies to improve the flexibility of the labour market. In fact, the role of social policy has generally been to reduce the extent of any increase in inequality. In Australia, for example, although the dispersion of hourly earnings has increased, if allowance is made for the improvements in the broader social wage (including health, education and welfare payments and services) then this was sufficient to bring about a net reduction in inequality.

For the most part, public management reform has contributed relatively little to income security. Public management reforms, in conjunction with improved technology, have led to improvements in payment systems and access by clients to advice. The most significant changes, however, have been in policy covering eligibility, mainly in response to budgetary pressures, and initiatives to develop a more active social policy by making work pay. These key policy decisions have been influenced by forward projections of the long-run cost of the pension system, but otherwise they have been largely based on a re-expression of community values and deductive logic about behavioural responses. Beyond that, the key policy decisions to vary income security have only to a limited extent been influenced by the sorts of information provided through evaluation and performance measures encouraged by the new public management.

A principal thrust has been to reduce the financial burden of income support by limiting entitlements mainly to those thought to be genuinely needy and unable to help themselves. Changes include limiting the scope for early retirement (Austria, Finland, Germany, Greece, Italy and Turkey); raising contribution periods (France) or the standard retirement age for men or women (Australia, Belgium, Germany, Italy, New Zealand, the United Kingdom, and the United States,); changing indexing rules (Finland, Greece and Germany) or otherwise reducing replacement rates; and greater targeting of benefits by tightening income or means tests (Australia and Canada). These changes have generally tended to increase the vertical redistribution of incomes as the rates of assistance for those most needy families have, if anything, become more generous, especially where there are dependent children.

The promotion of more active self-help through the reform of income security arrangements has been more limited, but it has involved tying the assistance to active job search or to participation in training in Australia, Germany, New Zealand, and Sweden. Australia has also relaxed the income test for unemployed families to encourage women, in particular, to re-enter employment when their spouse becomes unemployed. In the United States, time limits on how long people can receive assistance are intended to intensify their efforts to find work in a country which already has an unusually low incidence of long-term unemployment. The difficult problem remaining in some countries is the disincentive to work because of the relatively high effective marginal tax rates and replacement rates between income assistance and the income available from paid employment. The alternative is to tighten eligibility requirements even further to force unemployed people to pursue active job search.

The idea of capitalising income security so that people could use their entitlement more actively in times of need has been discussed, but the severe practical problems have not been resolved. Some capitalisation through working life of superannuation contributions is occurring, but allowing access to accumulated capital sums before genuine retirement could result in inadequate income later on. A reverse form of capitalisation would be for the state to provide loans to people experiencing a temporary loss of income and for these to be repaid as their income improves. In Australia, for example, students are required to repay part of the cost of university education after graduation by taking a tithe on their income once it exceeds a certain level.

Other initiatives to economise on assistance while protecting the most needy have included requiring the non-custodial parents who have separated from their partners to continue contributing to their children's support (Australia, the United Kingdom, some states in the United States and some of the Nordic countries).

4.3.2. *Health Care*

The most obvious achievement of health policy is that people are living longer and any deterioration in their quality of life tends to occur later in life. In addition, the elderly are more likely to continue living apart from their children. This is partly because they have no choice now that women are too busy in paid employment to undertake the care of elderly relatives. But partly it is because the elderly prefer to be independent and they now have better services to assist them maintain a degree of independence as they become more frail.

The other side of the coin to improved health outcomes is that the cost of health care is rising. This is partly because of the ageing of the population, but more significant have been the improvements in health services, the increasing cost of the technology associated with health care and the high income elasticity for health care. One of the achievements of public management has been the extent to which it has contributed to restraining the cost of health care along with some improvement in the quality of service.

While health expenditure has risen as a share of GDP over the last 15 years or so, in most OECD Member countries the increase has been modest due to increasing productivity in the provision of health care and by controlling use. Productivity has been improved by substituting less expensive for more expensive care, including by shortening the length of stay in hospitals, which typically represent the most expensive form of health care. A variety of factors have been responsible for these improvements in productivity, including new technology in the form of drug treatment, diagnostic procedures and so on. Improved management has, however, played a key role. Substituting more cost-effective care depends on better management information, and it is the management reforms which provide the capacity for more effective co-ordination across a range of health services.

Management reforms have also helped control the use of health services. At its crudest, use can be controlled by rationing but this is difficult to sustain once deserving cases cannot get necessary attention. Better management leads to new systems which change the incentive structure. The underlying problem with health care is that the desired form of public or private health insurance means that the user typically does not pay or only pays a minor portion of the cost of their health care. This, combined with the lack of consumer sovereignty, means that the normal market mechanisms are usually not available to control demand. Instead, management-driven reforms have been directed towards building internal markets (United Kingdom) with shadow prices (France), and measures to change the incentives for the suppliers of health services:

- The introduction of case mix funding, where a fee is set for the whole of each designated procedure combining all the relevant services rather than paying for each service individually. The fee can be set at a level which is only compatible with efficient production, and by allowing the suppliers to retain any profits, creates an incentive for them to economise in terms of the total quantity and mix of services provided.
- With experience, case mix funding can be developed to allow for competitive bidding. In effect, this is already occurring in the United States, where health maintenance organisations (HMOs) are contracting with suppliers to provide "managed care" for their members.
- The establishment of case managers and budget-holders who co-ordinate and contract for a range of services, again with an incentive to economise within their budget.
- Increased recourse to co-payments by the patient to make them more aware of the cost and to cut down on any unnecessary expenditure, particularly for pharmaceuticals, where there has been a switch from brand names to

equally effective but cheaper generic drugs as well as lower consumption overall.

The evidence shows that these sorts of management reforms have produced significant savings, but mostly of a one-off kind over the period the reforms are being introduced. Obviously, quality of care can be an issue, but experience suggests that the contracts can establish the necessary protection. In addition, better co-ordination of services probably represents one of the most important means of improving the quality of care. Too often, people are confused by the variety of services and are not able to access the group of services which best meet their needs.

While there have been a number of interesting reforms in different countries, there is still a lot to be done in health care reform in most OECD Member countries. So far, reforms have generally tended to be introduced in a piecemeal way and there is a pressing need for a more integrated approach, especially to overcome the present fragmentation and achieve better co-ordination of health services. At worst, different schemes of funding different services and/or unequally applied rationing can push people towards services which are less cost-effective or even inappropriate. Austria, for example, has moved towards better co-ordination of some health services by rationalising some of the various sources of health funding, including between levels of government.

Another key issue is the improvement of incentives to best (most cost-effective) practice, and a greater reliance on market disciplines so as to be able to rely less on regulation to achieve cost restraint. There is already sufficient experience to show that there are a number of ways to introduce managed competition into the provision of health care. For example, the United Kingdom is developing the split between purchasers and providers and encouraging hospitals to compete against each other. Denmark, Ireland, the Netherlands and Norway have similarly introduced variations in risk-rated capitation funding to encourage greater competition and/or economy. In Germany, where health care is largely financed through insurance, competition among funds is being introduced after equalising for risks. And in Sweden and Denmark, the introduction of managed competition has led to greater patient choice of hospital. Some would argue that these reforms should go further and shift the balance between public and private funding, but this does not necessarily deal with the distinct features of health, and as the experience of the United States shows, it can result in health absorbing more rather than less of the economy's resources.

Many of these reforms are fairly recent and adjustments have had to be made in the light of experience. One lesson is that health is a complex system with a multitude of actors so some unanticipated responses are hardly surprising. In order to minimise these, it is important to introduce the reforms with as much co-operation as possible from those most immediately affected, even if this does require some compromises. However, it is also arguable that some of the adjustments

Box 2. **Management Reforms in the UK National Health Service**

Historically, the United Kingdom National Health Service had been governed by tight budget controls which successfully restrained total expenditure, but this meant that the system "lacked flexibility, incentives for efficiency, financial information (and hence accountability) and choice of providers of secondary care" (OECD, 1995b). The new system is founded on the distinction between purchaser and provider of hospital and clinical services. There are two types of purchasers, District Health Authorities (DHAs) and fund-holding general practitioners, and there is some competition among purchasers. Hospitals have effectively been corporatised, with much greater flexibility to manage their own affairs, and they are expected to compete with each other.

The reforms have been associated with an increase in efficiency, including an acceleration in the substitution of day surgery for ordinary hospital admission. Hospital waiting times have also declined. Fund-holders have also responded to the incentive to restrain their expenditure on drugs, including by being more likely to substitute cheaper generic drugs. There has been some concern that the emergence of fund-holders might lead to increased inequity, but there is no firm evidence of this.

As yet, however, the distinction between purchaser and provider is not as sharp as it might be. Often, the local hospital is the dominant provider in its region and it maintains close links with the local DHA, which is partly inevitable at this early stage as the DHAs typically lack the detailed medical knowledge to bargain on equal terms with the hospital. In addition, the DHAs have been under pressure to avoid the political embarrassment of a hospital having to make large-scale closures because of any failure to win a contract. Interestingly, there is some evidence that the fund-holders have been more prepared than the DHAs to challenge hospital practices, demanding improvements, and, if necessary, being prepared to diversify to alternative providers. This may reflect their closer relationship with their patients – the ultimate clients – and their superior medical knowledge which better equips them to negotiate on their patient's behalf.

The conclusion at this stage is that the reforms need to be given time to work. Performance is likely to improve further with greater experience in writing contracts, and if those contracts allowed hospitals greater price flexibility and were extended to cover a broader range of services thus allowing more possibility of substitution between services.

which have subsequently been made to health reforms might have been avoided if the reforms had been better planned at the outset, with a clearer map of how they were going to be introduced as a series of measured steps. Most importantly, while the purchaser/provider split has been central to many of the reforms, it has not always been fully developed as yet. Governments are still bearing the purchaser's risks for some high-risk or high-cost patients and similarly for the provider's risks to the extent that governments continue to control hospital capacity and stand behind individual hospitals to ensure that they can never fail financially.

What the evidence so far has firmly established, however, is that reforms of the health care system which have been introduced, and the likely future directions, have been very much influenced by the application of public management reforms. This is an area of policy where considerations of equity and the lack of consumer sovereignty have been dominant. However, the new management approach is showing, by the application of information and the development of concepts such as incentives and internal markets, how it is possible to reconcile these considerations with a more cost-effective approach to health care and even improve the quality of services.

4.3.3. *Education, Training and Labour Market Assistance*

Participation in non-compulsory higher education has continued to increase significantly over the last decade or so. In the 1960s, upper-secondary education was completed by only half of those who left school, but by about 80% of today's school-leavers, and the variation among countries has been substantially reduced. Tertiary education is similarly expanding, with half the population or more eventually receiving some form of tertiary education in most OECD Member countries, compared with around 20% in the 1960s.

There is, however, a debate about what has happened to quality. A study of student performance standards in 10 countries, *Performance Standards in Education, In Search of Quality* (OECD, 1995c), reached two overarching conclusions. The first was that "raising standards in core subjects for all students and at all levels is today the main priority of national, regional and local education authorities." The second conclusion was that "the public, parental and student interest requires that education systems provide sound information on how schools and individual students are performing;" a concern that is particularly closely related to the agenda for public management reform.

Hard data on the quality of education, especially over time, is, however, very difficult to find, although there is some information covering numeracy and literacy.

The principal concern is that up to one in three adults in many OECD Member countries have attained only minimum standards of literacy and numeracy. This reflects the very unequal performance of students; for example, in most countries the lowest 25% of scores in mathematics are below the average score of the class one year behind them. Here again, this suggests the need for an approach which takes more account of the individual client differences. On a more hopeful note, the available data show that literacy is rising, being higher for young people than for older people in all OECD Member countries, with the principal explanation being the rise in education.

A second major concern in relation to education, in some countries at least, is about how well the school system is preparing young people for the world of work. In an immediate sense, this is triggered by the concern about youth unemployment, but it also reflects the need to prepare people for the post-industrial knowledge-based society. Certainly, there are significant differences in the rate of youth unemployment among OECD Member countries, and these do seem to relate to differences in their approach to linking schooling, technical training and preparation for work. Particularly for those who are seeking a vocational education, the outcomes – as reflected in their rates of youth unemployment – seem to be better in those countries (such as Denmark, Germany and the Netherlands) which seek to forge close links among the schools, technical training and employers, including through alternating periods of work experience.

At this stage, public management reforms have not on the whole featured as highly in the discussion of education policy as in the case of health policy. In some systems, there has been a trend towards devolution in favour of teachers and local committees of parents and citizens. There also tends to be somewhat greater choice regarding both the institution and the subjects to be taken. And there has been some interest in benchmarking the comparative performance of institutions, although to the extent that there is more reliance on internal assessment of student's progress and less reliance on external exams, this has reduced the opportunities for comparing the performance of different institutions in terms of the outcomes obtained and the cost of achieving those outcomes. Significantly, there has not, as yet, been any major change affecting incentive structures such as new systems of charging, and although there has been some interest in promoting greater choice through the introduction of vouchers, this has not got very far as yet.

Traditionally, labour market programmes have represented a volatile area of public policy, with continuing changes in what is expected of them and their key parameters. At the same time, labour market programmes are relatively good subjects for evaluation. Outputs, in terms of the number of people placed in training or employment, are readily established, along with the cost involved, and the outcome in terms of sustained employment later on can, in principle, also be established. Many of the changes represent a response to these evaluations, and certainly they have proved valuable in determining the most cost-effective forms of assistance for different types of people. Indeed, a conclusion from evaluation studies across many OECD Member countries is that careful design, rather than scale, is of paramount importance in determining the effectiveness of training programmes. There is, however, some debate as to what is an acceptable standard of success and, therefore, whether labour market programmes represent a worthwhile investment in the first place.

Perhaps the most significant development has been the reconsideration of the role of labour market programmes in the transition from what the OECD has termed "passive" to "active" social policy. Labour market programmes are, of course, only a part of an active social policy, and arguably their eventual effectiveness is heavily dependent on changes elsewhere, particularly to remove disincentives and make work pay better than is often the case at present. For example, in many OECD Member countries the level of social assistance benefits available to a single-income couple with two children was about 75% of the take-home pay of the average production worker, and would be an even higher proportion of the earnings of an employee with a lower net income.

Nevertheless, the changes occurring in thinking about labour market programmes themselves are an example of the new focus on clients and their needs, along the lines being promoted through the public management reforms. It involves taking a whole-of-client approach to determine what is the range of training, work experience, income and other support, such as childcare, needed by the client in order to obtain continuing paid employment. This has involved the use of technology to build up better information systems, linking programmes across agencies and bringing together all the relevant information on the client in question. Generally, the availability of this information has improved the performance of employment services as case managers providing advice to their clients. In Australia, this has recently been taken a step further with the introduction of competition, so that instead of relying exclusively on the public employment service for advice on and arranging training and job placement, job-seekers can now choose from among a range of accredited case managers. In addition, these case managers are budget- holders; the amount they have to spend to assist the trainee/job-seeker is determined by the amount of disadvantage, and part of the money is paid as a success fee.

Overall, the conclusion might be that the new public management has made a useful contribution to improving the quality of labour market programmes. However, doubts persist in some quarters about their efficacy, and there is a concern among their supporters that with increasing long-term unemployment in many OECD Member countries, the task for labour market programmes is growing faster than their capacity.

More fundamentally, there is a concern that some of the major issues are not being properly addressed in this overall area of policy. In particular, some wonder whether education and training systems are adapting to the changes going on in society and in the economy. As the pace of technological and structural change has quickened, it is argued that people can no longer be trained for one job for life. Most people will be employed in changing occupations and will need continuing retraining. The challenge of introducing life-long learning will require answers to a number of questions regarding the provision of that training which have not been adequately addressed as yet. Indeed, many of these questions would be relevant even if the education and training system were not facing the challenges of a changing structure of demand in the years ahead.

At present, the system of education and training in many OECD Member countries is still very supplier dominated and fairly rigid so that it has difficulty adapting to new and changing demands. This is reflected in the type of training, accreditation for that training, and its availability. With an increased focus on the retraining of older workers, there will be increasing pressure to review all these features.

Fundamentally, in order to ensure relevance, it may well be desirable to introduce much greater competition and diversity into the training industry, and shift the locus of decision-making regarding the control of training towards the consumers of training in industry and away from the providers.

This, in turn, is very much related to the future funding of education and training. It seems likely in future, especially where people are being retrained, that they and/or their employer will be called on to make a greater financial contribution to their training in recognition of the benefits they jointly derive from that training. In that case, there would be considerable pressure to give them more, say in the content of that training, and to increase its flexibility to suit the needs of the particular enterprise or industry. This pressure may well extend to government funding and lead governments to shift from funding institutions to funding individuals through a type of voucher which could also involve the employer. Under this form of purchaser/provider split, education and training institutions would have the incentive to tender flexible training packages which could be developed in consultation with industry or the enterprise to meet their particular needs.

A related suggestion is that each individual should have an entitlement to a certain amount of government funding for his or her education and training to be drawn upon at any time throughout his or her life. This idea could be further extended to allow for the possibility of repayments when the recipient's circumstances sufficiently improved.

It was these sorts of considerations which led OECD Education Ministers to conclude that "a more fluid relation between learning and work will be required in the future, where an initial period of full-time education is followed by various combinations of work (full- or part-time), training and education available in enterprises, schools and tertiary institutions." (OECD, 1996*a*.) Ministers also recognised that new systems of governance and accountability will be required, partly in response to a necessary increase in the number and variety of funding sources and to reflect the consequently greater autonomy in managing resources. This should, in turn, encourage more innovation in such matters as curriculum, teaching and assessment, which will need to be complemented by increased attention to evaluation.

In all these respects, the new public management could contribute much to the education and training system of the future. But perhaps the three points most relevant for public management reform which emerge from this brief discussion of future trends in education, training and labour market assistance are:

1. the application of the public management reforms is, or will be, very appropriate to this area of policy;
2. a comprehensive approach to reform is necessary, cutting across traditional line ministries, and linking together education, training, labour market policy – including training wages – and income security; and
3. much remains to be done in many countries, although some countries start from a much stronger tradition of co-operation between industry and training providers than others.

4.4. *The Implications of an Active Social Policy for Public Management*

This paper has argued that the changes to public management are closely related to the new directions being pursued through social policy. Public management is contributing to social policy through innovations affecting the decision-making framework and the available policy instruments and through reforms affecting the delivery of services. A question that needs to be raised, however, is the capacity of the public service to respond to these new demands for a more targeted, active and responsive social policy. While the public service is changing in OECD Member countries, is it and can it change fast enough to meet these new challenges and the expectations of those whom it exists to serve?

There is little doubt that what is intended by an active social policy is more demanding of the public service. Under the old regime of passive assistance, public servants were principally charged with determining entitlements to assistance according to the law. This essentially involved them in following manuals of instructions, being aware of precedents in any borderline cases, but always with the option, or even the obligation, to refer difficult cases to a superior officer for their adjudication. In order to achieve a more active social policy, individual public servants need to enjoy much more delegated authority so that they can work with the client and decide jointly what is in the best interests of the client from a menu of options within an overall budget constraint. This demands much more of public servants, as they must be more responsive and able to establish some rapport with the client, logically assess their client's needs, understand a range of typically more complex programmes and co-ordinate with other service providers. In the end, much of the success or otherwise from shifting to a more active social policy will depend on whether public services are able to reinvent themselves and make these changes in their skill bases and their culture.

At this stage, it is still too early to be confident of the eventual outcome. What can be said is that there is a general confidence that reforms along these lines are worth attempting. Also, the staff at all levels seem to generally welcome the changes, especially those towards greater devolution. In this context, it needs to be remembered that the type of staff are changing. Most of the low-level clerical assistant jobs have disappeared as a result of technology and multi-skilling. For this and other reasons, staff on the whole today are better educated and less willing to accept hierarchical authority without reason.

From the surveys available, and other anecdotal evidence, middle management seem to have especially welcomed the public management reforms. They appreciate the clarification of what is expected from them and the delegated authority to get on with the task with less interference, including political intervention in day-to-day management decisions. Some commentators have questioned what they see as a loss of power from policy advisers to politicians, but most policy advisers seem to have no difficulty with ministers taking responsibility for setting policy. Indeed, significant changes in policy are generally impossible without such political direction. What the professional advisers also appreciate is the improvement in the quality of decisions which can flow from greater transparency and accountability, to the point where, in at least one country, it has been publicly avowed that "good policy is good politics".

The principal complaints among public servants relate to the financial stringency which is frequently associated with the reforms, and how that might damage their future employment prospects. These complaints can then encourage a more general public concern about the implications of fiscal consolidation for unemployment. As noted earlier, however, fiscal consolidation is not necessarily part of the management reforms, and it is hard to see how it can lead to a sustained increase in unemployment when that consolidation is in response to a low level of savings and domestic demand running ahead of domestic supply. Furthermore, as for public servants, most would prefer unavoidable budget cuts to be the result of considered decisions to vary policy rather than spreading the pain across-the-board by an apparently arbitrary cut affecting everybody.

Some public servants also profess to be concerned about the disruption that change inevitably brings, and the number and speed of changes. The fact is, however, that the amount of structural adjustment in the public sector is typically no greater than is being experienced elsewhere in the economy, and the pace of change has speeded up everywhere.

Probably the biggest challenge facing the public sector is the shift to contracting out services that some have seen as part of the core functions of government, without always being able to articulate why. It is questionable how well prepared the public service in many countries is to administer contracts for those services where a significant degree of discretion is inevitable in providing the service. The public management reforms themselves start from the premise that a more formal and specific statement of objectives and targets for such programmes is desirable, but experience in writing and monitoring such contracts is limited.

In the longer run, there is also the further question of how the public sector can maintain its practical experience of what will work best if it is not directly engaged in the delivery of services. Indeed, it was its capacity to draw on its practical experience in the implementation of policy that was often the foundation for the public service's claim to expertise in policy advice.

Increased training should help overcome some of the problems, but both contract management and policy advising will probably depend on more outside recruitment of public servants in the future. This, in turn, raises the issue of pay, and it may be that there will need to be greater decentralisation of pay determination in future. Indeed, this is already under way in some OECD Member countries and raises difficult issues of fairness where people are receiving different rates of pay in different agencies from what they perceive to be the same employer for what has traditionally been considered to be the same job. In the long-run, such developments could fundamentally change the character of the public service from the traditional career service of independent professionals holding a common set of core values who are fairly readily interchangeable through all the elements of the administration.

5. Democratic Governance and the Implementation of Reforms

5.1. *Attitudes to Public Management Reforms*

At the outset of this paper it was suggested that the impetus for the reforms of public management was a set of concerns about the quality and effectiveness of government. This paper has argued that where reforms have been implemented, they have supported many inevitable and/or worthwhile changes leading to better economic and social policy. What is much less clear is how far they have helped to stem the loss of public confidence in the capacity of governments to recognise and respond to community concerns and to meet their expectations.

In today's democracy, public support would seem to be a prerequisite for a successful policy outcome as governments find it impossible to impose solutions, especially where the behavioural responses by those affected are uncertain. Thus, a key question is: can better public management can to reduce this "democratic deficit" between people's expectations and government's apparent capacities to govern? In the long-run, this will be vital to better economic and social policy outcomes.

At one level, citizens are not very interested in their country's administrative apparatus for delivering public services, or the inner workings of government for that matter. Citizens are interested in outcomes and will only become interested in process or means if they see that as bearing directly on the outcomes they are seeking. But where citizens do see government as bearing upon their interests, as members of a better educated and informed society, they are likely to demand more open participatory and transparent decision-making than in the past.

Users of particular services generally seem to acknowledge that there have been improvements. Even recognising their limitations, the available user surveys are generally consistent with the proposition that many people, whether they benefit directly or not from various public services, tend to acknowledge that the public management reforms have made a modest difference (see Box 3). For the most part, users seem to accept that service quality has at least been maintained and they would not necessarily be aware of the extent of any cost savings. Moreover, if the survey respondents were better informed about the performance data that demonstrate where services have been improved, then they might well be more supportive of the reforms. At the very least, a strong argument can be made that without the reforms of public management there would be even less money for the most cost-effective programmes. Indeed, where members of the public have specific criticisms of public programmes and their management, they

Box 3. **Views of Citizens/Customers**

In a number of countries that have emphasised service quality improvements as part of their public management reforms, individual agencies commonly survey client perception of performance.

In **Sweden**, service quality surveys in the field of health care show a high degree of public confidence in, and satisfaction with, the health system (because of the local basis of service delivery, it is sensitive to individual needs).

In the **United Kingdom**, a Citizen's Charter Survey in 1993 found that for 28 services, a majority of users surveyed thought that the quality of the service had improved or remained the same. In seven services, 25% or more of users thought the service had got worse. (Postal services approval rating was 92%; secondary schools 77%; British Rail 57%; and Job Centre/unemployment benefit offices 57%.) Users were also surveyed as to the services they most wanted to see improved.

In **Finland**, as part of a programme reviewing public management reform, a sample of citizens were asked for their views on several government, municipal and private services, and the results were compared to those of a similar survey made in 1987. The preliminary results indicated that there has been a positive change in citizen's perception of those government service organisations that were commercialised in the early 1990s. They were assessed as being generally more service-minded, flexible and efficient.

In **Australia**, public submissions and a population survey were used to assess the impact of the reforms on clients, supplemented by agency-specific research and case studies. From the population survey, 73% of people said that they thought that the quality of service received had stayed the same when compared to that received prior to the introduction of the reform; 26% thought that the service has changed, of which 73% thought that it had improved.

are more likely to relate to alleged shortages of funds rather than to the way those funds are used.

5.2. *Maintaining the Momentum for Public Management Reforms*

It is, of course, somewhat inevitable that people will be irrational and want more of anything which is free, without recognising that the eventual cost to them may be more than they are prepared to pay for through taxation. Indeed, where it can be most difficult to bring about reform is where a coalition of opposition develops between the producers of an excessively uneconomic service and the consumers of that service. While the majority who are paying for such a service may be critical of it, especially where they are not eligible or do not need the service, they frequently do not pursue their interest in reform with the same intensity of feeling as the direct beneficiaries who support continuation of the *status quo*. At worst, different coalitions of interest groups opposing particular changes can coalesce, and so slow the process of necessary reform that the government appears to gradually succumb to inertia, leading to a progressive loss of public confidence in governments and politics in general.

The different experiences of countries, their institutions and their histories means that there are no general answers about how governments can best maintain the momentum for public management reform even where it is necessary for economic and social development. One view is that reform is best introduced on as comprehensive a scale as possible, even as a "Big Bang". This can be most effective in providing the catalyst for the necessary change in culture. It can also have the appearance of fairness with everybody affected, and it can allow for trade-offs among different interests. The difficulty with such an approach is that it has typically only proved possible when there is a general sense of crisis in the country, resulting in a general agreement that the old policy strategy must give way to radical reform. Such a sense of crisis does not, however, exist in most OECD Member countries. Much more typical is a sense of disillusionment and dissatisfaction that the country and the government should be doing better. In these circumstances, however, governments do not normally see it as in their interest to take the plunge and manufacture a sense of crisis. At most, a new government may consider claiming that it has inherited a crisis situation, but even then it would need to consider the implications for its future credibility if it pursued that strategy.

Thus, the changes necessary to improve the quality of governance leading to better economic and social development will usually take time, and their benefits may take even longer to become manifest. Public management reform should not, therefore, be viewed as a quick fix. Rather, in most OECD Member countries, the pursuit of reform will continue to be a more gradual and evolutionary process, but nonetheless fundamental.

Seen against this background, there do, however, seem to be some lessons which can be drawn about maintaining the momentum for reform. First, and most importantly, it is important to build political support for reform. This means overcoming the opposition of those whose instinct is that they will be disadvantaged, and/or building support amongst those who stand to gain from the reforms. Continuing effort needs to be made to demonstrate the benefits of reform, including, for example, that budget deficits do matter. In fact, and particularly in relation to social policy, it is often possible to design "win-win" situations, resulting in better services for the client at less cost to the budget. For example, improvements to develop active labour market policies should, at least in the medium-term, lead to a more efficient labour market and a higher rate of economic growth, a lower rate of unemployment, especially among long-term unemployed persons and single parents, and eventual savings to the budget. Similarly, changing the funding arrangements for health programmes to remove perverse incentives, and the development of management information systems, can lead to lower cost but more effective treatment.

What is needed is a better understanding of such possibilities for using public management reforms to better integrate economic and social policies, and the communication of these possibilities.

Second, it is important that the need to communicate and to consult should not be allowed to so slow the process of reform that it is effectively derailed. Even if comprehensive radicalism of the "Big Bang" approach is rarely possible or desirable, selective radicalism involving the type of win-win situations just described can be significant enough to make a real difference, and thus encourage the momentum towards reform. Indeed, success in this way will "grow" success, leading to a change in culture so that reforms start to create their own momentum.

Third, and related to the previous point, it is important to get started on implementing reforms and not wait until all issues are absolutely clarified. In practice, it is usually not possible to develop worthwhile reforms without running some risks. Elements of the new public management reforms inevitably involve some tensions between the component elements; such as between encouraging genuine public consultation and ensuring policy coherence, or between devolution to the extent of allowing public involvement in programme management and determining who is accountable for what. While these risks and tensions should not be hidden, neither should worthwhile reforms be prevented until, and improbably, all such risks and tensions have been resolved. Indeed, there is nothing new about such dilemmas, which have always been characteristic of public policy and public management. What is important is to establish the right direction for reform, and to get started, recognising that public management reform will inevitably involve learning by doing and that it is possible to make a mid-course correction without significant damage in most cases. Indeed, one of the outstanding features of the old paradigm of public management was that it was too risk-averse, with the consequence that while it may have minimised the mistakes of commission, these were very often out-weighed by missed opportunities, or mistakes of omission, although these were typically not even recognised.

Fourth, while the announcement of a blueprint for reform would typically not be consistent with an incremental approach to reform, it may still be possible for leadership to establish the desirable commitment to reform by adopting a set of general principles which flow from the new reformed public management paradigm. This would also have the advantage of helping to maintain the necessary degree of overall consistency and coherence. Such a set of principles could include a disposition in favour of:

- results in terms of outcomes and outputs and not just process;
- a client focus;
- competition and choice;
- devolution;
- building internal markets and the use of market-based instruments where possible; and
- distinguishing between the government's interests as a purchaser and as a provider.

Finally, it is important to establish a better understanding of what public management reforms will not do as well as what they do. In particular, some people are concerned that changes in our systems of governance risk the down-grading of key elements which are fundamental to preserving democratic society. Their argument is that the drive for results and efficiency might diminish the traditional concern in the public sector for due process, and specifically lead to a downgrading of the system of checks and balances and accountability obligations which has been imposed ostensibly to reinforce that concern for due process.

Although it is arguable that the public management reforms have strengthened democratic accountability by providing much more information on the effectiveness of programmes and the performance of governments, these concerns do need to be taken seriously. As *Managing Government Ethics* (OECD, 1997*h*) noted, "Proper conduct has always been a prerequisite to good governance." What needs to be emphasised is that a fundamental purpose of the public management reforms is to enhance confidence in democratic governance and reduce the "democratic deficit". To this end, a number of OECD Member countries have taken specific initiatives to reinforce the emphasis on ethical conduct and have looked at new ways of providing guidance to public servants who are properly being called upon to exercise their own judgement rather than merely to comply with rules whose purpose was all too often not well understood. In particular, and as *Managing Government Ethics* noted, "Ethics should cease to be seen as a separate and distinct activity, and more as an integral part of all management systems."

Equally, confidence in government may require clarification of the respective accountability obligations, which can become blurred in a more devolved system of public management. There have been some instances where it has been difficult to establish who is responsible for what and to whom, especially where separate agencies are set up at arm's-length from the minister. In order to avoid confusion, which can damage good management as well as accountability, the underlying principle should be that the most senior person is to be held accountable if he or she were involved or should have been involved. Specifically, this means senior management is not necessarily held accountable for an isolated instance of wrongdoing or poor service by a subordinate, but senior management would be held accountable if this were systemic, and especially if senior management did not take adequate preventative action. Once accountability is clarified along these lines, it should be possible to reconcile the need for proper accountability with devolution of responsibility.

This emphasis on the continuing importance of accountability and ethical conduct is not only important in ensuring public confidence in democratic government: it can also help maintain the overall coherence of public services in a more devolved system of administration through its explicit recognition of the values they hold in common. This important element of continuity can also serve to provide a measure of reassurance to public servants and to the community that in a period of rapid and, for some, bewildering change, at least the old values and relationships maintain their continuing legitimacy and their role in underpinning the cohesion of society.

5.3. Improving Democratic Governance

Reforms along the lines described above, which improve the effectiveness and demonstrate the "morality" of government, can be expected to go some way towards renewing confidence in government. But there remains the question whether on their own they will be sufficient to fully restore that confidence and remove the present "democratic deficit". One serious difficulty for governments is that the major problems which emerged as long ago as the 1970s are still there. Although economic growth has continued and there has been some success against inflation, unemployment remains too high and living standards are too often perceived to be languishing, which in turn is partly a matter of the distribution of the fruits of economic growth.

Coupled with these concerns about economic and social development is an increasing concern among many people, although by no means all, that unsatisfactory progress towards economic and social development is not just a matter of government policies and programmes and the quality of public administration. Instead, what worries these people is their belief that changes in the nature and structure of our economies and/or our societies, particularly as a result of "globalisation", mean that governments are losing influence to forces beyond their control. As a consequence, they fear governments are less and less able to respond to society's needs, particularly at the community level. At the same time, the way in which governments, especially national governments, adapt to these forces can mean that they are seen as more remote and less accessible, which adds to the sense of democratic deficit.

There is no doubt that the increasing globalisation of the international economy and the rapid spread of ideas through advanced communications technology means that today very few issues are purely domestic. OECD Member countries are increasingly taking account of what others are doing in setting the parameters for their own economic and social policies in order to remain competitive. It is this internationalisation of policy which some fear may lead to a loss of sovereignty and cultural identity, which, they tend to believe can only be restored by putting up the barriers to outside influences in the (naïve) hope that this will reverse the trend towards globalisation.

It is in this context that governments are facing their greatest challenge to achieve a better balance between citizen demands and expectations on the one hand, and the capacity of the state to meet those demands and expectations on the other. Unless governments can achieve a better reconciliation of the various competing expectations on government there is a risk of a reversion to obscurantism resulting in a less tolerant and open society and poorer economic and social performance. It is most importantly for this reason that reforms of public management need to move beyond administration to adopt a wider agenda of governance.

Closing the gap between expectations and demands and the capacity to meet them will not be easy. It will not, however, be helped by succumbing to populist demands which effectively amount to putting the clock back. It will instead be most important to properly understand the factors influencing the capacity of governments and take these as the starting point for a new, broader approach to governance.

In particular, this means that protectionism in all its forms must continue to be resisted. Co-ordination of policies by countries is the most effective response to the inevitable pressures of globalisation. This co-ordination does not represent a loss of sovereignty, but an act of sovereignty. Governments only agree to co-ordinate their policies because they believe that they then stand to gain more than they lose, and in the end it is *their* decision to co-operate in this way with other countries.

There is, however, inevitably a risk that the inter-governmental negotiations which accompany the co-ordination of policies can result in at least the appearance of loss of parliamentary control and in governments becoming more remote from the people. It will, therefore, be important to seek greater citizen understanding and more opportunities for participation in governance to offset these pressures for governments to lose touch with their roots.

The public management reforms are not, however, responsible for any such problem of a democratic deficit, whatever its source; rather, they are part of the solution. Indeed, the reforms are assisting the participation of a more informed public, which is essential to restoring confidence in government and the health of the democratic system. First, the reforms place considerable emphasis on transparency, which has led to the provision of far more useful information than ever before regarding government policies, programmes and activities. Second, the authority of elected politicians for policy has typically been reinforced, with the role of their expert advisers being more clearly understood as being "on tap, but not on top." Both of these aspects of the reforms have strengthened democratic accountability. Third, the emphasis on service quality, the decentralisation and devolution of decision-making affecting the delivery of services, and the associated strengthening of public consultation are increasing the opportunities for public involvement in those activities of government which most immediately affect their daily lives.

Furthermore, these latter reforms can be taken further to bring government closer to the people by not only devolving power within government, but also between levels of government. In fact, in recent years substantial devolution to lower levels of government, particularly affecting the education, health and welfare sectors, has occurred in countries including Canada, Denmark, Finland, France, Sweden and the United States, and is now expected in the United Kingdom. Indeed, the European Union has formally embraced this approach through the "subsidiarity principle," which requires that each task be carried out by the lowest level of government able to perform the task well.

While all these developments associated with the public management reforms can assist in strengthening democratic governance, it might be doubted whether they will be sufficient. In particular, can they on their own reduce the gap between citizen expectations for national economic and social development and the capacity of governments to deliver? Alternatively, will governments need to consider new ways to involve the public and improve their understanding of the key relationships and choices that inevitably have to be addressed if economic and social policies are to be better integrated and complement each other? This would, however, represent a considerable challenge, especially in an adversarial political system of democracy where any attempt to reduce expectations may be exploited by the other side as an admission of policy failure.

In recent years, governments have moved to take the public more into their confidence and improve public consultation, at the policy level as well as with respect to the detailed delivery of services. As noted earlier, however, the intention is to inform the policy debate and governments are unwilling to lose control of the debate. This is understandable, as loss of control might further elevate expectations that already cannot be met.

There is also the question of how much can be expected from a new approach to decision-making where community consultation is based on rationality and transparency. On occasion, ambiguity can be an important part of the political process. Arguably, setting out all the issues and clarifying who is affected and how will not facilitate any necessary compromises. Furthermore, there is the danger of public participation being used to bring government to a standstill. Particularly where interest groups are disadvantaged, they may well seek to delay decisions, insisting on further consultation, including by exploiting whatever legal avenues are available and in some cases even by civil disobedience. In such difficult circumstances, governments do have a responsibility to take the lead and to define the public interest, and they must avoid becoming captives of particular special interests.

Nevertheless, given the scale and significance of the challenge to confidence in democratic governance, governments may need to take some risks in seeking a more open dialogue with the public. Otherwise, it is difficult to envisage how public confidence and trust could be restored with what is now a highly educated, demanding and even cynical electorate.

In opening up the debate about the future direction of economic and social development, governments will need to take the lead. Trust in government will not be restored by a process which itself contributes to inconsistency and incoherence in the overall policy framework. Also, in a system of representative democracy, accountability can only be properly satisfied if governments are held responsible for the final outcomes. Governments must therefore retain the right to make the final decisions, but desirably only after having had due regard for the views of all other interested parties and the likely consequences of those decisions for the attitudes and actions of those other parties.

This, in turn, means that there is an increasingly important task for the central agencies of government to develop their capacity to provide advice that can lead to a clear and coherent set of strategic policy directions. This will not necessarily require that all policy conflicts are resolved. Rather, the task is to manage inconsistent demands so that potential conflict is defused. Any remaining inconsistency which remains should be understood and not be an unwitting outcome.

Initially at least, the development of a set of strategic policy directions may be facilitated if it focuses on a longer-term perspective where considerations of immediate political advantage may be less significant. This could involve developing society's appreciation of some longer-term issues, such as the policy implications of the ageing of the population or the future of industry development. It will be important, however, to avoid losing the flexibility to respond to uncertainty and changing situations by being too specific, particularly at a detailed level, as this might later immobilise any necessary creativity. A balance needs to be struck between strategic planning that is sufficiently specific to define directions, so that government and society can create and quickly respond to future opportunities, but is flexible enough to adapt to unforeseen circumstances and avoids unduly raising expectations.

In addition, and notwithstanding the leading role of governments in forging a more open dialogue, it will be important that responsibility for policy coherence is not purely top-down and centrally co-ordinated. Desirably, coherence can be achieved through a more flexible interaction among institutions and people, drawing on people outside of government as well as inside. If necessary, coherence could, in that case, be facilitated by setting out a statement of the government's broad vision and/or key priorities and goals for the medium to longer-term, or by adopting some common principles such as fiscal responsibility. New Zealand is one country that has experimented with a more formal approach to strategic management along these lines in an effort to allow wider society participation in governance while improving attention to longer-term priorities, overall policy effectiveness and the co-ordination of related government programmes and policies where management has been devolved.

One possible means for opening up public consultation along these lines might be through an expansion of the role of the legislature. Indeed, it is noticeable that the policy process is most open in the United States where the administration and the Congress are completely separate. The rise of minor parties in a number of parliamentary systems of government, partly in response to public unrest about the power of the executive, raises the question of whether Parliament might not play a more independent role by making increased use of its committees to at least review policy in the future. The chief difficulty – as always – will be to find the right balance between consultation and consensus-building on the one hand, and the need for the executive on at least some occasions to be able to respond quickly and decisively on the other hand. In addition, from the government's point of view an enhanced role for the legislature would raise obvious difficulties of potential embarrassment and opposition. For these reasons, an enhanced process of consultation using the legislature may work best for longer-term issues where the government does not feel obliged to commit itself too far to a particular or detailed outcome in advance, but where the parliamentary enquiry could provide a vehicle for the government to test the policy climate.

The alternative to trying to build coalitions to advance good policy is to demand less of government and rely more on the market. In fact, both approaches can help towards resolving many of the key problems, and an "either/or" approach is typically not necessary. However, in so far as the genesis of the problems in balancing economic and social development reflect competing claims over the distribution of income, a purely market-based solution may not be acceptable to many people. Arguably, this is frequently the case, especially for structural adjustment issues and social policy, where questions of income distribution are very likely to be central considerations. For that reason, achieving a better integration of social and economic policies may well involve broadening the systems of gover-

Box 4 **The New Zealand Approach to Strategic Management**

Strategic management, as it has evolved in New Zealand, involves an attempt to integrate the government's strategic decision-making systems and its budgetary and performance management systems.

Traditionally, the annual budget process has been the key instrument for reviewing the government's strategy, but this process is largely conducted within the secrecy of the Cabinet room and can encourage an excessively short-term focus. The new approach encourages public participation and "seeks to enrich the budget process by ensuring that wider policy issues are more consciously reflected in the formation of the budget and in appropriation decisions" (OECD, 1997e).

The starting point is a statement of the government's policy strategy for achieving a limited number of goals. This statement, which is essentially a political document, has been used in an endeavour to create a common vision for the country as a whole. On the basis of this vision statement, the government subsequently agrees to a series of medium-term goals for nine "strategic result areas" (SRAs). These SRAs have in turn been used to encourage co-ordination between related groups of programmes and departments, and to inform the annual budget review of taxing and spending priorities. The SRAs also provide the framework from which more specific milestones known as "key result areas" are derived, which then act as benchmarks against which departmental performance can be assessed. Thus, the system is intended to improve both the vertical integration between the political and managerial spheres and the horizontal integration and alignment across sectors, including the opening-up and broadening of the policy process.

At the same time, it is recognised that it is vital that the government continue to exercise control and self-restraint, and be fully accountable for its actions. The primary vehicle for this is the Fiscal Responsibility Act. This act does not set any specific numerical targets or immutable boundaries, but it does require governments to keep the public regularly informed about the true state of public finances, the government's medium-term fiscal objectives, how those objectives are going to be attained, and the key risks involved. In effect a government would be required to face the music if it stepped outside the zone of acceptable fiscal conduct, and as a result the government no longer "owns" fiscal policy.

nance to encompass a more informed and influential dialogue with citizens. The aim should be to obtain a consensus which allows for a better balancing of competing claims while still encouraging individual enterprise and initiative.

6. Conclusion

The responsibility of government to promote economic and social development has not really changed. If anything, government's responsibilities have grown, for example, with new related responsibilities for the environment. What is changing is the role of government, with the government becoming less of a producer and more of an enabler.

This partly reflects another major change, which is a better appreciation of the limits of government power to achieve outcomes without broad-based citizen support and/or in opposition to market forces. Governments are moving towards a more participative form of democratic governance with more devolution of authority and a greater reliance on other partners for service delivery. Equally, when governments do intervene to achieve their social objectives, they are increasingly making use of market instruments, in ways which are more in sympathy with and run less risk of being evaded or even overwhelmed by market responses than the old command-and-control-type regulation. In short, the role of government is focusing on steering rather than rowing.

As the OECD has noted (OECD, 1995*a*): "In the decades to come, the well-performing public sector will be radically different in appearance and behaviour. Typically it will:

- be less involved in direct service provision;
- concentrate more on providing a flexible framework within which economic activity can take place;
- continuously evaluate policy effectiveness;
- develop planning and leadership functions to respond to future economic and social challenges; and
- take a more participative approach to governance."

The changes necessary to usher in this new era will inevitably take time. Public management reform can never be a quick fix. Radical change is usually only possible as a result of a crisis, whereas in most OECD Member countries reforms will be evolutionary but nonetheless fundamental.

Progress can, however, already be seen in the change in the focus of public management reform. A decade or more ago, when the new public management was just starting, the emphasis was very much on the *management* of the public sector. Key phrases which were intended to characterise the reforms at that time were "allowing the managers to manage" and "making the managers manage for results." With time and experience, however, it has been realised that the key influence of the government is in establishing the environment for economic and social development and how it affects behaviour by other parties through its interventions. Accordingly, the focus of the new public management is increasingly turning to the decision-making systems and the wider issues of governance, including what citizens can reasonably expect from government.

Looking to the future, major priority issues that governments will need to continue to address include the following:

- First, the capacity of the public sector itself to implement the new directions and roles of government. As noted above, there is a particular concern about how well prepared the public services of many OECD Member countries are to administer contracts where the provision of the service involves a significant degree of discretion. Further consideration will also need to be given to the longer-term implications for the public service itself and the quality of its advice if its role is heavily reduced to contract management.
- Second, there is a continuing concern about the development of social indicators. Progress here has been less than might have been hoped for. However, while they can only be an aid to judgement, they are essential to better evaluation and advice, leading to better and more cost-effective social policy. Moreover, there will be an even greater need for good social indicators to the extent that governments shift to encouraging more competition and choice by contracting out the provision of social services.
- Third, a greater effort needs to be made to evaluate the impact of the public management reforms so far. While there is no expectation that the reforms will be reversed, this is an area where policy develops through "learning by doing". It is, therefore, particularly important that a deliberate attempt be made to consider more formally the lessons which can be learnt from the experience so far in order to further improve public management in the future.
- Finally, and most importantly, it is the manner in which governments respond to the broader agenda of governance that will most heavily influence the prospects for economic and social development in the future. The challenge ahead for public management is, therefore, to develop the government's strategic and policy-making capacities. The aim should be to underpin and provide coherence for this broader approach to governance. This would then provide the basis for integrating economic and social policies so that they complement each other, with better outcomes all round.

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