

Unclassified

GOV/PGC(2004)17



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

15-Oct-2004

English - Or. English

**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEE**

GOV/PGC(2004)17
Unclassified

MODERNISING GOVERNMENT: THE SYNTHESIS

**30th Session of the Public Governance Committee
OECD Headquarters
28-29 October 2004**

This document is presented to the Committee for comment by written procedure. Please send any comments you may have to the Secretariat by 15 November 2004.

For more information, please contact Alex MATHESON,
email: alex.matheson@oecd.org; Tel: (33-1) 45 24 90 85

JT00171829

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English - Or. English

MODERNISING GOVERNMENT: THE SYNTHESIS

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
THE REVIEW	6
GOVERNANCE – A WORK IN PROGRESS	7
Governance and public administration.....	7
Open government	9
Beyond transparency?	11
GOVERNMENTS AND MARKETS GROW APACE	12
Using markets for public purposes.....	15
Public-Private Partnerships.....	15
Outsourcing	16
Vouchers.....	17
Findings.....	19
REALLOCATION AND RE-STRUCTURING: THE HEAVY MACHINERY OF REFORM	20
Reforming organisational structure.....	20
Using budget process for strategic reallocation and re-engineering	22
Findings.....	23
ORGANISING AND MOTIVATING PUBLIC SERVANTS.....	25
New approaches	25
Changes in the nature of civil services.....	26
The Mandarins	27
Findings.....	28
ENHANCING AND CONTROLLING PUBLIC SECTOR PERFORMANCE.....	30
Performance	30
Accountability and control.....	32
Findings.....	35
HOW CONTEXT MATTERS.....	37
Variations in context dependency	39
How to improve mutual learning at the international level?	41
MODERNISATION INSIGHTS	43
Environmental trends	43
Reflections on Public Management.....	44
Findings on Key Public Management Policy Areas.....	45
IN CONCLUSION	47

EXECUTIVE SUMMARY

The last two decades saw an influx of ideas and initiatives into the domain of public management in OECD member countries. This Review set out to acquire a deeper understanding of how some of these changes worked out with a view to helping those involved with public management policy equip themselves for the future.

Many OECD governments expected that getting government out of commercial activities, better steering, less bureaucracy and more use of regulation and non-government provision, would allow core government expenditure to be reduced. Because of these policies, some OECD governments are now more efficient. But it turns out the fiscal stress which triggered the modernisation movement was not mainly about government inefficiency. It was a harbinger of deeper changes in society. Traditional public administration was not intrinsically flawed – after all amongst many members it delivered the physical and human infrastructure, and the market conditions, for unprecedented prosperity and security. The stresses were symptoms of governments out of fit with a changing society, and an educated and empowered citizenry looking to amend their social contract. Government is more present in OECD societies than it was two decades ago. But the nature of public policy problems, and the mix and modes of intervention, are undergoing deep change.

Public sector reforms of the last twenty years did not “re-invent government” in OECD countries. More realistically it has been a period in which governments had to scramble to keep up with changes in society. In this process, new ideas were picked up in many countries, making public administration more flexible and transparent. But the process of change also showed that public administrative arrangements are inextricably linked to deeper institutions of public governance, and that managerial changes which affect the role of government can be intensely political. The governmental values of responsiveness, responsibility, and legitimacy are in ascending order of governance importance. Public management policy makers need to be aware of possible impacts at all three levels.

The main stimulus for reform has been fiscal stress. In retrospect this did not trigger a fundamental shift in thinking about the role of government in society. Rather it was a signal that after decades of government expenditure growing faster than economies, the limits of affordability had been reached. Since around the 80s, economies and governments have grown at the same rate across the OECD as a whole. Within that, the main trends have been reductions in the relative size of government in the United States and the Westminster system countries, major increases in Japan and Korea, and some increase in France and Germany.

The review examined some key modernisation issues:

- Across OECD member countries, governments are becoming more open. This movement reflects deeper change in the expectations of citizens which predates New Public Management. But it has found expression in the recent uptake of FOI legislation, and in new laws and regulations covering budgeting, accounting, regulation and service delivery.
- As markets have grown more elaborate, private and public work became more alike and contracting in and out is now common and in general work well. It remains important however, not to blur private gain and public interest, or obscure public responsibility or accountability. And governments must protect their freedom of future action if priorities change.

- Governments have also become more active creators of quasi-markets in the social area through vouchers, on environment and resource management through tradable resource rights, and through replacing network monopolies with competitive, regulated, commercial structures. The areas where such policies can be applied are significant – but they are not a panacea. Their application is confined to areas of the economy with special characteristics.
- Since governments had to stop growing as a proportion of the economy, the need to set outer limits to expenditure and to reallocate within those limits, has changed national budgeting from a support function to the primary vehicle for the strategic management. The budget process is also frequently used as a platform for wider managerial reform.
- Organisational change is necessary for governments to adapt to changing needs. But creating new organisations is a blunt instrument best used to build important new capacities, rather than as a stimulus for management improvement. The proliferation of more or less autonomous arm's-length public bodies makes collective action difficult.
- A uniformly managed and regulated public service is not necessary in a modern economy, but the growing complexity of government places an added premium on government officials at the centre of government being connected within a common public interest culture. Individualised employment policies have become increasingly common because of wider labour market trends. But they make a collective culture more difficult to achieve.
- Many modern intervention policies require specific targets, differentiated processes and complex measurement and evaluation – an emphasis on “performance”. (In contrast to standardised services delivered nation-wide which emphasise “process”) The performance movement has increased formalised planning, reporting and control across many governments. This has improved the information available to managers and policy-makers. But experience shows it can also risk a new form of bureaucratic sclerosis. More attention needs to be given to keeping performance transactions costs in check, and making optimal use of social and internalised motivators and controls.

The review also reached some wider conclusions about the policy challenges of public management:

- As societies keep changing, governments must keep adapting. It is not a matter of one-off “reform”, but of having a whole-of-government public management policy capability which enables governments to make adjustments with the total system in mind. Effective public management policies need clear problem diagnosis and outcome evaluation.
- While all OECD governments are being lifted in the same global tide, there are no public management cure-alls. History, culture and stage of development give governments different characteristics and priorities. Adaptation can be assisted by learning from other governments, but unless countries are very similar indeed, learning will work better at the level of understanding system dynamics than at the level of instruments and specific practices.
- The contemporary problem is how to organise the public sector so that it can adapt to the changing needs of society, without losing coherence of strategy, and continuity of governance values. Modernised governments are more responsive to groups of citizens. But there is a cost in capacity for collective action, when the public service is differentiated and fragmented. New management approaches need to go beyond contracting and reporting to give renewed attention to connecting the public interest to individual motivation and values.

Makers of public management policy for the next 20 years face hard political choices. Pressures to cut low value activities, find more efficient means of delivery, and make optimal use of the private sector, will not relent. There will also be a need in many OECD countries to cut back social entitlement programmes. Most governments cannot increase their share of the economy, so only thus can they fund social security, address the inequity and exclusion that accompanies successful markets, ensure security in an open society, and individually and collectively take on the global humanitarian, security and environmental responsibilities that ensure the sustainability of our values and prosperity. Periodic “Big Bang” public expenditure adjustments will remain a hard fact of life.

New demands on builders of public management systems for the first quarter of the 21st century will be for: more challenging interventions and regulatory policies in the social, security, inter-governmental, and market spheres. These will require leadership, from officials with enhanced individual technical, management and political capacities, who think and plan collectively, who can work well with other actors. Governments may need to reinvent the idea of senior public officials bound together by common governance and professional values.

Questions for discussion

How has the public management policy agenda changed in your country?

What have been the barriers to achieving a whole-of-government perspective in public management?

What can be done to enhance the adaptivity of public service systems?

THE REVIEW

1. The Modernisation Review takes an overview of public sector modernisation in OECD member countries over the last 20 years. The study presents developments in governance and government broadly, but we arrive there as a result of having examined and thought about the interaction between particular public management policies and “whole-of-government” dynamics.

2. Our dedicated research by no means covers the full topic. We touch but do not explore important developments such as the movement of power between levels of government, the extension and elaboration of regulation, the impact of electronic communication and information tools, new networks and relationships with stake-holders, and major developments in service delivery. Because we had very limited resources, we focused on selected dimensions of managing government as a single enterprise. But making sense of what we found required us to posit a wider theory about what is going on in government.

3. In initiating the study we hypothesised that certain public management policies had particular importance as “levers” on public sector behaviour. We began an individual study of each of the following: Public Employment/Civil Service Arrangements, Performance; Organisational Structure, Accountability and Control, Changing Role of the Centre, Open Government and the use of Market Type Mechanisms.

4. Once into the study we realised these were not the same. Some were drivers of change, some consequences of change, and “performance” was an aspiration influenced not by one but by several public management instruments. The Changing Role of the Centre proved difficult to get a grip on – much is informal and particular to context and we lacked the necessary qualitative information. So we deal with the role of the centre indirectly where we touch on decentralised and delegated management under different sub-topics and, in this paper, we focus directly on only one central agency lever the budgeting and financial management system.

5. This synthesis paper draws together our general conclusions on how these different levers have influenced public governance in different OECD countries, and reflects on how our understanding of the dynamics of public management and governance has changed over the course of the reform period. It also identifies challenges facing governments in the future, and, hopefully, will help governments think about how to ensure their public management policies are coherent, manageable, and calibrated to national circumstances.

GOVERNANCE – A WORK IN PROGRESS

6. The 30 members of the OECD share core governance elements. These have emerged from the evolution of the modern state. Core elements are: democracy and citizenship, a permanent civil service, the rule of law, separated powers, secularity, representation, competitive political parties, written constitution, judicial review and in some places federalism.¹ Most of these elements are held in common across OECD countries, but combined in different ways. We have republics and constitutional monarchies, which are unitary or federal, headed by presidents or prime ministers, with bicameral or unicameral legislatures. Governments may operate under administrative law or common law, with a strong Executive or a strong Parliament, under close or distant judicial scrutiny, with a Cour des Comptes or an Auditor General, within a written or an unwritten constitution, Heads of government may be directly or indirectly elected, ministers may be voted or appointed. General elections may be proportional, or first past the post. Powers are differently separated, and each branch of government differently organised.

7. These formal differences reflect constitutional history. But more importantly they signify that nations are animated and distinguished by cultural forces rooted in their past. These differences, formal and cultural, are influential in the organisation of public administration.

8. The amalgamation of the core elements into national governance systems has only recently gained wide international acceptance – and then for less than half of the world's population. The democratic fundamentals we now take for granted (*e.g.* suffrage for more than a small proportion of the population) are relatively recent for all countries. A third of OECD member countries were under non-democratic forms of government in their recent history. The key “reinvention” has been the spread of constitutional and democratic systems of government since the middle of last century.

9. Governance is therefore a work in progress. Not only are many countries still in transition from regimes which lacked core elements of what we now consider good governance, but that idea itself is in motion. Governance has to continue to adapt in response to such pressures as the spread of national and international commerce, shifting of powers between levels of government, technologies of mass persuasion- and mass destruction, the permeability of national borders, the vulnerability of free societies to terrorism, and the influence of globalized communities of values and interests – for good and for bad.

Governance and public administration

10. “Governance” refers to how public decision-making is arranged, and the safeguards for ensuring constitutional values are protected over time. Public administration is not only important to public governance, it is a constituent pillar. Ideas of good government emerge from views on the status of the individual person- having rights to property, personal inviolability, equality and the right of redress under the law, participation in collective decision-making, and having duties and obligations as the citizen of a state. At a basic level these values are what OECD member countries have in common. But in their elaboration they also explain why nations are different. They form the DNA of national culture, and have importance in the study of public management because they help explain *why national context matters*. They explain why, even though OECD member countries draw on common governance elements, they have put them together in very different ways.

1. Drawn from S.E.Finer, “The History of Government” Vol. 3, Oxford University Press, 1997.

11. These cultural differences show up in the public management domain in such areas as: the relative importance of social vs. formal controls; the level of non-compliance; the standing of the public service; the disposition to use commercial agents; the preference for career vs. position based systems; the role of unions; the capacity to find national consensus; the disposition to corporatism; and the capacity to change national direction. Not only are there differences between countries in individual elements but there are systemic differences between groups of countries with a different historical heritage.

12. In the period under review, there were ideological movements in some countries to reform the public sector and therefore to change the relationship between government and society – particularly by deregulation, devolution and privatization. These are explicit governance changes. But other reforms undertaken in the interests of better management also impacted on the disposition of power whether this was intended or not. For example, the adoption of better accounting standards by the Executive may also strengthen the role of the Legislature. Or giving agencies more policy making power – could weaken parliamentary oversight.

13. As illustrated in the following quotation from Herbert Kaufmann, any reform can have good or bad effects on the system as a whole. The right thing to do depends on the problems and risks of the specific system:

The irritants (of public bureaucracies) are so disparate that no remedy could be expected to be effective against all of them at once. Besides steps taken to relieve one, often aggravate another.

...depoliticising administration may undermine executive leadership while strengthening political executives may create opportunities for partisan considerations to replace professionalism.

Pitting bureaucrats against each other complicates and slows the decision making process, as do measures to democratize administration, but rationalizing jurisdictions through reorganisation and procedural streamlining inhibits competition and cuts back internal checks and balances.

Turning functions back to the marketplace overcomes some dysfunctions, but the factors which induced people to demand governmental intervention in the first place, soon generate renewed calls for public programmes; markets, after all, are seldom perfect.

Contracting out public services alleviates some failings, but administering contracts has historically been the Achilles heel of government, a source of corruption and mismanagement

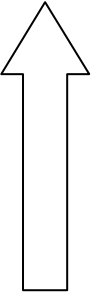
Policy planning and coordination and efficiency are furthered by orderly budgeting systems, but budget analyst inexperienced in specialized fields often end up second guessing skilled and experienced professionals

Decentralizing authority to field officers generally results in prompter decisions; it may also result in grossly disparate treatment of clients in identical circumstances. On the other hand, centralizing authority may advance consistency in policies, but delay action as the centre gets inundated by detail.

One irritation is alleviated, another is intensified.²

14. These different dimensions of public management are not of equal importance. There is a hierarchy of values, between the day to day activities of government, and the shared values which underpin constitutions and hold societies together in the long term. One simplified way of presenting this hierarchy is as follows:

2. Herbert Kaufman, "Major Players: Bureaucracies in American Government". *Public Administration Review*, January /February 2001, Vol. 61, No. 1, p. 40.

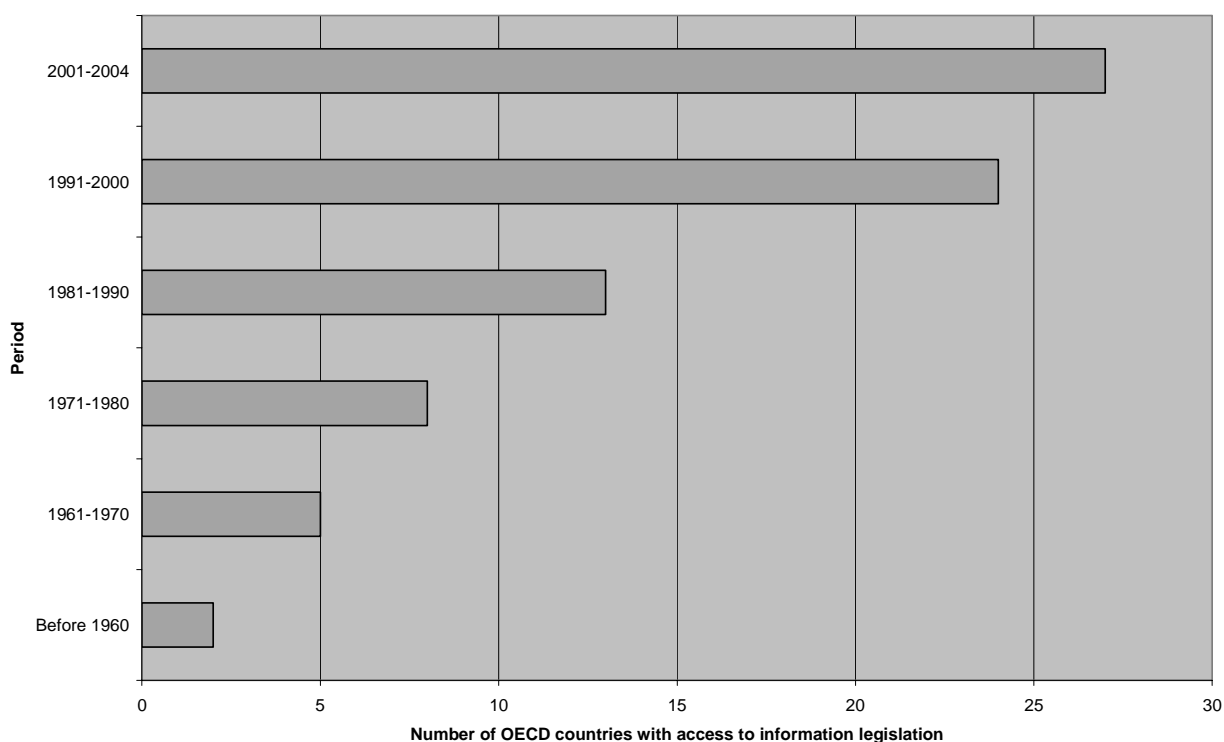
<p>Shorter term significance</p>  <p>Long term governance significance</p>	<p>RESPONSIVE GOVERNMENT</p> <p>Faithfully executes policies of the day. Meets needs of client groups. Communicates and Consults with them.</p>	<p>Current policies meet needs of citizens involved</p>
	<p>RESPONSIBLE GOVERNMENT</p> <p>Serves interests of all citizens, attends to long-term impact of policies. Does not burden future generations. Adaptive – takes “hard” resource and organisational decisions when necessary.</p>	<p>Takes care of the collective interest</p>
	<p>LEGITIMATE GOVERNMENT</p> <p>Constitution and Law-abiding in spirit/ action Treats citizens fairly respects individuals and communities. Sense of security maintained. Transparent decision-making Use of coercive power safe-guarded. Collective interest protected from private gain.</p>	<p>Maintains/builds trust in public institutions</p>

15. The complexity of government is that an action to fix a short- or medium-term problem, can impact on legitimacy. For example, emergency security measures could reduce confidence of public that their rights are adequately protected. Or – contracts to make senior officials more sharply responsive to the government of the day – might reduce their sense of responsibility for the collective interest. Or – while an unresponsive government can be voted out of office without harm to trust in public institutions, persistently unresponsive administrations will erode public confidence and trust. Governments may come and go – but if the legitimacy of the institution of government is damaged, a society’s ability to function is permanently impaired.

16. There is, therefore, no bright line between governance and public management – any significant public administrative change can have governance consequences.

Open government

17. Underneath the obvious governance changes are more dispersed tendencies as societies change and citizens redefine how they relate to the state. The most important of these in the period we are reviewing, is towards more open government. There has been progress from a hope, to a demand, and in some cases to a legal right, for citizens to have access to official information. There is a louder public demand to know what decisions are taken by officials and who took them. There is an expectation to be made aware in advance and consulted about decisions which affect them. Democracy is becoming more continuous. This governance tendency did not have its roots in the public sector reforms of the last 25 years – but found expression though some of those reforms.

Figure 1. Figure 1. Date of first introduction of laws on access to information in OECD countries

18. Traditionally even monarchies opened selected events to the public. In both England and France, royal births were made open to a (select) public to reinforce the legitimacy of succession. But the important change is from a government *choosing* what it reveals, to a principle of *all* government information being available, unless there is a (defined) public interest for it to be withheld. And the scope of modern government gives much more to be open about.

19. The opening up of government can be seen in the recent spread of freedom-of-information legislation throughout OECD member countries in some cases enforceable by Ombudsmen (a modern age governance innovation originating in Sweden) Important too has been the widening role of auditors, independent government statistics, legislated fiscal transparency, the adoption of public accounting policies referenced to wider standards, and the use of independent agencies to make technical advice transparent in some sensitive policy areas. In setting up such bodies (*e.g.* an independent reserve bank) government deliberately “ties its hands” by exposing what could otherwise be a secret transaction. Governments take these steps either to create wider trust and confidence, or because citizens demand it, or both.

20. The demand for greater openness does not just apply to information. Officials are under increasing pressure to take responsibility as individuals for their use of the power and resources at their disposal. There is pressure for officials not only to give a public account, but to bear personal consequences if power resources have been misused.

21. This is reflected in the increasing attention to “accountability”. In modern governance accountability has morphed from being a contract-like obligation to “give account” to a general moral duty on public officials. The difference is captured in the idea that while contractual or managerial accountability is *an obligation on the less powerful (the agent) to the more powerful (the principal)*, public accountability can also be *a duty on the powerful (the government) to the powerless (the ordinary citizen)*. In its wider sense, accountability emerges as a modern governance value.

Beyond transparency?

22. Transparency has unquestionably strengthened modern public governance across the board. But not all openness improves governance- and in some cases can undermine it. Our review of “Open Government”, unbundles the concept. Openness can cover not just transparency but public consultation on policies, and also participatory decision-making. If consultation is the extension of the principle of openness to policy formation – it reflects openness as a governance value. But as a way to ensure selected policies are suited to the problem they address, or to secure involvement and commitment, or to strengthen the voice of users about policy effectiveness, it is a planning, policy implementation or management device, to be judged against other such devices.

23. An important managerial development in openness, for example, has been the creation of arm’s-length review bodies and processes with the right to put review results directly to the public without political massaging. This idea is being increasingly used in education, health and public management review. It is an extension into analysis and evaluation of a principle which already well established in government statistics. The idea is to improve public services by introducing the power of public opinion and, where results are listed comparatively, the power of competition. .

24. GOV’s work with Members on Citizens as Partners³, has made it clear that consultation, and even active participation in decision-making, does not mean that elected and appointed officials should relinquish their responsibility for taking final decisions To do otherwise would undermine the established ministerial accountability mechanisms of representative government – a key governance pillar. Participatory democracy in the form of consensual decision-making and “direct democracy”, has its uses – and in a very few countries, binding referenda and continuous polling, are an important component of public governance. But they are not “more” democratic in the abstract. Whether they serve or threaten the collective interest depends on context and circumstance.

3. *Citizens as Partners: Information, Consultation and Public Participation in Policy-Making*, OECD, 2001.

GOVERNMENTS AND MARKETS GROW APACE

From 1920 until around 1980, the economies of western countries grew by an average 628%.⁴ But, as illustrated below, even more dramatic during that period was the rise in public expenditure as a proportion of GDP.⁵

**Table 1. General government expenditure as percent of GDP
Selected years, 1913-1996**

	1913	1920	1937	1960	1980	1990	1996
Australia	16.5	19.3	14.8	21.2	34.1	34.9	35.9
Canada	n/a	16.7	25.0	28.6	38.8	46.0	44.7
France	17.0	27.6	29.0	34.6	46.1	49.8	55.0
Germany	14.8	25.0	34.1	32.4	47.9	45.1	49.1
Italy	17.1	30.1	31.1	30.1	42.1	53.4	52.7
Japan	8.3	14.8	25.4	17.5	32.0	31.3	35.9
Netherlands*	9.0	13.5	19.0	33.7	55.8	54.1	49.3
New Zealand	n/a	24.6	25.3	26.9	38.1	41.3	34.7
Norway	9.3	16.0	11.8	29.9	43.8	54.9	49.2
Spain*	11.0	8.3	13.2	18.8	32.2	42.0	43.7
Sweden	10.4	10.9	16.5	31.0	60.1	59.1	64.2
United Kingdom	12.7	26.2	30.0	32.2	43.0	39.9	43.0
United States	7.5	12.1	19.7	27.0	31.4	32.8	32.4
Average	12.1	18.9	22.7	28.0	42.0	45.0	45.4

25. Contrary to the expectation of some reformers in the 80s, the beginning of the period under review, government has not shrunk significantly since that time. As shown below, across OECD as a whole, public expenditure growth has flattened off to the point where it now tracks economic growth. There continues to be quite a wide spread amongst OECD member countries in public expenditure as a proportion of GDP. The most significant converging trend is the relative rise in public expenditure in Japan and Korea. The OECD has reported that public spending to GDP has declined since its peak in 1993 to stand at slightly over 41% in 2003.⁶

4. Taken from Angus Maddison, *Monitoring the World Economy; 1820-1992*, OECD, 1995, Table B-10a.

5. This is taken from a presentation by Allen Schick at the OECD in July 2004. Schick goes beyond observing that government and markets have grown together, to state that each is a condition of the other's success.

6. See OECD, ECO/WKP(2004)3.

Annex Table 25. General government total outlays

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Per cent of nominal GDP																			
Australia	40.3	38.9	36.3	35.5	36.2	37.8	39.6	39.7	39.1	39.1	38.2	37.1	36.8	35.7	35.6	37.1	36.3	36.4	36.2	36.2
Austria	55.8	56.1	55.2	53.6	53.1	54.2	54.9	57.9	57.4	57.1	56.6	53.9	54.0	54.0	52.3	51.6	51.3	51.2	50.5	50.2
Belgium	58.9	57.0	55.1	53.4	53.4	54.4	54.7	55.7	53.4	52.9	53.0	51.4	50.7	50.1	49.4	49.5	50.5	51.4	49.9	50.0
Canada	47.5	46.1	45.4	45.8	48.8	52.3	53.3	52.2	49.7	48.5	46.6	44.3	44.4	42.5	41.0	41.4	40.6	40.1	40.1	39.9
Czech Republic ^a	..	..	..	..	..	..	48.0	69.9	50.4	57.2	45.5	45.0	46.0	46.0	46.1	47.3	49.9	50.8	50.6	50.2
Denmark	53.3	55.0	57.2	57.3	57.0	57.8	59.0	61.7	61.6	60.3	59.8	58.0	57.6	56.3	54.9	55.3	55.8	56.1	55.7	54.7
Finland	47.9	48.5	47.0	45.2	48.6	57.7	63.0	64.2	62.9	59.6	59.7	56.4	52.8	52.1	49.1	49.2	50.1	50.6	50.9	50.2
France	52.7	51.9	51.4	50.4	50.7	51.5	53.0	55.3	54.9	55.1	55.4	54.9	53.7	53.5	52.5	52.5	53.4	54.5	53.8	53.4
Germany ^b	45.4	45.8	45.3	44.0	44.5	47.1	48.1	49.3	49.0	49.4	50.3	49.3	48.8	48.7	45.7	48.3	48.5	48.9	48.2	47.1
Greece	45.2	45.1	44.0	45.4	50.2	46.7	49.4	52.0	49.9	51.0	49.2	47.8	47.8	47.6	49.9	47.8	46.8	47.2	47.4	47.1
Hungary	..	..	..	..	..	56.7	60.3	59.8	63.4	56.9	53.9	51.8	52.8	50.0	48.0	48.5	53.4	50.1	50.6	49.9
Iceland	40.6	37.5	42.6	45.2	42.4	43.8	44.7	44.6	44.4	43.8	43.3	41.7	42.4	43.5	43.2	44.1	46.2	47.9	46.5	45.3
Ireland	53.7	52.1	48.6	42.2	43.3	44.9	45.3	45.1	44.4	41.5	39.6	37.2	35.0	34.6	32.1	33.8	33.3	35.2	35.8	35.8
Italy	51.4	50.8	51.5	52.8	54.4	55.5	56.7	57.7	54.5	53.4	53.2	51.1	49.9	48.9	46.9	48.7	48.0	48.9	48.7	49.0
Japan ^c	31.0	31.5	30.9	30.2	31.7	31.5	32.5	34.2	34.8	35.8	36.3	35.1	36.1	37.7	38.2	37.7	38.2	37.7	36.9	36.6
Korea	18.0	17.1	17.1	18.0	18.5	19.6	20.7	20.2	19.8	19.5	20.5	21.2	23.5	22.5	22.0	24.0	22.2	24.3	24.2	23.9
Luxembourg	..	..	..	..	43.2	44.4	46.0	45.7	44.5	45.5	45.6	43.3	42.0	41.3	38.5	39.1	44.3	46.9	46.6	47.2
Netherlands ^d	56.9	58.4	56.6	54.5	54.8	54.8	55.8	56.0	53.6	51.4	49.6	48.2	47.2	46.9	45.3	46.6	47.5	48.9	47.7	46.9
New Zealand	..	53.6	52.7	52.0	53.3	51.5	49.5	46.0	43.0	41.9	41.0	41.6	42.9	41.4	40.2	39.0	38.6	38.5	38.7	38.5
Norway	48.3	50.5	52.6	52.2	52.8	54.9	56.3	55.1	54.1	51.6	49.2	47.3	49.7	48.3	43.4	44.8	47.6	48.4	47.6	47.6
Poland	..	..	..	..	..	49.9	51.4	50.8	46.1	49.4	48.7	48.1	46.4	46.1	44.5	45.3	45.9	46.2	46.6	46.0
Portugal	41.3	40.0	38.5	38.8	42.1	45.1	46.2	47.8	46.0	45.0	45.8	44.8	44.1	45.3	45.2	46.3	46.1	47.9	47.0	46.2
Slovak Republic	..	..	..	..	..	..	..	..	57.8	54.1	61.5	65.0	61.9	59.2	63.6	54.3	49.5	46.6	44.7	43.4
Spain	42.6	41.0	40.9	42.2	43.4	44.9	45.9	49.4	47.3	45.0	43.7	41.8	41.4	40.2	40.0	39.6	39.9	39.5	39.3	39.1
Sweden	63.3	59.5	59.9	59.8	60.7	62.7	67.6	72.9	70.9	67.6	65.2	62.9	60.7	60.3	57.3	57.0	58.2	58.2	58.3	57.9
United Kingdom	45.6	43.6	41.1	40.5	42.2	44.0	45.7	45.7	45.0	44.6	42.7	41.0	39.8	39.2	37.0	40.3	40.9	42.6	42.6	43.3
United States ^e	36.9	36.7	35.9	35.7	36.6	37.4	38.1	37.5	36.6	36.5	36.1	34.9	34.2	33.8	33.7	34.6	35.3	35.7	35.2	35.2
Euro area	49.3	48.9	48.5	47.9	48.7	50.1	51.3	53.0	51.8	51.4	51.5	50.2	49.3	48.9	47.1	48.1	48.3	49.0	48.4	47.9
Total OECD	40.5	40.2	39.5	39.2	40.1	41.4	42.5	43.1	42.1	42.1	41.7	40.5	40.1	39.8	39.0	39.9	40.3	40.7	40.3	40.1

Note: Total outlays are defined as current outlays plus capital outlays. Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 27. See *OECD Economic Outlook: Sources and Methods* (<http://www.oecd.org/economic-outlook>).

a) The data for 1993 and 1995 reflect large scale privatisation of public enterprises. From 2003 onwards the projections are based on the GHS data profile.

b) The 1995 outlays are net of the debt taken on this year from the Inherited Debt funds.

c) The 1998 outlays would be 5.3 percentage points of GDP higher if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account. The 2000 outlays include capital transfers to the Deposit Insurance Company.

d) The 1995 outlays would be 4.9 percentage points of GDP higher if capital transfers to a housing agency offering rentals to low income people were taken into account.

e) These data include outlays net of operating surpluses of public enterprises.

Source: OECD.

26. However within this picture of a relatively stable level of public expenditure, important trends are evident in its composition. The largest of these are rises for social transfers, social services, inter-governmental transfers and interest, and the reductions in subsidies to industry. The proportion of expenditure on general public services has risen somewhat.

**Table 2. Central government expenditure as a percent of GDP, by sector
Averages of 11 western countries**

	1980	2001
Defence	7.8	5.3
Public safety and order	1.7	2.8
Infrastructure	1.1	1.1
Basic research	0.6	0.4
General public services	5.6	6.0
Development assistance	1.0	0.6
General transfers to subnational governments	8.1	10.5
Interest	7.6	9.2
Subsidies to market sector for goods other than social services	12.2	5.3
Public contributions to non-profit sector for goods other than social services	0.6	0.7
Social services ¹	3.7	5.7
Education	8.3	7.7
Health	11.6	10.3
Social transfers	30.3	34.8

Western countries are Canada, Germany, Italy, Mexico, Netherlands, New Zealand, Spain, Sweden, United Kingdom, United States.

Source: OECD Micro-Economic Classification.

- *The regulatory reach of governments is increasing.* Over the period many governments have not only got out of activities where they were competing with the private sector (e.g. airlines) but many have withdrawn from ownership and provision of energy, water and public transportation, in favour of creating new markets and regulating those markets. Moreover, as prosperity has increased the complexity of our societies, the reach of regulation penetrates deeper into our lives. In 1969 Peter Drucker⁷ wrote:

Government surely has never been more prominent than today. The most despotic government of 1900 would not have dared probe into the private affairs of its citizens as income tax inspectors now do as a matter of routine in the freest society. Even the Tsar's secret police did not go in for the security investigations which are now taken for granted. Nor could any bureaucrat of 1900 have imagined the questionnaires that government now expects businesses, universities, or citizens to fill in ever-mounting numbers and ever-increasing detail...

26. Thirty-five years later the penetration of government has increased manifold – government concern has spread in all directions – pollution, health, safety, protection against abuse within the family, corporate governance, environmental protection, data matching, protection of minorities, global terrorism, credit control, commercial law, consumer protection, product labelling, consumption taxes, means testing, illegal migration, control of internet and so on. At the same time government's capacity to collect and manipulate information in these areas has increased phenomenally. By comparison, 1969 was an age of innocence.

7. *The Age of Discontinuity*, Peter F. Drucker, Heinemann, London, 1969, page 198.

Using markets for public purposes

27. The use of market-type mechanisms is clearly increasing in member countries although it is difficult to quantify precisely since governments do not maintain standardized or comparable data over time on its use. Our review in this area, which covers public-private partnerships (PPPs), vouchers and outsourcing, is at this point incomplete – there is to be an expert meeting early next year to gather a wider set of country information.

Public-Private Partnerships

28. Public-private partnerships refer to the private sector financing, designing, building, maintaining, and operating (DBFMO) infrastructure assets traditionally provided by the public sector.⁸ The objective of PPPs is to achieve efficiency gains through competition by private sector providers, transferring risks from the government, and taking advantage of private sector expertise. They originated in the United Kingdom in 1992, and the United Kingdom is today by far the biggest user of PPPs among member countries. Its use has however expanded to other member countries (including the Czech Republic, Hungary, Iceland, Ireland, Italy Japan, Korea, Mexico, and Portugal).⁹ While their use is growing, PPPs remain a small proportion of government investment. For the United Kingdom, the biggest user, about a tenth of total public capital investments in 2003-2004 are through PPPs and this has been relatively consistent over time.

29. PPPs have mostly used for highway infrastructure. For example, Portugal's €5 billion National Road Programme uses PPPs. It is also used for other transportation infrastructure. The Netherlands is using a PPP programme to introduce high-speed rail links for the *Thalys* trains in the Netherlands. The new Athens airport was built on a PPP basis. The light rail linking Stockholm with Arlanda Airport employed the PPP model. They are increasingly used for environmental infrastructure projects such as water systems and solid waste facilities. The most common use is for the provision of buildings – including schools, hospitals, nursing homes, prisons, embassies and general office buildings. In these cases, PPPs generally covers the building and not the specialized services operated in the building.

30. The largest analysis of a PPP program was undertaken in the United Kingdom in 2003.¹⁰ Nearly 90% of all PPP projects were delivered on time by the private partner whereas only around 30% of non-PPP projects were delivered on time. Four-fifths of all PPP projects were delivered on budget whereas only one-fourth of non-PPP projects were delivered on budget. All PPP projects that experienced budget overruns were due to changes in requirements by the government. In terms of operational performance, 35% of projects were assessed “as expected,” 16% as “surpassing”, 25% as “far surpassing” expectations. One-quarter of projects, however, did not meet expectations. Assessments in other countries are generally positive about design-build-maintain-operate PPPs.

31. The major debate about PPP's concerns financing – notably how PPP financing relates to the traditional budget system and the cost of capital for the private partner. The use of PPP's may offer governments – specific ministries – the possibility to bypass the established processes for ensuring budgetary discipline and constraining expenditure. The investment may not be recorded up-front with only the annual fee paid to the private partner being recorded in each year's budget for the infrastructure's “whole-of-life”. The original investment could escape the scrutiny of the budget process, and future fiscal flexibility would be limited by the annual fees for the private partner. In the United Kingdom, just over 2% of annual resources were thus committed in 2003-2004.

8. PPPs can also involve the private sector purchasing already existing infrastructure assets and redeveloping them.

9. See OECD, ECO/WKP(2004)3.

10. *PFI: Meeting the Investment Challenge*, HM Treasury, July 2003.

32. The private partner's cost of capital will always be higher than the government's "risk-free" cost of capital. This is regardless of whether the payments by the government for the project, as called for in the PPP contract, are used as collateral by the private partner for obtaining financing for the loan.

Outsourcing

33. A feature of the period under review has been the trend for governments to increase and extend their use of outsourcing. The demand factor was the need for governments to operate more efficiently, but there were also significant developments in supply. The private sector has seen an explosion in the variety and quality of services. These developments, especially in knowledge intensive areas, coincided with the governments having to address more complex problems. Government needed a big variety of specialised expertise, and it was not practical to maintain it in house when it could buy it when it needed.

34. In the period under review, outsourcing has increased in member countries although strong variations exist between individual countries.¹¹ Separate studies on the United States estimate that overall outsourcing has grown by 33% over the past 10 years.¹²

35. The range of services outsourced in member countries can be divided into three distinct groups:

- "Blue collar" support services. (*e.g.* the cleaning of buildings, facilities management, waste management, operations of food service outlets and the provision of guard services). In many countries, government has withdrawn completely as a direct service provider in these areas.
- High-value professional services activities ancillary to the core mission of the ministry or agency (*e.g.* the outsourcing of complex information technology functions). This is an area where the greatest growth has occurred in recent years but country variations are pronounced.
- Outsourcing of mainline functions previously conducted by government. Outsourcing research and development, information technology functions and the operation of various infrastructure assets – transportation, water supply, and sewage – is increasing across member countries. Less common generally, but important in some countries are a diverse range of services such as prisons, post-war reconstruction, search and rescue, food inspection, care for the elderly).

36. What evidence there is tends to point to significant gains from outsourcing on service quality and costs. A survey of 66 large cities in the United States found a 25% improvement in service, and savings of up to 60%.¹³ A study of over 2 000 outsourcing initiatives in the U.S. Federal Government found an average cost savings of 31%. In other countries average cost savings have been estimated at 20% in the United Kingdom, 15-20% in Australia, 5-30% in Denmark and 20-25% in Iceland.

37. Partial evidence suggests that the area of public policy where outsourcing has increased most is in development assistance. Some national development agencies out-source almost all aid delivery. A key factor is clearly that in developing countries donors often do not have a standing direct service delivery capacity, and the use of contracted services allows much more rapid mobilisation of specialised services. There may be potential governance risks however. Development assistance is not under the direct scrutiny of the citizens providing the resources, and the incentives on development agencies to achieve goals in terms of "getting money out the door" may be served by delivering funds to sub-contractors rather than

11. For a full discussion, see the OECD Input-Output Database.

12. This percentage excludes military related outsourcing.

13. Robert J. Dilger, *et al.* *Public Administration Review*. January 1997.

beneficiaries. The arm's-length nature of much aid delivery is a further reason for the particular importance of external evaluation and outcome monitoring in this area.

Vouchers

38. The use of vouchers has been expanding steadily, but in defined areas.

39. Vouchers separate the provision of public services from its financing. Government provides funds in the form of a voucher to qualified individuals which entitles them to specified services at authorized suppliers. The government monopoly on the provision of public services is removed and private suppliers, who meet minimum standards, compete to supply the services. The individual voucher-holder chooses among the different suppliers and pays with the voucher. The goals are to create consumer choice and competition among private sector providers and so increase quality and efficiency.

40. Understood more broadly, the voucher concept takes three main forms. An *explicit voucher* is a physical coupon or smart card. The supplier of the services exchanges this for cash from a government body. With an *implicit voucher reimbursed to suppliers* a qualifying recipient chooses from designated suppliers and upon registering with one of them, the government pays directly to that provider of the service. The third form is an *implicit voucher reimbursed to users*. The government reimburses the user for expenditure on qualifying services from qualifying suppliers. This would most often take the form of "tax credits" but can equally take place as a traditional government expenditure program. The use of explicit vouchers is rare in member countries, but the use of the two kinds of implicit vouchers is much greater.

41. Vouchers are mainly applied in the education, housing and social services sectors across member countries. This includes child care (nursery education), primary and secondary schooling, higher education, assistance for homebuyer's and renters, care for the elderly and care for the physically disabled. The largest and oldest explicit voucher program in member countries is the United States *Food Stamps* Program. Started in 1961, it provides 19.1 million low-income individuals with an electronic card they can use like cash at most grocery stores to ensure that they have access to a healthy diet. The program cost \$23.9 billion in 2003.

42. Other large explicit voucher programs cover *housing assistance to low-income families*. Vouchers in this field generally provide for the difference between actual rent paid, up to a limit based on family size and local area, and a certain percentage of the recipient's salary. The amount of the housing voucher is adjusted based on housing market trends.

43. The largest implicit vouchers programs are to be found in *education* – most notably in the Netherlands and Sweden. Over 70% of total funding in the Netherlands goes to private schools. Due to its size and long tradition, the private school system in the Netherlands operates essentially as a *de facto* public school system. In 1992, Sweden embarked on a policy that also guarantees equal government funding to public and private schools. The share of students attending private schools has grown to about 4% since. These schools are for the most part not affiliated with any religious group but differentiate themselves according to teaching methods, specialized subjects, or students with specialised needs. The private schools must accept all pupils from their immediate geographic area. Sweden and Denmark also use implicit vouchers for *higher education*. The institutions funded based on the number of students.

44. Vouchers are also used in a number of countries for the provision of *child care services* and *long-term care for the elderly and the handicapped*.

45. An analysis of member countries' experience with the use of vouchers identified critical factors for the successful use of vouchers. These are a genuine choice of suppliers, some scope for service

differentiation (*i.e.* not excessively regulated by government), and information to allow users to make informed judgments about individual service providers (*e.g.* “league tables”).

Findings

46. Market-type mechanisms of various kinds have become more common across OECD member countries. This includes government withdrawing from activities and the market “taking over, but also areas where it is more accurate to say government is “creating” markets. After stopping direct delivery of electricity, telecommunications and other services, governments have in many cases constructed markets to ensure competition. In the management of natural resources (such as fisheries) and in the protection of the environment, governments have devised markets for tradable rights.

47. Outsourcing has grown significantly over the past two decades and has become a mainstream element of modern public administration in most OECD member countries. However, its introduction is sometimes controversial. The controversy can arise from the displacement of public servants, the opposition of unions, and the mistrust of the public. It will continue to be important for governments to manage these factors, because it is inevitable with the demands on government, and the further development of private sector services, that there will be more outsourcing in the future.

48. The limits on outsourcing are the degree to which a service can be monitored at arm’s-length, and the governance factors of impact on government’s capacity, reputation and freedom of future action. Governments need to ensure that they: are not unduly beholden to any particular provider; continue to have the operational knowledge to make good policy and delivery choices; do not undermine the public perception of the legitimacy of the state (especially in the use of coercive power); and maintain the capacity to recentralise any important function if future circumstances (*e.g.* a threat to security) demand. Governments would be well advised to have strategic oversight of the observance of these limits, as part of a general policy of encouraging an environment where departments will make good use of the potential for outsourcing.

49. The value of outsourcing depends on the nature of the service, the market of suppliers and the governance risks. In societies with problems about ensuring contracts are let and managed in the public interest, outsourcing can be risky. If the risks of non-delivery are such that government has to put a huge effort into detailed specification, monitoring and enforcement, the advantages of outsourcing will be eroded. These risks vary not only by the nature of service but by sector and country. One advantage of outsourcing in some countries is that it is favourably viewed by the business sector, and this has political advantages for the government involved. It is necessary, however, to have measures in place to ensure that this partisan interest does not affect the calculation of the public interest.

50. PPPs appear to have a significant, but limited role in public management. They are most appealing for large-scale projects like highways that involve extensive maintenance and operating requirements over the project’s whole-of-life. The size of the projects is a prerequisite since the transaction costs involved in preparing the project for bid and negotiating the contracts are such that they can only be justified for large-scale projects. The unique efficiency gains for PPPs derive from the interaction of the design-construction-maintenance-operate phases. The larger the maintenance and operating components, the greater the potential for efficiency gains. Conceptually, PPPs are a specialised form of outsourcing. Their strength appears to come from the internalisation of incentives for ultimate project success. It could well be that these advantages could be achieved without the dimension of private financing, which in some instances involves more cost, but is attractive because it keeps expenditure off government’s books. A

governance risk for PPPs is that they might be used to win political support from the business sector regardless of their public policy merits.¹⁴

51. Vouchers, and voucher-like mechanisms are significant in member countries and their use is likely to increase, especially in social services. However, their impact on the flexibility of public finance will be a limiting factor in the period ahead when most governments will be under heavy pressure to reallocate funds to meet the rising costs pensions and health. The governance limitations on the use of vouchers are three-fold. First, they may allow consumer choice at the expense of equity. Secondly, as an expenditure system geared directly to demand, they can create problems for containing public expenditure. Finally, care must be taken to ensure suppliers don't focus only on higher yield consumers.

52. Vouchers are a useful means of allocating social services in a manner sensitive to demand. Their application, while significant, will be limited to areas where there are clearly delineated and reasonably standard services. Context is relevant to compliance costs. In a society with a highly compliant culture, it is easier to have reasonable assurance of the genuineness of demand. For example, Sweden funds universities on the basis of graduated students, but does not take any special measures to ensure standards are not lowered, because it believes that the mutual academic monitoring undertaken that in sector manages that risk. In another society, or in a sector with new providers, it might not be possible to take that for granted.

14. Jenkinson, Tim, "Private Finance", *Oxford Review of Economic Policy*, Vol. 19, N°2.

REALLOCATION AND RE-STRUCTURING: THE HEAVY MACHINERY OF REFORM

Society is changing more quickly than in the past, and the organisation and focus of the public sector needs active management to be kept up to date. Two strong trends are modifications to the machinery of government, and the use of the budget process to drive major resource reductions and reallocations.

Reforming organisational structure

53. During the period under review there was an unprecedented level of organisational change undertaken for a wide variety of reasons:

- In a number of countries including Spain, Italy, France, Turkey, Japan and Korea and the United Kingdom, there was a significant devolution of authority and functions from central to local government.
- Across OECD member countries generally there was re-organisation of functions driven by the globalisation of public concerns such as trade, environment, and anti-terrorism, and the demands of membership of regional groupings (e.g. the European Union).
- In all countries to different degrees, governments have been withdrawing from/selling off their interest in activities that could be conducted by private entities: without direct involvement by the state; under contract to the state; or under a bespoke public regulatory regime. This meant the shutting down or radical restructuring of major government departments dealing with enterprises such as railways, energy, post office, telecommunications, and public works.
- In moving from being a direct provider of services to creating market structures in new areas (e.g. electricity generation) government's regulatory role grew. This required the setting up of new regulatory bodies—often with a degree of statutory independence from government. With the increasing importance of regulating markets, governments also had to move beyond traditional sectorally-focused and subsidy-based trade and industry concerns, to make a new investment in policies and capacity for whole-of-government interests like competition, pollution control and regulatory harmonisation.
- In a few countries, (the Netherlands, the United Kingdom, and New Zealand provided the clearest examples) governments undertook whole-of-government re-organisation of core public service departments as a “lever” of reform. More recently Japan and Korea have taken moves in the same direction.

54. Devolution, privatisation, the move from direct service delivery to regulation, and contracting out have produced by far the most significant changes to the machinery of government across the OECD. Because of its managerial focus, however, our study focused on structural changes designed to improve whole of government management, rather than those areas where structures changed because the role of government changed.

55.

Outside of core ministries there is a wide-range of bodies exercising public authority and in many cases using public resources, which are very different amongst OECD countries. In many cases these arrangements have accumulated in an *ad hoc* fashion over history, and their management and accountability structures, and their relations to the central collective decision-making apparatus of the government, or to the legislature, have become highly differentiated-and in some cases inconsistent with mainstream governance arrangements. It is this situation we characterised as a “zoo”, in our study of distributed public governance.

Box 1. Examples of arm’s-length government in some OECD countries¹⁵

- In the United Kingdom today, there are 131 executive agencies employing over three-quarters of the civil service. All executive agencies have been established within the past 15 years. In addition, as of March 2000, there were 1 035 non-departmental public bodies, employing over 115 000 staff and spending around £24 billion per year.
- In Spain, more than 51% of the budget is spent by government-related entities (including entities that provide goods and services for commercial transaction but that are not state-owned enterprises); most of this, however, is allocated to the Administration of Social Security.
- In Sweden, there are approximately 300 central agencies today and only a small percentage of civil servants are employed by ministries and not by agencies.
- In France, there are approximately 1 300 “public establishments” created by the national government and an estimated 50 000 created by local authorities.
- In New Zealand, there are 79 Crown entities – excluding schools, tertiary education facilities, fish and game councils and reserve boards – employing approximately 80% of state sector employees and representing 58% of the Crown’s expenses.
- In Germany today, only about 6% of federal public employees work directly within federal ministries, while 22% work in federal agencies and 40% are civilians working in the military.
- In the Netherlands, the Dutch agencies alone represent approximately 30% of the civil service, and it is estimated that by 2004 this percentage will increase to 80%. In addition, there are 339 independent administrative bodies (“ZBOs”).
- In Canada, there are three service agencies, accounting for more than 35% of federal government employees. In addition, there are 18 special operating agencies, and one departmental service agency.

56. The rationale of those countries which addressed structural change as a lever of reform varied:

- One ingredient was the view of traditional centralised government bureaucracies as a bad thing *per se*. Structural separation and accountability were seen as a better form of organisation. Sometimes allied with this way of thinking was the idea that if public officials concentrated on “performance”, covered in more detail below, structures *per se* were of less importance. In other cases, countries either put a lot of emphasis on separation and contractual arrangements between core ministries and “agencies (for example, United Kingdom, Netherlands).
- From New Institutional Economics literature came a preference for organisations with simple and clear purposes to make it easier to align the incentives of officials with public purposes, and reduce scope for “opportunistic” behaviour. This approach, which was applied in its purest form in New Zealand, recommended separate organisations for policy, delivery, and regulation.
- In general management thinking, and this was particularly influential in the creation of the Next Steps agencies in the United Kingdom, there was a strong disposition to “let managers manage” – to free operational managers from the constraints of the policy oriented Whitehall. There had also

15. See Distributed Public Governance, OECD, 2002.

been a trend in management away from vertical company structures covering a wide-range of businesses, towards companies which “concentrated on their knitting”.

- The interest in private sector practices also led to attempts to replicate the board structure for publicly-listed companies in arm’s-length, non-commercial public functions. These boards differed from traditional advisory boards of public entities, in that they, rather than ministers or bureaucrats, were to have decision-making rights over the entity.
- And there is the long-standing example of Sweden, and to some extent other Scandinavian countries, of government services being provided by “agencies” with high managerial autonomy, and the overall direction and co-ordination of government by what by international standards are very small policy ministries.

57. It was almost as a by-product of seeking to use structural change as an instrument of reform, that some countries realised that they had to “sign-post the zoo”¹⁶ in order to make the responsibilities and accountabilities of their diverse organisational forms consistent and readable.

Using budget process for strategic reallocation and re-engineering

58. After decades of annually increasing public expenditure relative to the economy, beginning from the 1970s OECD member countries began to run into serious fiscal difficulties and had to cap public expenditure, including the cost of public debt, at a sustainable level. This situation forced governments to make more aggressive and strategic use of the budget process. And it was to render these policies effective that some governments began to budget over a longer time period – another important trend. Budget limits for a one-year period tended not to be effective as it tempted officials to fiddle with the timing of expenditure – rather than take hard decisions.

59. The most important change was the move to “top-down” budgeting. That meant instead of deciding what public services were needed in detail ,and then budgeting the necessary total resources, governments took a single decision on the total expenditure limit for government (sometimes broken down to major sectors) for the period , and then allocated funds to specific activities only up to these limits. This took the budget from being a financing device to a tool for strategic management. And this gave many Budget Offices a new role as the secretariat for the whole-of-government strategic management. The trend to top-down budgeting was further strengthened when EU set upper limits to its members’ public expenditure.

60. The transitions governments make towards sustainable public expenditure are typically not smooth. When service costs grow faster than revenue, governments typically resort to the politically softer option of borrowing to maintain service levels. However, when the circumstances were not cyclical, and the deficit continued to grow, governments were forced into strong action to reduce debt and public expenditure to a sustainable level. These episodes, of which there have been several amongst OECD member countries, can be described as “Big Bang” reforms.¹⁷ The government involved announces its intention to reduce or reallocate public expenditure ” as a national *force majeure*, and then supports a group of central agency officials in a top-down expenditure cutting process which continues until the target is met – or political support expires. Typically these adjustments are painful both for politicians and public servants. But they seem to be unavoidable.

16. Gill, Derek, “Signposting the Zoo – From Agencification to a More Principled Choice of Government Organisational Forms”, *OECD Budgeting Journal*, Vol. 2, N°1.

17. OECD, 2004, “Reallocation: The Role of Budget Institutions”.

61. The budget process was the main instrument for signalling and enforcing the new expenditure limits for Big Bang reforms. But because the budget and reporting processes set the main rules of the game for the public management system generally, it is also used by governments as the platform for public management reforms covering such policies as greater public transparency, emphasis on accountability for outputs or outcomes, better accounting information, conditions for grants, or changes in delegations to and autonomy of arm's-length bodies.

Findings

62. The pace at which institutions in society are changing means that governments must keep adjusting their structure and reallocating resources, to remain relevant. The long-standing tendency in many governments to accept structural arrangements as a "given" will be difficult to sustain in the future. Equally unsustainable is the deeply engrained disposition towards incremental budgeting.

63. The capacity for oversight and timely adjustment of organisational form is essential for a modern government. However, there are good reasons for conservatism in structural policy. For any complex area of activity, individuals are more effective if they work as part of an organisation, not only because of the advantages of division of labour and specialisation, but because organisations "contain" the professional culture which provides the values, capacity knowledge and memory necessary for effective public policy. These attributes take many years to build up. Also public sector organisations are not just a managerial device – they carry part of the burden of maintaining trust and confidence in the governmental process. Citizens expect continuity and "readability" in the organisation of government, and are disconcerted by change – though it is sometimes inevitable.

64. Furthermore organisations need the reputation and professional relationships that allow them to work effectively with other organisations and individuals inside and outside government. Such relationships do not just happen – they are earned over time. Until this fabric of reputation and relationships is in place, any new public sector organisation is bureaucratically and politically very vulnerable – which explains the debilitating experience of *reforms on top of reforms* for functions in some member countries. And finally, if it is too easy for either politicians or bureaucrats to change organisational structures, there is a real risk that organisations will be changed – with all the attendant costs and collateral damage – instead of fixing problems within the organisation.

65. Whether governments are active or conservative relative to their organisation, there is a very strong case for a whole-of-government perspective of how structure relates to government's overall purposes and interests, and for whole-of-government rules and processes for the over-sight and democratic accountability of such bodies.

66. The development of modern accounting and information technology has made arm's-length management of public agencies more possible. However, such bodies should still operate within the main body of administrative law, and cannot be at the expense of the capacity for whole-of-government policy-making and accountability. Countries wanting to transform some core ministerial bodies in more arm's-length government find the need to invest in strengthening their coordination mechanisms and core government steering capacities.

67. The move to top-down budgeting and giving individual ministries an aggregate budget has meant a big change in where decisions are made within government. Spending departments now had much more autonomy and greater incentive to prioritise their own spending, as they felt more secure that stopping an activity would not lose them resources. This freedom has had major impact on the dynamics of public management in those governments that have gone down this route. As discussed later some of this freedom has subsequently been clawed back by the formalisation of performance objectives and reports. However, it remains one of the most significant public management developments of the period under review.

68. The strategic use of the budget process emerged as the most powerful management innovation of the period under review – both for resource reallocation and as a platform for management changes. Important too was the decentralisation of management responsibility which accompanied bulk funding.

ORGANISING AND MOTIVATING PUBLIC SERVANTS

A focus of New Public Management ideas was to reorient the incentives and attitudes of public servants. Theories provided management tools that helped focus on performance, aimed at improving efficiency and adapting to the requirements of a knowledge-intensive economy. Our examination of this area brought home the fact that national differences in this area are less to do with management theory, than with underlying values and the relationship of the individual to the state.

New approaches

69. In responding to acute fiscal pressures, some countries came to the view that there was not only a problem of high public expenditure but that the whole system of public administration was flawed: overstaffed, unnecessarily hierarchical, process- rather than result oriented, with unmotivating employment arrangements because of few sanctions for poorly performing public servants and few rewards for good ones. On this view, public servants were unresponsive either to direction from politicians or to the needs of citizens.

70. Reformers aimed rather to make the employment arrangements of public servants more like those of employees in the private sector. This means bringing in term contract rather than permanent employment, increasing competition at entry in the civil service, moving from collective to site or individual wage bargaining, introducing performance-related incentives rather than fixing pay and grade promotion to time served, greater use of casual staff and consultants, reduced privileges, differentiating rates of pay according to the market demand for skills, and making it easier both to reward individual good performance and sack or otherwise sanction bad performers. In general, it was seen desirable to deregulate HRM, reducing the role of central agencies and delegating more HRM authority to line departments.

71. Arguments drawn in support of these developments were agency theory – how to ensure that public servants (agents) do what ministers (principals), want; public choice theory that public officials agencies act to maximise their self interest; a more general argument that because of information asymmetry, central regulation of complex functions compares badly with delegation plus credible reporting, and finally a general management preference for job competition and rewards linked to performance, as a means to stronger individual and group performance.

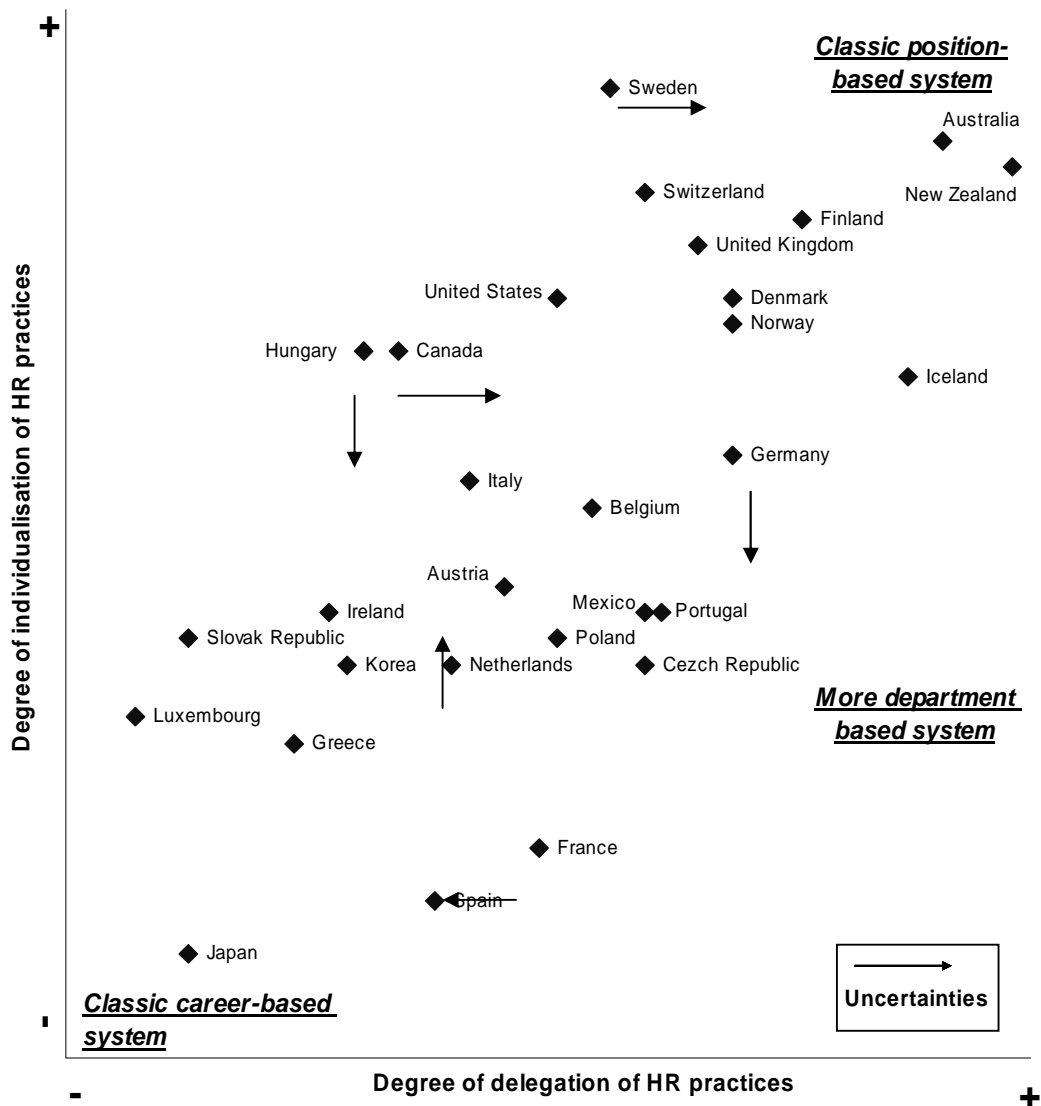
72. These approaches, pursued initially mainly in the United Kingdom, Australia and New Zealand, were seen by many other OECD member countries as arising from the specific circumstances of the reforming countries, where by and large industrial relations were polarised, and where, in the society at large, a shift was underway towards restructuring industrial relations and a diminished role for unions. Other countries were either not under the same pressure to restructure their economy, or, if they were, preferred, or politically had no alternative, to achieving change with the co-operation of unions.

73. These ideas, while prevalent in some countries, were by no means universally accepted. In many countries, civil servants were highly regarded and considered to be amongst the effective groups in society, and their distinctive employment arrangements were seen as important in the creation of a public spirited group ethic, and in preventing a politicization of the civil service.

Changes in the nature of civil services

74. Overall, we found that, across OECD member countries, there is an overall trend of individualization and delegation of HRM policies. A clear example of this trend is the increased use of individual performance-related pay. The traditional distinction between position-based and career-based systems remains interesting in terms of the overall tendency of each civil service system, but we have found that more and more countries do not fit one of the two categories any more.

Figure 2. Delegation and individualised approaches to HR practices in central government of OECD member countries



NB: the data above should be interpreted with caution and only give an approximate estimate of where countries stand on each axis.

Source: GOV/PGC/HRM(2004)3.

75. While countries tend to keep either a more individualised system (position-based systems) or a more collective system (career-based systems), they have made changes that question the overall coherence of their civil service system.

76. Another important trend is the increased use of consultants or casual employees to carry out government tasks. In addition to important equity issues among employees (especially in governments that hire staff under rules that are less protective than the rules applying to private sector employees), it creates some serious problems of government coherence, knowledge management and continuity of the public service.

The Mandarins

77. Over most of the history of government, since the invention of the idea by the Chinese, the term “civil service” has applied to a small body of key officials at the centre of government who advise the political leadership and ensure their will is carried out. To be effective, this body of people needed to be trusted by those in power, knowledgeable about the complexity and continuity of government, acceptable to those being governed, and sufficiently professional to “speak truth to power” when necessary. The term did not apply to the operational dimension of government – *i.e.* to the soldiers, slaves or workers who carried out government projects.

78. The expansion of the role and size of government which began after the Great Depression, and which continued through World War 2 and the post-war build-up of the welfare state in most OECD member countries, created a wide variety of law and practice in terms of whether the “civil service” (or “public service” – in some cases the terms became synonymous) covers only the “Mandarins” or everybody in public employment in a particular country.

79. Consequently, the term civil service was less useful for our Review. What we did observe though was that in almost every OECD member country it was possible to identify a public service leadership group, and in most countries there were special policies in place for this group. It is this in this group that the key “governance” values relating to the political/administrative interface are vested. A feature of the period under review is that the choosing, managing, developing and holding to account of senior public servants, has been given high priority in a very wide-range of countries. Building “leadership”, or the capacity to improve the performance of an organisation, has been a core value of these changes. It is also an area of considerable controversy within each country trying to change its arrangements.¹⁸

- The “individualising” countries (for example, Australia, Finland, New Zealand, Sweden, Switzerland) increasingly distinguish the management of senior managers from public servants generally, and policies associated with a position-based system have been most strongly applied to this group. Prevalent have been individual term contracts, open recruitment, performance-related incentives, and some attempt to reduce the pay gap with the private sector. However, efforts are also being made in these countries to ensure that these leaders are collectively as well as individually effective. This has meant more attention than envisaged under the original commercial model to ensure collective values and to enhance their disposition and capacity to work on horizontal issues. Individualising countries have put an increasing effort into identifying pools of future “leaders” early in their career and into developing their capacities, as well as in entry collective training of newly hired recruits at managerial levels.
- The most strongly collectivist countries (France, Japan and Korea are the clearest examples) have always had a distinctive leadership elite. These countries have, however, been revisiting these arrangements to introduce into them a greater element of external and internal competition at entry and for promotions, and stronger performance incentives.

18. “Managing Senior Management: Senior Civil Service Reforms in OECD Countries”, GOV/PUMA(2003)17.

- Finally those countries which have not traditionally made a feature of Mandarin management (*e.g.* Germany, Austria) are being induced to give senior management more attention because the greater managerial demands of modern public administration require it.

Findings

80. We concluded that the early reformers did underestimate the complexity of introducing private sector style HRM arrangements to the public service. But we also consider that staying with traditional public employment arrangements was not a viable option.

81. It turned out that the most important issue was not whether traditional public service arrangements were good or bad as a system but that wider changes in the government sector required an adaptation of the management of the civil service.

82. The monolithic civil service model began to fragment with the selling of government-owned enterprises (such as railways), the increasing use of contract and casual staff, the use of consultancy services, and, in some countries, the creation of arm's-length public bodies with distinctive employment conditions. With the diversification of public employment systems, the logic of a single distinct overriding public employment system was less compelling. The public interest continued to be of concern but it was clear that it could be promoted through a variety of employment systems.

83. In addition, in every country pressures of the wider job market were breaking up the public service as a single dominant career-based system with uniform pay and conditions organised on the assumption of providing secure life-long employment for a significant portion of a countries' work force.

- Work was more varied and knowledge intensive, public and private work became more alike, and there was a convergence of key technologies (*e.g.* accounting, economic analysis, information technology, public relations, and social research).
- Work patterns became more diversified, many kinds of work became more actualised, and a wide variety of specialised consultancy services became available.
- The public and the private sectors began, therefore, to compete for skilled people in some key areas.
- New generations entering the work force had wider career options and were less disposed to public service as a career, or to stay with any employer for life.
- The implementation of NPM reforms such as agencification, and performance budgeting induced a delegation of responsibilities requiring new capacities and new values in the management of the civil service.

84. The two main approaches to organising civil services systems, career-based and position-based, are both under pressure. The former because it lacks adaptivity, and the latter because it lacks collectivity. The modern government environment needs both, but each approach has a distinctive set of formal and informal incentives and culture with its own integrity. So, simple instrumental transfers are unlikely to work.

85. Governments should understand the structural strengths and weaknesses of their existing systems and build on their strengths rather than be countercultural. In our paper on this topic, we tried to identify the incentive mechanisms of each large type of human resources management and their receptivity to the

different types of reforms.¹⁹ For instance, career-based civil service systems which tend to generate a greater sense of collectivity and a more coherent workforce but at the expense of their capacity to adapt to changing outside circumstances. Reforms from position-based systems are often not directly transferable to those systems. They tend to emphasise individual accountability for results which are hard to implement in career-based systems. The challenge is new forms of accountability for results that emphasise the responsibility of the group rather than the individual. Similarly, career-based systems opening up to lateral recruitment from outside the civil service may increase patronage or politically partisan appointments because their traditional recruitment processes do not have well embedded competitive mechanisms for lateral entry.

86. There are no easy solutions. Our work on the management of the senior civil service, and on knowledge management, demonstrated the trade-off between the individualisation and delegation of HR practices to improve the adaptivity of the civil service, and the sense of collectivity, shared values and language amongst senior civil servants and across hierarchical levels. We reached the anomalous conclusion that in general those countries which manage knowledge best (because of their cultural stability) appeared to be doing least to adapt to a changing external environment.

87. Strongly individualised performance management has not always achieved its expected results in government. Member country experience on performance-related pay²⁰ indicates that its impact on motivation is ambivalent: while it does motivate a minority of staff, it seems that a large majority do not see PRP as an incentive. Job content and career development perspectives have been found to be the most motivating incentives for public employees. However, there is evidence that in the right managerial framework the processes that accompany PRP have produced positive results. When PRP opens the window for wider management or organisational changes – such as effective appraisal and goal-setting processes, dialogue with manager, clarification of tasks, team work, better recruitment and more flexibility in the work – it can be the catalyst for improved performance.

88. Effective management of knowledge and service workers in areas where cooperative effort is necessary, results not easy to count, and where the values and attitudes of employees are part of the service provided, cannot be achieved through hard-edged contractual arrangements which assume staff need to be minutely incentivised or sanctioned. The socialisation and resultant culture of such employees is crucial to their effectiveness. There is a need to give more attention to whole-of-government human resource management policies. Without the willing commitment of staff to a wider cause, modern public management is impossible. This commitment needs to be nurtured, and the selfish tendencies either aligned with the wider purpose or kept in check.²¹

19. See, for example, Performance-related Pay Policies for Government Employees – Main Trends in OECD Member Countries [GOV/PGC/HRM/(2004)1].

20. See Performance-related Pay Policies for Government Employees – Main Trends in OECD Member Countries [GOV/PGC/HRM/(2004)1].

21. Le Grand, Julian. Motivation, Agency and Public Policy: Of Knights and Knaves, Pawns and Queens.

ENHANCING AND CONTROLLING PUBLIC SECTOR PERFORMANCE

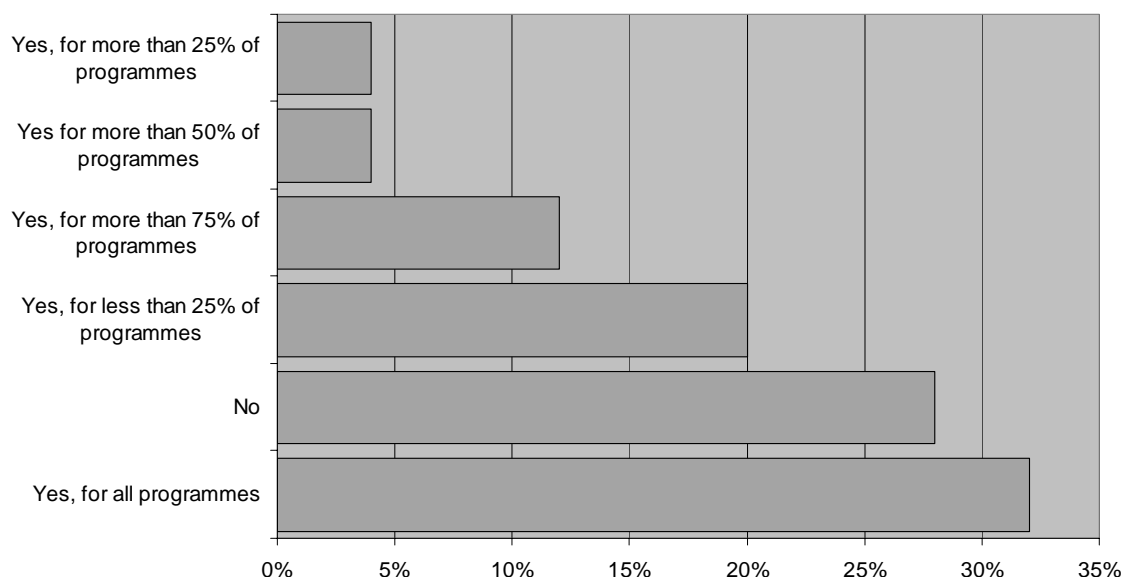
Finally we examined how successful member countries have been in motivating public sector organisations and individuals to give greater attention to the public purposes which they serve, while maintaining managerial control and ensuring that political and public accountability.

Performance²²

89. Performance has long been a potent word in public administration. It has had a revival in recent years. “Performance” can be a generically desirable attribute – politicians promise a public service which “performs” – for citizens, business or government as a whole. It also describes certain new instruments of management – be it performance management, performance-related pay, performance budgeting, performance reporting/auditing, or accountability for performance. It can apply to the public sector as a whole, to a particular agency or to an individual official.

90. Those seeking public sector “performance” contrast it with a bureaucratic input and process-oriented administration which is unresponsive to its stakeholders, and in which public servants are rewarded regardless of the results of their work. The public sector is often presented as less performance-oriented than the private sector where firms either flourish or perish, and their employees are rewarded or dismissed, on the basis of their performance in respect of sales, production or profitability.

Table 3. Trends in national practices
Is non-financial performance data routinely included in budget documentation?



22. Some ideas drawn from Schick, Allen, “The Performing State: Reflection on an Idea Whose Time Has Come but Whose Implementation Has Not”, *OECD Journal on Budgeting*, Vol. 3 N°2.

91. The roots of the renewed performance movement (an earlier movement in the 1960s petered out) are in the levelling out of public expenditure as a proportion of the economy in the lead up to the Modernisation period under review. When new public expenditure had to be funded old money, more attention had to be given to priorities within programmes and across government. Rather than justify expenditure on the basis of entitlement or precedent, a new contest was needed about the relative value to society of the activities in question. “Performance” – at least as applied to the budget process-provided rules for this contest. The promise to attend to performance was also a response to declining trust and confidence in government.

92. While ideology and especially the emulation of commerce played a part, the most fundamental reason for emphasising performance was that with the sophistication of public work, the traditional tools of management were no longer sharp enough. Modern public administrators had not only to serve collective interests of fairness and probity, but meet individual needs and address social complex problems. Traditional public administrative systems were not well designed for discrimination and constant adaptation.

93. The performance movement in the public sector trails a similar movement in management generally. The essence is connecting the larger purposes of an organisation, with an individual’s own sense of purpose. In the scientific management movement, the theory was that each worker had only to attend to their precisely defined task, and provided the overall planning was sound and complete, an organisation – be it a coal mine or a car factory – would work. This had serious limitations as a wider model for management, especially in the public sector. For a start, people tend to work better if they do have a wider sense of purpose. Also, the application of this approach failed in areas where formal pre-specification was difficult. These flaws caused the failure of the US-invented PPBS system in the 1950s. To avoid these precedents modern performance management has to be more complex. There can be:

- “Hard” dimensions – both *ex ante specification of work* (corporate and business planning, contract specification, output and outcome targets, performance agreements) and *post hoc verification of work done* (contract and performance management, performance reporting and auditing, pay for performance, and performance “accountability” in the sense of identifying work results with individuals and holding them personally culpable for failure).
- “Soft” dimensions aimed at increasing the internal motivation of employees to work in the organisational interest (management which fosters a shared sense of vision and mission, recognition, sense of belonging, desire to be of service to the public, supportive organisational culture, professional pride, etc.).
- And a hard/soft mixture of adjustment and feed-back dimensions – strategic management, leadership, devolved and delegated decision-making, activity-based costing, management information, teamwork, horizontal co-operation, customer feed-back, outcome monitoring, indicators, evaluation.

94. Our study revealed that in each of these three areas there has been innovation in many OECD member countries.

95. The formalisation of public sector performance has become necessary in OECD member countries because of internal management delegation, contracting to external parties, and the widening demands for external accountability. Within a single closely knit organisation, performance can potentially be left to be socially controlled. But once organisations become more complex, and structures and relationships more differentiated, the formalisation of performance expectations and reports is unavoidable.

96. Furthermore governments have taken on more challenging and complex tasks such as reducing social exclusion, regulating network industries, protecting the environment, or post war reconstruction. These objectives do not lend themselves to the traditional approach of a defined process, uniformly administered nation-wide. Increasingly governments must tackle problems in which it can only be one of a number of influences, where specialised professional skills are required, and wherein success and failure are complex to assess. It is for these kinds of problems that the performance-oriented approach, of targeted interventions, feedback and policy adjustment, are necessary.

97. The common trends we have observed amongst members are:

- Performance management systems have become very common – and there is a trend towards performance-related pay.
- Performance reporting is becoming more common in most OECD member countries, and with a growing requirement for openness, much of this is made public.

98. In other performance related areas there is considerable diversity of practice:

- Strategic planning and management, and business planning are used in some places but have not taken off as in the private sector. However, components such as mission and vision statements are widely used.
- Performance budgeting – the formalisation of performance targets and reporting into the central budgeting and accountability processes – has been applied in a handful of countries. Most countries have introduced performance-oriented reporting in some form or other, but continue to budget in the traditional way.
- Evaluation, as an across government requirement, has been diversely applied. In English-speaking countries, an earlier enthusiasm for centrally regulated evaluation has been replaced by performance-oriented budgeting and/or reporting, and greater use of public targets and indicators. In other countries – Japan and France have been clear examples, centrally-regulated evaluation is a strong feature of their current management system.
- Systematic performance auditing, and the use by parliaments of performance reporting in their oversight role, has not kept up with the degree of *ex ante* specification of performance, by governments.

Accountability and control²³

99. The changes in government management – especially the emphasis on performance, created a need for consequential changes in accountability and control.

100. Control is ensuring an organisation is operating as intended. Systems of control provide internal and/or external assurance that the management systems are operating well. Traditionally they focus on ensuring funds are properly accounted for and regulations and laws complied with. But in modern management, control systems can extend to the quality of performance information and internal control can cover the processes for strategic and performance management.

23. See GOV/PGC(2004)20.

101. Controls can be applied *ex ante*, as when, for example an expenditure or employment decision must receive prior approval from someone not directly involved. Or *ex post* when an independent process or body checks after the fact if an action was according to policy and within the rules. Control systems normally have formal components (special rules, dedicated people or organisations) but the informal and cultural environment has a very strong impact on whether control is achieved.

102. Systems of control can be *internal* to the organisation, as with an internal audit function, or *external* as with a supreme audit. The internal/external distinction can refer to the relationship between an operational unit and its parent organisation, but for this study we distinguish between control systems within government departments, and those applied by bodies with statutory separation from the authority of that department.

103. Accountability is the obligation to present an account of, answer for and if necessary make adjustment to the execution of responsibilities to those from whom those responsibilities derive.

104. *Accountability and control are complementary, but not symmetrical.* Control can be either *ex ante* or *ex post*. Accountability can only be *ex post* – officials cannot be held accountable for a responsibility until they have had the opportunity to discharge it. The two ideas intersect because control is necessary to lend credibility to the account given by a public body. Without good control systems, accountability is impaired as claims to compliance and performance are unsubstantiated for outside observers who lack the knowledge to judge the character, veracity and reliability of the actors involved.

105. *Ex ante* controls are rapidly giving way to *ex post* controls because of countries replacing central planning with modern budgeting. Centralised policy control (planning), is replaced by devolved decision-making by ministries, but more *ex post* control by the centre of government and the legislature. There has also been a trend to lighten up *ex ante* controls of inputs, in favour of *ex post* control of information on the use of resources.

106. But there are important exceptions. Top-down budgeting requires stronger *ex ante* control, with input rationing, rules, control systems and incentives to ensure that departments and government as a whole, receive and spend no more than they were allocated. And performance-oriented budgeting and management, requires a limited return to centralised planning of performance (*ex ante* specification of intended outputs and impacts), but also more *ex post* performance reporting, audit and evaluation.

107. There are important trends in both external and internal control, but they are not directly related. Both forms are increasing. And both are benefiting from advances, both technological and conceptual, in reporting, accounting and audit. Enhanced internal control is needed for delegated management systems which internalise performance and compliance incentives, more external control is needed for more diversified structures (*e.g.* executive agencies) and non-governmental providers. Explicit performance contracts with separate organisations require external verification of reporting.

108. As control becomes *ex post*, accountability becomes more important. If decisions are audited after the fact, but the audit not made available to the public and/or if there is no body obliged to ensure corrective action is taken for non-compliance or malfeasance, then the control purpose is not being served. As covered in the section on Open Government, the obligation on officials to give formal account of the use of public powers and resources, has increased across the OECD. Also in the budgeting process, the movement from central planning to *ex post* control transfers the burden of proof from central control agencies to line departments. This burden is supported by giving more attention to the managerial responsibilities of senior officers. In some countries accountability has been made a legal and/or contractual requirement for specific officials.

GOV/PGC(2004)17

The modern control framework

		Internal control						
		External control		Central control		Organizational control		
		Ex ante Indirect ²⁴	Ex post	Direct	Indirect	Ex ante	Ex post	
						Direct	Indirect	
Financial	trend	SAI Observations & recommendations -	SAI attest audits - Expansion for some SAIs of coverage to individual entities	Budget controls, s.a. spending controls ↓ budget controls now at entity or large programme level	Accounting & financial management policies & guidelines - Modernizing of policies occurring	Financial management controls, s.a. signing authorities ↓ More flexibility given to managers	Entity financial management policies - Modernizing of policies occurring	Spending reports, internal financial audits ↑↑ New auditing and accounting regimes(e.g. accruals) both require and allow more reports
Performance	trend	SAI Recommendations, Guides & Best Practices ↑ Increasing issuance of guidelines et al by some SAIs	SAI performance audits; Audits & reports from other legislative officers ↑↑ Increasing coverage of performance audits/studies by other independent agents	Dialogue on setting objectives & results ↑~ Occurring at least in some countries, s.a. Sweden, United States and United Kingdom	Performance-related policies & guidelines ↑↑ Now occurring in most countries	Entity dialogue on objectives & results ↑ Occurring as a result of the results focus (?)	Entity performance-related policies & guidelines ↑ Occurring as a result of the results focus (?)	Entity evaluations internal audits ↑↑ Increasing internal audit in most places with some increase in evaluations (?)

24. Direct approval for spending by the external SAI has long since been abandoned.

Findings

109. The performance orientation of public management is here to stay. It is essential for successful government. Societies are now too complex to be ruled only by input and process rules and a public spirited culture. However we observed a tendency to *overestimate* the potential of performance-oriented approaches to change behaviour and culture, and to *underestimate* the intrinsic limitations to routinising and bureaucratising performance goals and results in the public management process.

110. Customising management and formalising performance creates formidable problems of control – both internal and external. Delegated and deregulated management requires a deep change in how management happens. In the OECD member countries with highly delegated systems managers have heavy responsibilities for strategy, reputation, the deployment of human and financial resources, internal control and accountability. Theory justifies such delegation on the basis that organisations are likely to perform better if those who know the business best can tailor it to suit its function.

111. For the manager in such an environment, over and above the traditional control concerns about accounts and regulations, there are systems of strategic management, policy co-ordination, personnel management, management information, ethics, public relations, contract management and so on. This requires systems of “management control” with much wider scope than conventional internal financial control. This widening of scope itself creates such a plethora of potential things to check on, that departments need a risk assessment and management process, so that control resources are deployed where they matter most.

112. Delegated and deregulated management relieves central agencies of the need to micro-manage, and control agencies of the need to micro-check. But what happens in one part of government can affect the whole. Government is left exposed to risk, which relatively free agents are meant to manage. Formal controls may not be able to manage this risk. The more appropriate tools may be performance management, and a strengthened sense of collective responsibility amongst senior public servants, and strengthened accountability. A handful of countries also encourage or require departments to have in place formal risk management techniques.

113. The performance challenge is making government more purposeful and therefore, effective. How to clarify organisational purposes, motivate public officials to achieve them, assess the impact of government action, and then improve policies. Bringing these attributes to government as a whole is difficult and we observed that in practice many governments have stumbled into the pitfalls of:

- *Instrument fixation.* Trying to make public service more performance oriented by relying on a single instrument – be it performance-related pay, delegated decision-making, empowerment, stake-holder engagement, evaluation, or performance budgeting. The complexity of behavioural change requires a persistent and multi-faceted strategy focused on the desired behavioural goal.
- Excessive reliance on formal instruments. At the point of formal change, the problem of changing behaviour and attitudes is just beginning. This requires persistent leadership, attentive management, and a host of informal individual and social reinforcements. Without this, formal reforms may be a sham, or worse, produce new undesired behaviour.
- Reinventing central planning and scientific management. Central formalisation of performance targets and reporting can readily become a bureaucratic central planning system without room to seize opportunities, or accommodate the unexpected or the unpredictable.

- *Over estimating performance as a control system.* Result information informs planning policy development and managerial accountability. But it does *not* offer a substitute for conventional corporate management controls. Many public sector outputs are not of a routine nature. In these areas, performance tends to be unique to the area in question, its “units” fungible, and unlike financial information, cannot be meaningfully aggregated.
- *Forgetting that process is sometimes important to governance.* Excessive managerial emphasis on performance may undermine the public sense of fairness, for example. This is why key appointed officials should not behave like captains of industry.

114. The performance movement requires appropriate controls. However, control systems are not keeping up. Across the OECD, internal control systems do not cover performance information in any depth. External performance reporting and auditing is still underdeveloped – most results information provided to parliaments and the public lacks independent verification. Most performance information provided to parliaments is unused by them. The intrinsic problems in controlling non-financial reporting, limit the scope for making officials formally accountable for government performance.

115. A growing number of countries assign accountability to individuals rather than groups or organisations. And for the straightforward areas of public service, this works well. But in the challenging policy areas, it is difficult to individualise accountability for policies which must be collaborative and in which the impact of actions is difficult to isolate. There is a Hobson’s choice between individualising accountability – but missing full policy intent and perhaps discouraging teamwork; or collectivising accountability but making it hard to assign individual reward or gain.

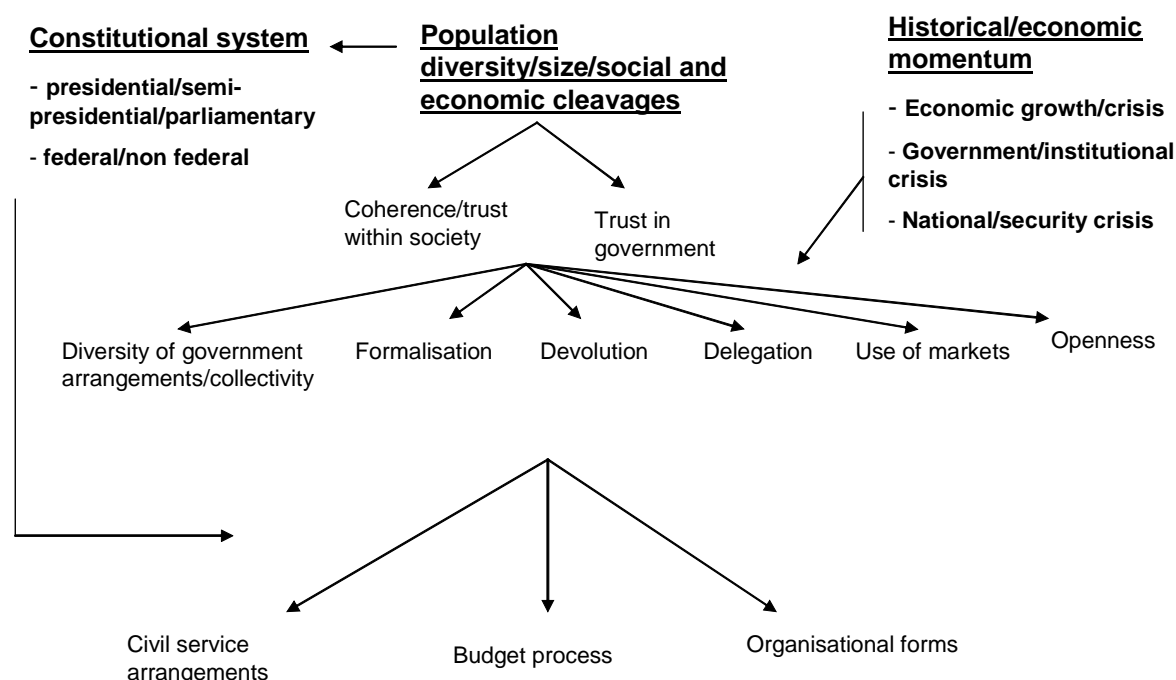
116. In accountability and control, as in all other dimensions of management, the informal, the individuals’ motivation, values and attitudes, are as important as formal systems. Strategies to strengthen control and accountability must take account of this or fail. Performance-oriented management can – and should – allow a lightening up of input and process controls. But this is not because formal performance planning and reporting becomes the control system, but rather because formal controls can be partly replaced by social controls as staff internalise organisational goals. The cost of this is that senior officers must give much more attention to management than was so in a traditional bureaucracy.

117. The desirable off-set therefore, between performance orientation, and input and process controls, applies largely to management *within* an organisation. Where organisations are at arm’s-length from each other, social controls are more difficult to apply. With the fragmentation of the public sector described in an earlier section, the control burden, including for performance, is likely to be getting heavier.

HOW CONTEXT MATTERS

The most challenging question we faced in the Review is what is the relevance and applicability of an internationally comparative approach to matters of public management policy. If national contexts are very different, how can governments learn from each other?

118. The characteristics of governments and their administrative systems arise out their history and circumstances. The diagram below illustrates how national context can flow through to contemporary governance and public management policy:



119. How far public management systems will reform in the direction of devolution and delegation of authority, the use of markets or openness; and to what degree they need formalisation or more or less diversity of government arrangements: are strongly influenced by structural factors and historical momentum. Such criteria such as population diversity, size, and social and economic cleavages, affect the level of trust within a society and society's trust in government. These in turn affect the capacity to devolve, delegate, diversify, open or formalise public management. In addition the security or economic situation, also affect differently the capacity to reform in those directions. The broad constitutional system shapes the general management rules and processes, and sets the political threshold for change in specific areas (*e.g.* the capacity to change labour relations) but only marginally affects the capacity to reform in one way or another.

120. Of the different areas we studied we found that:

- Employment arrangements are contextually dependent. They tend to have deep roots in the society in question. There are differences in values and attitudes including on: the role of unions, the responsibilities of firms for their employees, the ability to achieve consensus, attitude to authority, trust in government, the role of government, disposition to obey the law, sense of fairness, and level of tolerance for inequalities in society. However there do seem to be clusters of countries with generally similar HRM dynamics, and if these could be identified there could be systems learning amongst the more similar countries.
- At the rhetorical level, performance is of interest to all OECD member countries. But which performance-related instruments should be used, is context dependent. A country seeking to devise a strategy for enhancing system-wide performance, must consider the following kinds of issues:
 - *Overall, is responsibility collective or individual?* In general it would appear that a central system of outcome evaluation fits best with collective systems, while performance-oriented budgeting and management is well suited for a system with strongly individualised responsibility.
 - *What is the nature of the control environment?* For a performance orientation to work, managers need some freedom to make managerial choices. Does the level of compliance with existing controls give confidence that greater autonomy will be responsibly used?
 - *What are the characteristics of the performance problem?* For example: do the main weaknesses appear to be in aligning individual with corporate objectives, motivating individuals, or obtaining credible feedback?
 - *Do the preconditions exist for particular performance instruments?* For example, the successful implementation of performance-related pay depends on a range of wider management factors being in place. Or, if there is no robust system of internal control performance reports will be unreliable.
- OECD member countries are not converging in accountability and control. Such systems complement the constitutional architecture of the country in question. Key constitutional differences are the relative influence of the Executive, the Legislature and the Judiciary, and the relationship to them of the machinery for external invigilation. And whether the locus of external control is the Corps des Comptes, the Finance Ministry, Parliament, auditor general or a General Accounting Office, derives directly from deeper governance arrangements. There are also differences in the processes and priorities of public management. Countries face different risks – both from their external environment, and the ambient culture. To be effective, control and accountability must be calibrated to those risks. Approaches to management predicated on high social control, cannot, for example be expected to work where the ambient culture has, for example, strong features of clientelism.
- Changing organisational structure is highly context dependent. The countries which have so far successfully created departmental agencies have had a well imbedded public service culture and a history of relatively low corruption at either the political or administrative levels. These would appear to be essential pre-conditions, and their absence explains why agency style reforms have not worked well in developing countries.

The desirability of certain structures is also dependent on risk. In good times, there is a tendency towards organisational diversity and delegation, but at times when more fundamental state interests are at stake – *e.g.* when there is a threat to security – countries tend to return to more centralised organisational forms. Equally, it could be argued that the higher the ambient corruption risk in the society at large, the more vertically integrated should be the public sector.

It is difficult to judge the merits of the relative emphasis that should be given to controlling core government agencies through culture (as in Swedish and Japanese cases) or through contracts – as in New Zealand. Perhaps the former goes better in a collectivist public service culture and the latter in a culture where the individual chief executive is the pivot of the management system. It is clear enough though that if the wider administrative culture tends to be non-compliant and prone to corruption, a formal system is safer. And in that case, not decentralising structures may be safer still.

- By contrast with changing structures, budgeting and reporting is becoming a common international technology characterised by a high level of mutual learning and bench-marking. The stimulus for a more powerful re-allocative role for the budget process was external economic and market forces. Governments, whose fiscal position is unsound, unpredictable or obscure, pay a penalty in terms of borrowing costs and the attractiveness of their investment climate. Furthermore, increasingly governments are interlinked in a common global business cycle.

However, when the budget process is also the platform for introducing management and other micro-economic changes to the whole-of-government process, context dependency is important. As covered above, the merits of policies such as individualising performance incentives, more use of market mechanisms and private providers, or setting up arm's-length delivery structures, cannot be judged *a priori*. How they will work varies with underlying institutions.

Variations in context dependency

121. Context dependency varies from one area of public management to another:

122. **International principles and standards.** There are core principles related to the protection of the rights of individuals, which are regarded as of universal application – *i.e.* not context dependent. There are also wider governance principles which are held in common by many countries which in some cases are codified into standards and good practices. With globalisation, the volume and scope of international standard-setting is increasing rapidly – an important function of bodies such as the OECD. There is a high degree of agreement across OECD member countries on the underlying principle of Open Government, and this is regardless of national context. Increasingly, also OECD member countries are agreeing to codification and international and national disclosure in specific areas such as economic reporting, national statistics and fiscal policy. We expect that as globalisation proceeds, the range of international principles and standards on issues relating to public management will increase. OECD/GOV has had a role brokering such agreements (Conflicts of Interest, Fiscal Transparency) and the scope for this will increase.

123. **“Best Practices”.** This approach is the attempt to improve by emulating successful techniques from others in the same business. It is an attractive idea partly because it is easy and inexpensive to apply. Why invest time and effort in “reinventing the wheel?” Its weakness is that governments may be very differently structured and the components of their systems are interdependent. Therefore, the usefulness of introducing particular technique – say performance-related pay – will be determined by the quality of other managerial factors. *The “Best Practice” approach* has been a strong element in comparative public administration over the entire period reviewed. Particular instruments and policies developed in one jurisdiction have been copied in others. (For example the UK Next Steps agency model, or the Swedish institution of Ombudsmen have both been widely copied) OECD/PUMA publicised best practices on a wide-range of public administration topics amongst all member countries.

124. Such borrowings have had successes and failures. The successes tend to be amongst countries with strong similarities – for example, amongst the Nordic countries, and also amongst the Westminster-derived countries. However, there was much less interest in exchanges across different jurisdictional types within the OECD. In international development assistance there have been many instances of practices developed in OECD member countries being transferred to jurisdictions of quite different types and different stages of development. Sometimes such transfers have been harmful. And a strong body of professional opinion has now turned decisively against such transfers.

125. The major problem with “best practice” transfer is not the principle of practical mutual learning, but the *unit of exchange*. The transfer of a specific process depends on the new organisational setting being similar to the old. In a healthy well-managed organisation, performance-related pay may well strengthen the organisational sense of purpose. However, in a hierarchical, non-transparent and “political” organisation, it will make things worse. If the exchange was not of a specific technique, but an understanding of the dynamics of a healthy, well-performing organisation, it is more likely to be worthwhile.

126. A final problem with “best practice” learning can be poor problem definition – or faulty diagnosis. For example governments which lock on to a particular instrument – say performance budgeting – without first working out what is causing government’s poor performance. Perhaps if they understood it better, poor performance might be more effectively addressed by strengthening policy capacity.

127. Our conclusion is that learning is more likely at the level of systems than instruments. The analysis of systems encourage those involved to see where it is feasible, to identify differences, and discourage trying grafts which be rejected. One area of successful systemic learning has been around national budgeting systems and in particular the move across OECD towards top-down budgeting. Principles of good budgeting are applicable regardless of national context because budgeting policies are of wide interest to international markets and therefore governments want to present their policies in a credible way. Also, budgeting involves areas of internationally agreed principles such as statistical reporting, accounting and transparency.

128. **“A *Priori*” policies.** The position that because a technique is based on and conforms to strong intellectual principles, it is applicable to any government. A number of ideas entered public administration from New Institutional Economics – for example the separation of policy agencies from implementing agencies on the basis of agency theory. The strength of the approach is that it is inexpensive and “principled”. The weaknesses are that the principle itself gives little guide to implementation (should government have two policy agencies or a hundred?) and reality usually involves the balancing of contending principles. In this case one limit on separating policy and implementation is where a function relies heavily on tacit knowledge not readily captured in formal reporting. Another example was the formalisation of performance objectives and reporting. While this initiative has advantages, the theoretical assumption that non-financial information can be verified and audited like financial information, does not work in practice. *A priori* management policies are marketed and adopted as if they are not context dependent. But they often are.

129. **“Relativist” approach.** That each public management system is unique because of its history, culture and circumstance, and that improvements can only be home grown. There are areas of government where the *relativist* viewpoint is justifiable. Where cultural and social influences are dominant, in the political-administrative interface, for example, it is often difficult to isolate the determining factor – and then almost impossible to replicate it elsewhere. This is not an area for direct borrowing of techniques. While the principle of public service professionalism in advice to politicians is widely shared, installing it at the local level depends heavily on informal factors. However as a general proposition relativism is untenable – and is sometimes misused as a defence against the application of well established international principles and standards.

How to improve mutual learning at the international level?

130. An important issue for the Public Governance Committee is to know how transferable public management policies are. The following is a framework in which to make such a judgement:

- For issues covered by internationally-accepted principles or standards, or on the way to being so, the assumption is that context dependency is low. The problems of context arise at the practical level when the principle is being applied. For instance, it might be generally accepted that political parties should be funded in a way that does not make them vulnerable to improper influence. But whether this is best dealt with by banning private funding or by making all donations transparent, is a contextually sensitive choice.
- The borrowing, or fostering, of specific instruments as “best practice” is appropriate only between very similar situations. The kind of knowledge which is more widely transferable is an understanding of the dynamics of management and governance systems. Taking a systemic as opposed to an instrumental approach to public sector change requires: first to *focus on the major behavioural change desired*, then to *diagnose the reasons for the current unsatisfactory state of affairs*, and finally to come up with *an integrated plan for what instrumental changes have to be made to bring about the desired behavioural change*. Reforms which decide the right reform instrument **before diagnosing** the underlying problem, stand a high risk of failure.
- All public management instruments need to be tested in the kind of environment in which they are expected to operate – including those with strong *a priori* appeal. Evaluation of such instruments tends to be expensive and difficult, but given that instruments once in place tend to endure, the benefit to cost ratio can be very high indeed.

131. Finally, insight into the dynamics of own public management system can be assisted by the study of other governments *with similarities in respect of the system being addressed*. In this study we found important areas of systemic similarity or dissimilarity were whether government systems have:

- Collectivised or individualised HRM (both nationally and in government)?
- An imbedded in unified or diverse national culture?
- High or low compliance risk (both nationally and in government)?
- Centralised or delegated management?
- High prestige or low prestige public service?
- Dominant *ex ante* or *ex post* controls?
- Strong or weak parliamentary scrutiny?
- Open or secretive administrative cultures (including degree of public accountability)?
- Unified or distributed public agencies?
- Strong or weak unionisation?
- Cooperative or contentious industrial relations (nationally as well as in government)?

- Career- or position-based public service systems?
- High or low tendency to use market mechanisms and private agents?

132. Our Review led us to the view that such factors create different dynamics in public management processes. The first temptation in managing knowledge transfer across national contexts is just to group similar countries together. But to say Scandinavians should only learn from their neighbours would be limiting. It under-estimates difference within culturally similar countries, and it falls short of the true potential of comparative public management. On particular criteria in the list above, there may be more similarities between Japan and France than between, say France and Italy. Korea on some criteria may have more in common with Ireland than with Japan. Understanding how these factors play out in different national settings is a potentially rich source of inter-governmental learning. The elaboration of this approach is a subject for future work.

MODERNISATION INSIGHTS

133. Twenty years ago some public sector reformers had the ambition to refurbish or replace what they saw as an out-dated set of institutions. Others resisted these ideas, fearing that commercial and economic notions were intruding on the complex domain of government, and putting the public interest at risk. Representatives from different countries in PUMA and other fora were aligned for – or against. Practitioners in many countries began to experiment with the new approaches. Public administration academics, were wringing their hands on the sideline.

134. 2005 brings a different perspective. Both points of view had some validity, but the driver of change was not new ideas about public management. The impetus came from the social, economic and technological developments in the latter half of the 20th century which put pressure on all governments in every part of the world to adapt to new problems, new capacities and new relationships between citizens and governments.²⁵ It was essential to bring in new ideas about public management. But even more important to incorporate them within the core institutions and values that form the governance architecture of OECD member countries.

Environmental trends

- Governance is a work in progress. Not only are many countries still in transition from regimes which lacked core elements of what we now consider good governance, but that idea itself is in motion. Governance has to continue to adapt in response to such pressures as the spread of national and international commerce, shifting of powers between levels of government, technologies of mass persuasion and mass destruction, the permeability of national borders, the vulnerability of free societies to terrorism, and the influence of globalized communities of values and interests – for good and for bad.
- Governments and markets have grown apace. Despite the phenomenal growth of the market economy, the growth of government has generally kept up. Different OECD societies continue to draw the public/private boundary differently, and these boundaries have been relatively stable over time.
- The fiscal stresses came not from reducing government, but from stopping it growing, and therefore having to reallocate. After decades in which new government initiatives could be funded by extra revenue, OECD member countries hit the limits of affordability. These limits differed from one society to another. Staying within them is sometimes very stressful.

25. The authoritative review “Public Management Reform, A Comparative Analysis” by Christopher Pollitt and Geert Bouckaert, Oxford University Press, second edition, 2004, concludes with the statement “...a crucial ingredient of a successful reform strategy is that it should create and sustain conditions in which ‘small improvements’ – many of them unforeseen and unforeseeable – can flourish”.

- Pressures for changing public administration came from the convergence of public and private work, the labour market, new public expectations of openness, accountability and service, the availability of new information and communication technology, and especially, demands on the state which are different from those at an earlier stage of nation-building.
- The mix of government intervention has changed significantly. Governments have removed themselves from many commercial enterprises, either entirely or putting them under new regulatory regimes. There has been some reduction in directly provided public services and industry subsidies, but an increase in social transfers, and in grants for indirect service provision. And the scope of regulation is increasing with the sophistication of society.
- New problems are being faced by governments which are not readily soluble by direct public service provision. More ambitious policies are requiring more complex interventions and collaboration with non-governmental parties.

Reflections on Public Management

135. The main focus of this Review was whole-of-government management processes and how they were changing to meet new demands. We describe this topic area as “Public Management Policy”.²⁶

136. The period was and is one of deep structural change for many OECD governments. Such changes cause disruption and contention as they disturb the interests of politicians, public servants, other institutions and the public generally. Because the emphasis was change, the formal and instrumental dimensions of management became prominent. Because public sector organizations were taking on new “business models”, initial results have been sometimes awkward, ambiguous and even counterproductive. Time and experience and learning are needed for the underlying public service capacities and culture to make the adjustments needed to imbed the changes. And in the end political and governance considerations make the final determination of whether the change was worth it.

137. But public management changed because the world changed – and not vice versa. There is no going back. To help go forward our review identified some areas for attention in public management policy design and implementation:

- Public management policy now has a much higher political profile than twenty years ago. This is good where it offers sustained leadership for difficult changes. But there are dangers of politicising arrangements which should be seen in the light of long-term governance, or of introducing attractive but ineffective solutions to entrenched problems.
- There is no bright line between governance and public management – any significant public administrative change has governance consequences. There is a hierarchy of such governance consequences which we describe as *responsiveness responsibility, and legitimacy* – in ascending order of importance.
- Public management policies need to be designed and adjusted from a whole-of-government perspective. Knowledge of possible new instruments of public management is readily available. Much more difficult is building the capacity to understand a specific social and administrative environment to the point of being able to make effective changes.

26. This approach is suggested by Michael Barzelay in “The New Public Management: Improving Research and Policy Dialogue”, University of California Press, 2001.

- A feature of the reform period has been of measures which, individually and in their totality, tailor government structures, processes and services to the needs of target groups and individuals. This puts delivery at a remove from central control, and creates a micro-political constituency in support of the service. These benefits turn into problems if the service has to be diminished or withdrawn. Governments will increasingly need to adapt by taking resources from existing services to invest in new services. Responsiveness may make adaptivity more difficult.
- The politics of persuading the general public of the need to reduce expenditure has tended to give an exaggerated ideological edge to Big Bang reforms. The rhetoric of change can be excessively critical of the existing public management and over-optimistic about the capacity of new instruments. Given that the need for periodic fiscal reallocation is not diminishing, there is a need to de-politicise these adjustments.
- The ambitions of the modern public sector are attainable only insofar as agencies and their staff internalize the necessary motivation, values and discipline. An undesirable residue of structural change is excessive confidence in the capacity of instruments alone to transform behaviour. There is in our view a need for an investment in building a more principled and empirically-based public management policy capacity in OECD member governments.
- A by-product of the reform period is public management terminology designed for persuasion rather than analysis. This encourages instrument fixation, and a tendency to lurch from one reform to another. The capacity to adapt government would be strengthened by more sober analysis and appraisal – notwithstanding the need for persuasion in implementing change.
- While all OECD governments are being lifted in the same tide, our ships of state are very different. Mutual learning has never been so important, but mimicry of others' management techniques has little value. We need better ways to analyze the distinctive dynamics and priorities of public administrative structures countries, and better hypotheses for appropriate intervention. International learning in public management would be enhanced if the focus was more on system dynamics than instruments and if there was a stronger and empirical base for claims of success and failure.

Findings on Key Public Management Policy Areas

138. The major public management challenge OECD governments face is to find the efficiency gains in existing public management, sufficient to fund the growing demands on 21st century government. This will require continuing prioritisation, divestment, reallocation and management innovation – but without the hope offered by reformers, that after a period of political and administrative pain, self-correcting incentives will take over.

- Privatisation, the move from service delivery to regulation, the creation of quasi-markets, and the contracting in and out of services, are essential tools for modern government as it responds to changing needs and capacities in society. Whether they are appropriate in a particular case, should be decided not as a matter of general principle, but in terms of the benefits and risks to the policy area, bearing in mind the longer term collective and governance interests of the society in question.
- The budget process emerged as a key strategic management instrument for resource reallocation and as a platform for management changes. The need to use old money for new services required a stronger top-down budgeting process. While governments would like major resource reallocation to be smooth and timely, we observed that such changes occur stochastically, with

stability punctuated by short politically dramatic episodes of reform and adjustment. These periods of adjustment also open the system up to new ideas.

- In all dimensions of management, the informal, the individuals' motivation, values and attitudes, are more important than formal systems. Strategies to strengthen control and accountability must take account of this or fail. Performance-oriented management can – and should – allow a lightening up of input and process controls. But not because formal performance planning and reporting becomes the control system, but rather because formal controls can be partly replaced by social controls as staff internalise organisational goals. The cost of this is that senior officers must give much more attention to management than was so in a traditional bureaucracy.
- The adaptation of public service employment systems is of key importance. While countries tend to keep either a more individualised system (position-based systems) or a more collective system (career-based systems), they have made changes that question the overall coherence of their civil service system. The two systems have their own integrity and safeguards mechanisms that could be lost in a confusion of values.
- The choosing, managing, developing and holding to account of senior public servants, has been given high priority in a very wide range of countries. “Leadership” is seen as the key to leading change, inspiring staff, increasing performance, and strengthening values. There is conflict within these objectives and governments need to be clear on their specific priorities.
- The performance orientation of public management is here to stay. Societies are now too complex to be ruled only by input and process rules and a public spirited culture. However, there has been a tendency to *overestimate* the potential of performance oriented approaches to change behaviour and culture, and to *underestimate* the limitations to routinising performance goals and results in the public management process.
- Managing by performance requires appropriate controls. However, control systems are not keeping up. Across the OECD, internal control systems do not cover performance information in any depth. External performance reporting and auditing is still underdeveloped – most results information provided to parliaments and the public lacks independent verification. Much of such information provided to parliaments is unused by them. The intrinsic problems in controlling non-financial reporting, limit the scope for making officials formally accountable for government performance.
- A growing number of countries assign accountability to individuals rather than groups or organisations. And for the straight-forward areas of public service, this works well. But in the challenging policy areas, it is difficult to individualise accountability for policies which must be collaborative and in which the impact of actions is difficult to isolate. There is a Hobson's choice between individualising accountability – but missing full policy intent and perhaps discouraging team-work; or collectivising accountability but making it hard to assign individual reward or gain.
- Governments must keep adjusting their structure to remain relevant. The long-standing tendency in many governments to accept structural arrangements as a “given” will be difficult to sustain in the future. However structural change creates serious discontinuities and should be considered only after management remedies are exhausted. Governments need a whole-of-government perspective of how structure relates to overall purposes and interests, and rules and processes for the over-sight and democratic accountability of all government bodies.

IN CONCLUSION

139. The last two decades saw an influx of ideas and initiatives into the domain of public management in OECD member countries. Many OECD governments expected that getting government out of commercial activities, better steering, less bureaucracy and more use of regulation and non-government provision, would allow core government expenditure to be reduced. Because of these policies, most OECD governments are now more efficient. But it turns out the fiscal stress which triggered the modernisation movement was not mainly about government inefficiency. It was a harbinger of deeper changes in society. Traditional public administration was not intrinsically flawed – after all amongst many members it delivered the physical and human infrastructure, and the market conditions, for unprecedented prosperity and security. The stresses were symptoms of governments out of fit with a changing society, and an educated and empowered citizenry looking to amend their social contract. Government is more present in OECD societies than it was two decades ago. But the nature of public policy problems, and the mix and modes of intervention, are undergoing deep change.

140. Public sector reforms of the last 20 years did not “re-invent government” in OECD member countries. More realistically it has been a period in which governments had to scramble to keep up with changes in society. In this process, new ideas were picked up in many countries, making public administration more flexible and transparent. But the process of change also showed that public administrative arrangements are inextricably linked to deeper institutions of public governance, and that managerial changes which affect the role of government can be intensely political. The governmental values of responsiveness, responsibility, and legitimacy are in ascending order of governance importance. Public management policy-makers need to be aware of possible impacts at all three levels.

141. The main stimulus for reform has been fiscal stress. In retrospect this did not trigger a fundamental shift in thinking about the role of government in society. Rather it was a signal that after decades of government expenditure growing faster than economies, the limits of affordability had been reached. Since around the 80s, economies and governments have grown at the same rate across the OECD as a whole. Within that, the main trends have been reductions in the relative size of government in the United States and the Westminster system countries, major increases in Japan and Korea, and some increase in France and Germany.

142. Makers of public management policy for the next 20 years face hard political choices. Pressures to cut low value activities, find more efficient means of delivery, and make optimal use of the private sector, will not relent. There will also be a need in many OECD member countries to cut back social entitlement programmes. Most governments cannot increase their share of the economy, so only thus can they fund social security, address the inequity and exclusion that accompanies successful markets, ensure security in an open society, and individually and collectively take on the global humanitarian, security and environmental responsibilities that ensure the sustainability of our values and prosperity. Periodic “Big Bang” public expenditure adjustments will remain a hard fact of life.

143. New demands on builders of public management systems for the first quarter of the 21st century will be for: more ambitious intervention and regulatory policies in the social, security, inter-governmental, and market spheres. These will require leadership from officials with enhanced individual technical, management and political capacities, who think and plan collectively, and who can work well with other actors. Governments may need to reinvent the idea of senior public officials bound together by common governance and professional values.