"Slash and Burn" or "Austerity Innovation"? International lessons for the Australian Public Service

MARK EVANS & JOHN HALLIGAN
Australia New Zealand School of Government Institute for Governance (ANZSIG) at The University of Canberra

Email: mark.evans@canberra.edu.au
Regardless of the debate as to whether a government needs to maintain a surplus both government and opposition view its achievement as a metaphor for governing competence and an essential ingredient for electoral success. *But what is the best way to achieve a surplus in times of austerity?* And, what lessons can be drawn internationally in this regard?
What we are and are not arguing

1. We are not entering into a debate here over the merit of austerity reform in affecting economic recovery processes (see Krugman, 2013). Indeed given that Australia is not in a recession that would hardly be appropriate. We merely seek to identify those austerity reforms which appear to have made a difference in reducing the size of public debt and to pose the additional argument that in combination with certain austerity reforms, austerity innovation offers greater public value than retrenchment in the long-term.

2. It is noteworthy that the selection of the appropriate policy instruments tends to be a process that is driven by political expedience and ideology and not by evidence. The logic of selecting failing or unwanted institutions, for example, falls foul to issues of tradition, sentiment or parliamentary time to affect change. The House of Lords in the UK is a case in point. Nonetheless we want to embrace the logic that as we have a government intent on retrenchment it makes sense to focus on institutional reforms that remove barriers to progress and make things better.

3. Nor will we engage here in identifying potential institutions for the guillotine. The new government need look no further than the work of the ANAO to draw evidence based conclusions on the way forward.
Structure

1. Arguments
2. Definitions
3. The state of play
4. Historical and comparative lessons (JH)
5. Lessons from the OECD
   • Operational measures
   • Programme measures
   • Revenue raising measures
6. Austerity innovation
7. Lessons for practice
AUSTERITY SURVIVAL GUIDE

IN THE EVENT OF FURTHER ECONOMIC COLLAPSE, ASSIST THE WEALTHIEST INDIVIDUALS FIRST.

SYMPTOMS OF A FINANCIAL PANIC ATTACK CAN BE ALLEVIATED BY INHALING THE RESIDUAL "MONEY FUMES" FROM YOUR EMPTY PURSE OR WALLET.

SUFFERING FROM BAD CREDIT? STOP, DROP, AND ROLL. IT'S ALL YOU CAN AFFORD TO DO.

IF YOUR SOCIAL SECURITY OR MEDICARE BENEFITS ARE ABOUT TO BE REDUCED, STOP AGING.

FOR THE SAKE OF YOUR OWN MENTAL HEALTH, DON'T LOOK UP "RECESSION OF 1937" ON WIKIPEDIA.

MIND YOUR HAIRSTYLE. DISPLACED BY SHUTTERED PUBLIC SCHOOLS, ROVING PACKS OF UNEDUCATED CHILDREN WILL SWARM ANYONE WHO LOOKS VAGUELY DIERESQUE.

AVOID BRIDGES, AND THE REST OF OUR CRUMBLING PUBLIC INFRASTRUCTURE.

IF YOU ARE UNDER ATTACK BY THE PLUTOCRACY, PLAY DEAD. YOU DON'T WANT TO BE ACCUSED OF CLASS WARFARE.

HEY! THIS HAPPENED BEFORE, AND THEY'RE DOING IT AGAIN?

BUT HOW?

WWW.ANZSOG.ORG.AU

PO BOX 2208
CANBERRA ACT 2601
AUSTRALIA

+61 2 6249 2611

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We acknowledge the traditional owners of country throughout Australia and their continuing connection to land, water and community. We pay our respects to them and their cultures, and to elders past, present and emerging.
2. Definitions

Fiscal consolidation is defined as “concrete policies aimed at reducing government deficits and debt accumulation, e.g. active policies to improve the fiscal position.” (OECD, 2012)

In theory these are achieved through:

• **Operational measures**
• **Programme measures**
• **Revenue raising measures**
3. The ‘rumoured’ state of play

Senator Abetz has been confirmed in the employment portfolio in Tony Abbott’s cabinet, retaining responsibility for the key workplace relations portfolio. He has also been appointed minister assisting the prime minister on the public service, meaning he will be responsible for implementing the Coalition's promise to reduce the public sector headcount by 12,000, with projected savings of $5.2 billion over four years.

A Commission of Audit is to be established.
How does this compare with retrenchment measures in Europe?

<table>
<thead>
<tr>
<th>Country</th>
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<td>Reduce recruitment.</td>
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<td>Non-replacement of one out of two retiring civil servants will cut 150,000 posts by 2013.</td>
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<td>Up to 10,000 staffing positions to be permanently abolished by 2014.</td>
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<td>EUR 1.2 billion is to be cut from the public service wage bill during 2011-14 (24,750 job cuts over peak 2008 levels).</td>
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<td>Portugal</td>
<td>Reduce the number hired in central, regional and local governments.</td>
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<td>Implementation of a 10% replacement rate for all staff in the public sector in 2011-13 (7% staff reduction by 2013).</td>
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<td>United Kingdom</td>
<td>General government employment will fall by 710,000 by 2016-17 (projection of the Office for Budget Responsibility).</td>
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Source: OECD Fiscal Consolidation Survey 2012.
4. Cutbacks & innovation: Historical & comparative lessons

- Relationship between fiscal stress and reform
  - Economic problems as rationale for reform
    - Source of managerialism
    - Exploited by governments pursuing reform agenda
- Cut-backs versus reform as a perennial tension
  - One masquerading as the other
- Tension as expressed in the UK
  - Government cutbacks versus Kerslake’s (CS head) aspirations for creative design of small civil service
Purposes of cutbacks

- Economic management/budgetary
- Bloated service/waste
  - Leslie Chapman’s role
  - e.g. SES bulged under late Howard & Rudd
- Ideological: moving boundaries of the state
  - Howard: aimed to reduce APS to 100,000
- Symbolic: visible indicator of activity
  - Clinton/Gore NPR: cut 50,000
- Evidence base?
APS employees (1993-2012)

Figure A1.1 APS employees, 1993 to 2012

Source: APSED

APSC, State of the Service Report 2011-12, 243
Blunt instruments

• Efficiency is multidimensional
  – One dimensional focus on ‘waste’

• Efficiency dividends
  – Reducing departmental budgets by a fixed per cent on an annual basis
    • Australia & Sweden main (only?) exponents
  – Lack of evidence (e.g. performance information) on relative importance of financial controls, improved management & new technologies
    – Cutting services rather than programs

• Arbitrary targets across the board
Commissions of Audit

- Used by Australian conservative governments at national and state levels

- Objective
  - to shift boundaries of the state (e.g. Commonwealth 1996, Qld 2013)
  - to legitimate selective reforms

- Depends on starting premises
Sustainability Issues

• Improbability of sustaining cutbacks over time
  – Thatcher mid-1980s
  – Howard early and mid-2000s
  – Long-term financial gains from NPM (Hood)

• Problem with sustaining reforms over time
  – Centrelink
  – Managerialist reforms in Australia
Design creativity under austerity

• Centrelink as a radical exception
  – Product of public servant design when confronted by neo-liberal alternatives

• Options for austerity innovation
  – Replay of Howard template (terms 1 & 2)
    • Obeisance to neo-liberalism: markets & private sector primacy
    • Jolting the public service & tight political control
  – New stage of reform that relies on creative design
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Source: OECD Fiscal Consolidation Survey 2012.
In summary – historical and comparative lessons

1. In periods of uncertainty you tend to lose your best people because they always have employment options.

2. Few prudential steps were taken to ensure no loss of institutional capability and memory.

3. Retrenchment further embeds a culture of risk aversion.

4. Retrenchment undermines core service values.

5. While retrenchment provides some short-term economic dividends public organisations will inevitably need to invest in consultants to bridge the gap.

6. The size of government will inevitably grow.
“In just three years, public deficits in Europe have halved, unit labour costs and competitiveness are rapidly adjusting, bank balance sheets are on the mend and current account deficits are disappearing. In the second quarter the recession in the eurozone came to an end.

Systems adapt, downturns bottom out, trends turn. In other words, what is broken can be repaired. Europe today is the proof.”

German Finance Minister Wolfgang Schäuble, 17 September 2013

Note:
Unemployment is:
17.3% in Cyprus
27.8% in Greece (62.9 youth unemployment)
26.3% in Spain
16.5% in Portugal
What is the degree of consolidation required to stabilise or reduce debt by 2030
How are they going about achieving the targets? (2009-15)
What does this mean in terms of specific operational measures?

Reductions in the running costs of government, wages, reorganization of the machinery of government, efficiency savings.
What are the most popular operational measures?

Percentage of participating countries

Operational expenditure measures specified:

- Operational expenditures: Plan 2012 = 80%, Plan 2011 = 90%
- Wage cuts: Plan 2012 = 60%, Plan 2011 = 70%
- Staff reductions: Plan 2012 = 50%, Plan 2011 = 45%
- Other operational expenditures: Plan 2012 = 70%, Plan 2011 = 15%
What programme measures are being used?

*Health care, social benefits, pensions, capital infrastructure, development assistance, transfers to sub national government*
What revenue raising measures are being used?
Expenditure-based *versus* revenue-based measures (2009-15)
## Exemplars and potential sources of learning?

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<th>Countries with no or marginal consolidation needs:</th>
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6. Austerity Innovation

1. Institutional design – do we have the right type of institutions to do the job? (e.g. Brazil and the Ombudsman/EU enlargement states and integrity agencies)

2. Outcomes-driven public services (devolved power to the front-line with greater responsibility)

3. Increase in digital public service delivery. change (see Dunleavy, 2012; Dunleavy and Carrera, 2013)

4. Increase in co-designed, co-produced and co-managed services with citizens & stakeholders (e.g. Victoria Reforms under Shergold)

5. Delivery by experts (government as enabler not deliverer – e.g. social bonds)

6. Flexible working (space, people, process, technology, financial)

7. Shift from process centred (machine view) to strategic public management (systems view)
The obstacles

- Too reactive
- Too problem-oriented, insufficiently goal-oriented
- Insufficient use of evidence and analysis
- Insufficient understanding of public value
- Too focused on services, not enough on outcomes
- A machine view instead of a systems view
To gain an understanding of plausible futures

To produce a stretching, consistent and aligned vision of the future

To generate a set of politically-mandated outcomes that frame the policy process to create public value

To provide organisational alignment and ability to prioritise and allocate resources for delivery

To give organisational core purpose

To produce ‘line of sight’ between goals, policies and their achievement

Strategic Public Management
7. In conclusion – lessons for practice

1. Given that retrenchment leads to loss of capability, institutional memory and lower productivity shock therapy needs to be combined with measures that provide for sustainable organisational development.

2. In the short term, the focus should be placed on institutional design e.g. the abolition of poorly performing institutions, unwanted institutions or the stream-lining of institutions that oversupply services.

3. A similar approach should be taken to national programmes.

4. The surplus generated from items 2 & 3 should be spent on investment in productivity strategies that focus on the expansion of digital public service production, flexible working and workforce strengthening across the system of governance to allow the APS to meet the government’s strategic priorities and facilitate innovation on the front-line.

5. Genuine commitment should be made to a governance approach in which services are delivered by those who have expertise (e.g. community sector) underpinned by a rigorous performance framework; and,

6. it is notable that the least successful productivity strategy for public services is associated with using consultants to drive change (see Dunleavy, 2012; Dunleavy and Carrera, 2013).