

Introduction: Liberalising and Modernising Public Services

This book's central theme is that the provision of public services in liberal democracies has changed dramatically over the last two decades. In most of Europe the state's involvement in the economy is now better described as indirect and regulatory rather than direct and interventionist. This introductory chapter explores the economic and political philosophies that underpin the foundations for this change and the variations in patterns of change. Changing economic conditions, globalisation and regional integration caused much of the pressure for reform. Gradual trade liberalisation since the Second World War and the digital revolution of the 1990s both accentuated the need for public sector reform and opened up a series of new ways of delivering public services. However, the ideas that shaped the political parties' and governments' responses to these changes have deep roots. The political response to challenges to the state's capacity for governance developed along three broad lines. First, reform programmes were designed to reduce the scope of the state by privatising certain public services and introducing competition by liberalising monopoly markets. This involved a shift from the state to the market, and from centralised to less centralised control. Second, reforms were introduced to improve the efficiency of the services that remained under the auspices of the state. This involved an element of decentralisation of decision-making, as well as a shift from administration to management in the public sector. Third, states sought to strengthen international cooperation. This involved a shift from the state to the European level, or at least to shared competence between these two levels in many policy areas. The two first strategies, which amount to efforts to modernise public service provision, make up most of the subject

of this book. The third strategy, European integration, is addressed in a separate chapter, although this theme returns throughout the book as and when it touches on public service provision.

The core of this book focuses on reforms that have been designed to reduce the scope of the state and to make the state work better. These two strategies became part of the mainstream political agenda most clearly in the UK and the USA during the 1980s, but were in fact adopted in one form or another by most European governments in the late 1980s and the 1990s. Many of the immediate challenges lay in the political and economic climate of the 1970s: the expanding size of the liberal democracies' welfare states and the world-wide economic downturn, which made meeting these increasing costs even more difficult. At the same time the current process of globalisation was beginning to take off, and in the 1990s it was dramatically accelerated by the digitalisation of both information and communication technologies and their convergence into the ICT industry. An increasing number of political actors saw protectionism not only as costly, but also as an anathema to free trade and prosperity. Regional integration in Europe helped the states regain some of their capacity for governance by way of joint problem-solving. In the second half of the 1980s the European Union project (still the European Economic Community at that time) was accelerated and turned in a clear free-market direction. Around this time many West European social democratic parties adopted a more liberal economic stance (most of the former communist parties of East Central Europe also turned liberal after the collapse of communism in 1989). In the 1990s, with several of its member states reducing the scope of the state's direct involvement in public service delivery, the EU took its 'public turn' as the Single Market was extended to cover many aspects of the economy that had until then been dealt with nationally, such as telecommunications. By the late 2000s, the twin processes of liberalisation and modernisation were well-established across Europe.

Political Economy and the New Right Challenge to the Welfare State

'Markets are created by governments, ordered by institutions and sustained by regulations' (Wilks 1996: 538). Wilks' comment provides a reminder that advanced markets are created by regulation. They are not spontaneous, separate from political institutions, or self-governing, let alone 'natural'. This observation lies at the heart of the political economy literature and explains much of the variation in markets across the world. It complements rather than contradicts the classical idea associated with Adam Smith (1776) that the 'invisible hand' of the market tends towards efficient distribution of resources by

way of the price mechanism. Classical (normative) economics holds that the state should provide the institutions necessary to make the market operate, such as the legal system, property rights and some measure of internal and external security, and that it may, under certain circumstances, exercise regulation (see, for example, Phelps 1985). It is the extent of the two caveats that have been hotly debated: how far should the state go in providing institutions, infrastructure and public services; and what legitimates state intervention in the market?

The two classical responses can be summed up by invoking Friedrich Hayek and John Maynard Keynes. On the left, Keynes (1936) argued for substantial state intervention in the economy and for a comprehensive welfare state that was seen to be both necessary (to correct for market failures) and politically desirable (to redistribute wealth; see also Rawls 1971). On the right, Hayek (1944) warned that state intervention was likely to amount to a step on the *Road to Serfdom*, not primarily because it could not be as efficient as the market but because it constituted a limit on individual freedom.

Historically and today, Western liberal democracies all fall somewhere between these two responses. Both the market and liberal democracy rest on a series of institutions that provide for pluralism. The combination of several competing economic and political groups (the diffusion of economic and political power) and a legitimate regime based on the rule of law (accepted by all the major groups) amounts to a system in which uncertainty is institutionalised (Olson 1993, 2000). Modern liberal democracy entails competition among several different interest groups, none of which can achieve dominance alone (Dahl 1961, 1971). The legitimacy of both economic and political institutions rests partly on the fact that the outcomes of political and economic games are not, and cannot be, known in advance to any single group (Przeworski 1991).

Even the private firm is not so much a spontaneous organisation, as an institution that developed in the nexus between business and politics – regulated capitalism. As two *Economist* journalists put it in their history of the firm: ‘No matter how much modern businessmen may presume to the contrary, the company was a political creation’ (Micklethwait and Wooldridge 2003: 53). The central questions have not been whether the state should regulate economic activity or provide public services, but the extent to which it should do so. In other words, why regulate or supply public services? The answers that have prevailed in the USA and Western Europe fall into two broad categories: to correct market failures and to provide public services.

The first of these two justifications for public services and state intervention in the economy is the least controversial. It is based on the central argument of Thomas Hobbes’ *The Leviathan* (1651): that the state is required to secure the rule of law and prevent anarchy. Moving beyond the matter of the state providing security and the legal order that is necessary for markets to function

(notably property rights, police, courts), classical economic theory holds that there are some cases in which markets will not generate the most efficient outcomes possible, and that state intervention might therefore be warranted. Pareto (1906) gave name to the concept 'Pareto optimality' by focusing on sub-optimal situations in which one or more persons could be made better off without any other individual becoming worse off. These include situations in which there is inadequate provision of public goods, for example because nobody is willing to pay for something that they cannot be excluded from enjoying (such as clean air). Other types of market failure include some cases where voluntary transactions between two individuals have negative consequences for a third party that cannot be built into the cost of the transaction; where the nature of the industry (ever lower costs for producing each new unit) makes it possible for one firm to establish a monopoly; and where companies collude to fix prices or otherwise limit competition.

The second set of justifications for public services relies on the much more controversial notion that state intervention may be in 'the public interest', as defined by the government of the day. Examples of goals that most European governments have deemed worthy of pursuit at some point in time include regulation to ensure minimum quality (e.g. regulating the medical profession) and safety standards for products (e.g. seat belts in cars); consumer protection and liability laws that hold the producer responsible for flawed products; cross-subsidies (e.g. equal price for local telephone calls in a country); and access to services and security of supply (e.g. the right of connection to the water and electricity grid).

These kinds of goals may be deemed appropriate because of the complexity of the modern market, where the individual consumer lacks complete information. However, they may also be part of an effort to meet social goals determined through the political process, including redistribution of resources. Inasmuch as interest groups get involved in the policy-making process, the danger is that a group may lobby for regulation or intervention (particularly subsidies) that benefits the group but involves an overall cost to society. This leads to the danger that the cumulative effect of each interest group's demands on the state might result in public sector expansion or in regulation becoming increasingly complex and costly (Olson 1982). This was deemed to be the case in much of Western Europe by the late 1970s.

Although pluralist theories of the state and classical economics dominated western analyses during much of the twentieth century, there has been no shortage of challenges. In the more extreme versions, these were not only alternative analyses of politics, but alternative political systems that ranged from communism to Nazism. In their milder forms, elite theory and Marxism provided serious challenges to both the pluralist model of liberal democracy and classical economic theory. Perhaps the most influential mainstream

critiques have been that there is no 'level playing field' between capital and labour in liberal democracy and that elites manipulate political agendas and constrain outcomes. Lindblom (1977) has emphasised the advantages of industry over trade unions that may result from differences in access to the political elites, media and capital resources, suggesting that once imbalances occur they might generate a vicious (or virtuous, depending on the point of view) circle that reinforces differences inasmuch as winners gain ever more resources. In *The Semisovereign People*, Schattschneider famously argued that 'the definition of the alternatives is the supreme instrument of power' (1960: 68), suggesting that the pluralist game is skewed by elites. In the end, however, from a present-day perspective, it is the *public choice* critique that has proven most influential. Public policy is increasingly seen not as a consequence of normative theories, but of political games in which the participants rationally pursue their (primarily economic) interest.

The New Right and public choice analysis of politics

During the 1960s and 1970s the band of thinkers that challenged the welfare state consensus from a free-market perspective expanded and developed into a fully fledged New Right assault on conventional public service models. Much of this drew on analyses that approached 'economic man' as a rational actor in pursuit of his or her interests (Dunleavy and O'Leary 1987). The New Right developed perhaps the most consistent and comprehensive critique of both the pluralist state and classical theories of public policy. In retrospect it has certainly proven the most influential. Public (or rational) choice theory raised questions about many of the assumptions inherent in pluralist political analysis and classical economic theories of public policy (Shepsle and Bonchek 1997, Muller 2003). The starting point is a dual challenge, based on assertions that the state cannot amass the necessary information and knowledge to act reliably in the public interests, and even if it could there is no reason to expect that it would. The first assertion is associated with the Austrian school and can be traced to Hayek's warnings that state intervention is an affront to individual liberty. The second is based on economic analysis of democracy that builds on assumptions about individuals' rational pursuit of well-defined preferences. It is associated in particular with the Chicago school and traced back to Downs' (1956, 1967) work at Stanford. Together, the 'small government' and public choice analyses laid the basis for a formidable challenge to conventional theories of public policy and regulation in the shape of the New Right.

Hayek and the Austrian school based the critique of big government on the incompatibility of individual liberty and state intervention in economic activity. The central point is not so much that economic liberty fosters democracy, as that state intervention is a challenge to both economic and political liberty.

When states start circumscribing economic liberty they are on a slippery slope towards limiting political freedom, on 'the road to serfdom'. There is therefore an a priori case against state intervention, even the kind of intervention that is compatible with classical economics, and a case for a minimalist state. In policy terms, this translates into recommendations to limit the role of states, to 'roll back the frontiers of the state' (Thatcher 1988), not merely to reform and modernise public governance.

The work on economic theories of democracy that laid the foundations for public choice analysis provided the theoretical foundation for a rational choice critique of big government and economic intervention. Its principal basis is not merely that governments cannot achieve sufficient information or that state action is a threat to liberty, but that careful analysis of the motives and opportunities of the agents of the state reveals that they cannot be expected to act in the public interest. Assuming that individuals pursue their own interests and observing that government agencies and civil servants often enjoy something of a monopoly of information about the costs and benefits of their own activities, Niskanen (1971, 1973) argued that bureaucrats will tend to maximise their budgets, not the utility to society. This shifted the focus from what ought to be done to who wants it done. This change from the normative question of what policies are required to correct market failures, to the positive question of who benefits from the current set-up, radically altered the fundamental questions in public policy analysis. The new question asked who had developed the present policy regimes and in whose interest: in other words, who wanted regulation? The answer central to much of the New Right literature was 'interest groups'. Groups or firms want regulation to protect them against competitors (Stigler 1971). Not all pressure groups succeed, and Olson's (1965) 'logic of collective action' analysis suggests that industry and labour are generally in a stronger position than consumers. In turn, elected politicians who seek financial support for re-election campaigns compete for interest groups' favour, and bureaucrats, seeking to expand their budgets, supply the regulation or intervention that these groups' demand (Tullock 1976).

The main thrust of New Right analyses was thus that, in liberal democracies, the state has had a tendency to grow too big, and to expand its activities and public service programmes beyond the socially optimal point. These arguments are taken up and discussed in more detail in the chapters on privatisation, regulation and New Public Management (Chapters 3, 4 and 5). The key point here is that they formed the basis for many political party programmes on the right and centre-right in the 1980s and 1990s, not only in the USA and the UK but across Western Europe. One of the most widely cited links between theory and practice is the influence of the circle around Keith Joseph and the Centre for Policy Studies and Institute for Economic Affairs on Margaret Thatcher, who became UK Prime Minister in 1979 (Young 1989: Ch. 7).

However, the challenges of 'stagflation' (the combination of inflation and economic stagnation, or low growth) prompted a range of European parties to rethink their economic policies and approach to public service provision. The answers centred on the two ideas mentioned in the first paragraph of this chapter: to reduce the scope of state activity, and to make public service provision more efficient.

Beyond the New Right: the Institutional Turn in Public Policy Analysis and the Modernisation of Social Democracy

Although elements of public choice analysis and the New Right's political prescriptions formed part of the new political consensus in the late 1980s and early 1990s, both academia and politics developed considerably in reaction to the New Right challenge. In the academic debates, a number of North American and European political scientists employed public choice theory to arrive at conclusions that differed considerably from the core of New Right thinking. At the same time, the academic debate on public policy in the USA, EU and its member states increasingly turned its focus to the role that institutions play in shaping the outcomes of political games. This broadening of public choice analysis provided a part of the basis for extended debates on the modernisation of the centre-left (see, for example, Sassoon 1996: Ch. 24). Indirectly, these developments contributed to the 'renewal' of centre-left policies, from Bill Clinton's Democrats in the USA and Tony Blair's New Labour in the UK to the social democratic parties in the Netherlands, Scandinavia, Germany and even France. In the 1990s and 2000s, liberalisation and modernisation became part of the mainstream political consensus in most European states. The question for governments of both the centre-right and the centre-left became how to make liberalisation and modernisation work. This political debate has been developing in parallel with changes in the academic debate, both in terms of more diversified public choice research and a move towards research that focuses more on the role institutions play in public policy.

A broader public choice agenda

Public choice theory laid the foundations for a formidable challenge to pluralist theories of the state and classical normative economic policy analysis, and influenced the public policy debate on the political left as well as right. Critiques of bureaucracy and public policy based on rational choice are of course closely associated with the New Right, and direct links can be found between academic analyses and centre-right policies in the USA and UK, particularly under Reagan and Thatcher. However, the public choice literature extends across a broader political and academic spectrum, comprising analyses

that do not reach the same conclusions as the New Right (Shepesle and Boncheck 1997, Scharpf 1997). Elaborating on rational choice analysis, and building on Downs' work, Dunleavy (1991) suggests that bureaucrats may have incentives to shape budgets according to their own preferences, rather than simple to maximise their budgets as a whole. LeGrand (2003) relaxes the assumptions about egocentric actors to allow for altruistic motivation and argues that cases for public service systems are sufficiently robust to take account of both kinds of motivation.

The institutionalist turn in public policy analysis

A broad political science literature has developed which focuses on the role institutions play in shaping political outcomes. The central point in the public choice literature is that outcomes are the result of the constellations of actors' interests, strategies and resources on one hand, and the rules of the game on the other. Or, as one textbook on EU politics put it succinctly: Preferences \times Institutions = Outcomes (Hix 1999). An important caveat is that strategies may change, even if more fundamental goals and preferences remain more or less constant, and that games at one level are affected by games at another (Tsebelis 1990). However, the *new institutionalist* literature asks whether institutions have a more independent impact on political outcomes (March and Olsen 1989, Pierson 2004). In the words of the title of Weaver and Rockman's (1993) edited volume: *Do Institutions matter?*, perhaps unsurprisingly given that the edited volume sets out to assess the effect of institutions, their answer is affirmative.

In the new institutionalist research, public policy is seen as a matter of institutional design and history. Regulatory regimes are shaped by the existing institutional set-up, even where considerable innovation takes place, e.g. to devise new and credible regimes. For example, the European Union has developed into a 'regulatory state', partly because its limited financial resources make regulation the most appropriate tool of governance (McGowan and Wallace 1996, Majone 1996). Regulation, rather than public ownership, planning and administration, has become the dominant form of state activity in Western Europe, at both the state and EU level (Majone 1994, 1997). For many states, EU-level policy-making consists in no small part of efforts to project their own (or preferred) institutions onto the EU level; to make sure EU rules and institutions are compatible with existing national rules (Eyre and Sitter 1999). Regulatory developments therefore 'reflect a pragmatic attempt to live with the constraints imposed by the EU, and, in particular, the inherent limitations in the Commission's executive powers' (Hancher 1996: 64). The central question, both at national and international level, is therefore not only why public services are needed or who wants them, but how the existing

arrangements came about and whether they shape the option for future change?

The 'Third Way' and the modernisation of social democracy

During the 1990s most social democratic parties in Europe embraced a large number of the changes that were taking place in the public sector. In much the same way as the conservative and Christian democratic parties became party to the welfare state consensus in post-war Western Europe, the debates about and strategies developed to strengthen state capacity were not associated with one side of the political spectrum only. Even if the right (in the late 1980s) and the left (in the late 1940s) may have gone considerably further than the other side was prepared to accept, particularly in adversary political systems like that of the UK, some elements of the new reforms became part of the new consensus. In most European cases the political right started the shift from the state to the market (in an effort to reduce the scope of the state), as well as the shift from public administration to public management (the effort to improve public services). However, many of the measures taken were soon accepted by the political centre-left. Moreover, the accompanying shift from centralised control to decentralised service delivery, whether by local government or more independent agencies, was not as clearly associated with the right's political agenda as was privatisation. The general tendency of opposition parties to accept many parts of the *fait accompli* of the governments that they oppose and eventually replace, primarily because it is costly or impractical to reverse established reforms, is reinforced by the fact that most reforms are multi-faceted and that parties often reassess their policies when in opposition.

The most racial changes on the centre-left, in terms of both policies and electoral strategy, occurred in the USA and the UK. In the late 1980s the Democrats and Labour began to play down ideology in favour of more centrist and pragmatic approaches to politics. The processes thereby set in place would be developed with considerable success by Bill Clinton and Tony Blair and help them win office in 1992 and 1997 respectively. Both leaders adopted explicitly pragmatic and centrist ideologies, and Blair's 'New Labour' in particular was closely associated with the work of the sociologist Anthony Giddens (1998) on the 'Third Way' and the renewal of social democracy. For Blair, Giddens, and the New Labour party, the Third Way was principally an effort to go beyond what they saw as the neo-liberal orthodoxy or ultra-liberalism of the Thatcher years, which they deemed inadequate in a number of respects. However, this was to be accomplished without a return to the classical state-oriented economic intervention of the old Labour party. In this project Labour leader Blair built on his two immediate predecessors' shifts towards the centre ground in British politics: Neil Kinnock's isolation of the hard left and John

Smith's weakening of the party's links with the trade unions. Labour's new centrist ideology permitted the party to take on board some important elements of the right's reforms of the public sector, including a commitment to the newly privatised utilities, to further liberalisation in some sectors, and to managerialism and a degree of competition in the public sector. When Labour won office in 1997 the policy to reduce the scope of the state was thus not reversed, although the approach to regulating the liberalised sectors was altered somewhat. The shift from administration to management was maintained, although some aspects, such as compulsive competitive tendering and quasi-markets, were played down. The reduction in the central government's direct involvement in public service provision was, if anything, carried further, albeit because of Labour's commitment to devolution of power to regional and local government. In addition, a series of reforms were undertaken to improve governance as a whole, improve public sector funding, and to deal with a series of sector-specific problems.

In the more consensual European states, such as the Netherlands and Scandinavia, neither the right nor the left went as far from the political centre as in the UK. None of the centre-right parties in the Netherlands, Sweden, Denmark or Norway featured party leaders quite as radical as Thatcher, and in any case their tenure in power was tempered by their participation in minority and/or coalition governments. Consequently, despite an overall trend of a move from state to market and from public administration to management, the centre-left faced neither the same incentives nor the same *fait accompli* as their counterparts in the UK. The four social democratic parties have been part of the broad pattern of centre-left reform, though the Dutch and Danish parties went somewhat further than their Swedish and Norwegian sister parties (the latter lost a considerable number of votes to its far left competitor in the 2001 election, which it fought on a Blairite platform, but recovered when it took a more left-wing posture in 2005). Although similar trends in public policy reform characterise these four countries and the UK, and utilities privatisation and liberalisation developed as fast and as radically, these states have taken a more cautious approach to internal reforms of public service delivery.

Political and public policy developments in France and Germany have been less radical than in the Netherlands, Scandinavia or the UK. Although the centre-right parties were in office for considerable periods in the 1980s and 1990s, the critique of the existing public policy regimes and of the general role of the state in economic policy was much weaker than in the UK, and political change was in many ways more conservative even than in Scandinavia (for example, in terms of telecommunications and energy liberalisation). Although Schroder's Social Democratic Party did adopt a more Third Way type programme, and successive governments in the 1990s have been committed to

reform, public policy modernisation and broader economic reform has met considerable obstacles in Germany. France has been an even more reluctant reformer. Although the Socialist's rightwards turn began as early as the 1980s, Third Way social democracy was still controversial on the centre-left in the 2007 elections.

In short, the politics of public sector reform and the debates on liberalisation and modernisation of public services to some extent reflected the differences in the types of modern capitalist regimes found in central and northern Europe (see Esping-Andersen 1990, Scharpf 1999, Hall & Soskice 2001). The 'liberal' welfare regimes (to use Esping-Andersen's label), here represented by the UK (and the USA), saw the most enthusiastic and radical employment of New Right theories in the 1980s, and the most thorough centrist move from the social democrat parties. The reduction of the scope of the state involved both general nationalised industry and many public utilities, and the shift from management to administration relied heavily on introducing competition and market mechanisms in the public sector. Decentralisation primarily meant hollowing out the role of the central government by shifting authority to independent agencies, rather than empowering local government (though this changed with the change of government in the UK). The 'social democratic' or 'consensual' model, in this case the Scandinavian states and to some extent the Netherlands, adopted a more mixed strategy, including radical liberalisation but less extensive use of market mechanisms for the services that remained in public hands. France and Germany, the 'corporatist' states, have seen somewhat less radical reforms, although the overall trend is in fact common to all EU states and the EU as such.

The Structure of this Book

The structure of this book follows the themes discussed so far: the first two chapters focus on the changing international context; the next two chapters focus on the strategies for reducing the role of the state (and relying more on the market) and the consequent challenges involved in the switch from direct intervention to indirect rule by regulation; and the last four chapters focus on the shift from public administration to public management. The core of the book therefore focuses on the liberalisation and modernisation of public service provision, but the two first chapters also address the overall framework for these reform processes: globalisation and the digital revolution. At the end of the book, Chapter 6 addresses the effects of digitalisation on public service organisations and service delivery, and Chapter 8 discusses the implications for leadership and organisational structures inside the public sector. The examples are taken principally from the seven European states discussed in this

introductory chapter: the UK, Germany, France, the Netherlands, Sweden, Denmark and Norway. This selection allows a number of comparisons: across the three models of 'welfare capitalism' or 'varieties of capitalism'; between fast and slow reformers in terms of both the shift from state to market and from administration to management; between old and relatively new EU member states; and across large, medium, and small EU members, as well as the 'quasi-member' Norway.

The first section, which comprises Chapters 1 and 2, addresses the international context: globalisation and regional integration. At the macro level, international developments have changed the parameters for states' policy-making. This represents the starting point in analysing public sector reform and designing public management programmes: addressing the questions of how global and international developments have changed the context in which states operate and how this provides both challenges to and opportunities for modernising government. Chapter 1 on 'Internationalisation, Globalisation and Liberalisation – Strategic Challenges for Public Governance' therefore addresses the relationship between international developments and domestic government, including more detailed focus on the three central aspects of globalisation: technological change, the liberalisation and growth of world trade and finance, and the political dimensions of globalisation. Chapter 2 on '*European Integration – Recapturing Sovereignty and Institutionalising Liberalisation*' turns to one of the main strategies European states have adopted to strengthen their capacity for governance: joint governance through the European Union. The EU also amounts to an institutionalisation of certain liberal policies, and places certain parameters on the member states' domestic policies related to public sector reform and management.

The second section, which comprises Chapters 3 and 4, turns to the first of the two broad national-level strategies for strengthening state capacity: reducing the scope of the state and shifting some public services over to the market. At the state level, developments in public administration and management are placed in the context of changing economic policy. New approaches to managing the economy and industrial policy have played important roles in driving forward public sector reform. Chapter 3 on 'Liberalisation and Privatisation' therefore addresses public and private ownership, developments in economic policy and management of industry, and the resulting processes of privatisation. This includes focus on the theories that form the basis for privatisation and liberalisation, with particular focus on utilities: telecommunications, electricity, rail transport and postal services. Chapter 4 on 'Regulation and Competition Policy' turns to the challenges for the state that this shift from direct intervention to indirect rule by regulation involved. As it turned out, both in the USA and Europe, privatisation and

liberalisation warranted re-regulation rather than deregulation. Establishing rules for a fully-functioning liberalised utilities market requires far more complex regulation than a state providing public monopoly services. Theories of regulation, deregulation and regulatory change are covered, as are the wider public policy implications of privatisation and liberalisation.

The third section, which comprises Chapters 5 and 6, turns to the second broad strategy for stronger state capacity: making the public sector work better. This section is dedicated to the macro level of public sector reform: ideas and technology. It addresses public administration reform programmes and the technological developments that helped drive the agenda of public sector modernisation. Chapter 5 on 'The New Public Management and New Governance' discusses the theoretical bases for reforms, drawing on the public choice literature on public administration and bureaucracy that formed the basis for a wide range of public sector reforms collectively known as 'New Public Management'. NPM has become the most prevalent model for public sector reforms across the world, and the attributes of NPM are therefore analysed here. The chapter then proceeds to address the implications of NPM reforms, and the changing types of government that are now known as 'governance' – modernised, and lighter, more flexible methods of public management. Chapter 6 on 'Modernising Government – eGovernment' turns to the modernisation of public management in the light of technological change (addressed under the topic eGovernment) that has permitted a new form of more user-oriented, accessible public services.

The fourth and final section, which comprises Chapters 7 and 8 continues the theme of making the public services work better and turns to implementation and management. Chapter 7 on 'Organisational Design and Institutional Governance' addresses the meso-level of change: reform of organisations involved in public service delivery. The focus is on the services that have remained under the auspices of the public sector, either through direct public provision or by contracting out to private or semi-private providers. This includes education, health and selected local government services such as refuse disposal and care for the elderly. Chapter 8 on 'Tools of Management and Leadership' proceeds to the micro-level. The roles and tools of public sector management and leadership are a central issue here, as is the question of the extent to which strategy and theories developed for private sector management are relevant to the public sector. This includes discussion of the challenges involved in implementing policy in rapidly changing environments, including change and project management, decentralisation and delegation, and knowledge-based organisations. It also examines the differences between management in the public and private sector as well as considering the range of tools available for improving management and leadership at different levels; from formulating visions to inspiring subordinates.

Further Reading

- Dunleavy, P. and O'Leary, B. (1987) *Theories of the State: The Politics of Liberal Democracy* (London: Macmillan). Provides an excellent overview of the major theories of liberal democracy. Chapter 3 on 'The New Right' elaborates on many of the theories discussed in this chapter.
- Fukuyama, F. (2004) *State-Building: Governance and World Order in the 21st Century* (Ithaca: Cornell University Press). A short book on the national and international role of the state. Chapter 1 on 'The Missing Dimensions of Stateness' provides a good overview of the functions of the state and how to strengthen 'state capacity'.
- Richards, D. and Smith, M.J. (2002) *Governance and Public Policy in the UK* (Oxford: Oxford University Press). An introduction to public policy in the UK, which provides good coverage of public policy reforms and debates in the 1980s and 1990s. Chapter 5 on 'The Internal Challenges to the State: The New Right' is particularly relevant.
- Newman, J. (2001) *Modernising Governance: New Labour, Policy and Society* (London: Sage). Covers the modernisation project of the Labour government in the UK. Chapter 3 on 'The Third Way: Modernising Social Democracy' provides a good introduction to the modernisation of social democracy.
- Hood, C. (1998) *The Art of the State: Culture, Rhetoric and Public Management*, (Oxford: Oxford University Press). Takes a long term perspective and provides an excellent introduction to the dynamics of public management reform. Chapter 2 on 'Calamity, Conspiracy and Chaos in Public Management' discusses the kind of problems and challenges different public management systems are likely to encounter.