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The New Public Management in Europe

Towards Convergence or Difference?[1]

This article explores the impact of New Public Management policies and practices within the European Union. It is concluded that the process of public sector reform – and the fuller adoption of the NPM model – is likely to remain contested, characterized by both the persistence of particular public administration traditions, and the emergence of new compromises, reflecting competing pressures and interests.

Reflecting the growing influence of neo liberalism in the 1980s, New Public Management (NPM) represents the infusion of marketization and market driven practices into public sphere, which, critics have charged, has been to the cost of popular accountability (Wise 2002; c.f. Anonymous 1997). Yet, it can be argued that change is a multi-facetted process, with a range of other forces at work (Wise 2002). Again, a number of critics have argued that there is little new about NPM, and that it does not really represent a coherent set of practices (Wise 2002). Nonetheless, there is little doubt that there has been an increasing use of private sector practices in the public sector in the 1980s and 1990s, with the aim of providing cheaper, more cost efficient services. However, many European governments remain committed to preserving their public sectors as an example of "good" employment practices and as a means of ensuring a basic degree of social equality. This article explores the relationship between the process of Europeanization and the adoption of NPM practices.

VARIATIONS IN ECONOMY, SOCIETY AND THE PUBLIC SPHERE IN EUROPE

Contemporary institutional theories draw a link between productive organization and wider rules and regulations. Hence, organizational level practices can only be understood within a specific environmental setting (Hirst and Zeitlin 1997: 321). Again, there is a close relationship between dominant economic policies, firm practices, and what goes on in the public sector.

Within Europe, there are a number of distinct state forms, ranging from neo-corporatist style states, such as found in Scandinavia, to less regulated forms of societal organization (Stillman 1997). Whilst there are strong global pressures towards greater liberalization, these may

1 Some of the arguments and points in this article are also contained and further developed in Wood, G. 2004. "New Public Management and Europeanization: Convergence or 'Nestedness'", Dibben, P., Wood, G. and Roper, I. (eds.). 2004. *Contesting Public Sector Reforms*. London: Palgrave.

be strengthened – or diluted – by persistent differences in constitutions, cultures, and the dominant ideologies of political parties (Flynn and Strehl 1996b: 4–5). Some states saw the development of a professional public sector relatively early, whilst in others, this development very much later – the relative strength of the former is likely to be very much greater (Stillman 1997). These persistent differences have led to a number of distinct archetypes being identified.

First, there is the *Anglo-Saxon* model, characterized by lightly regulated markets and individualism. This has come at the cost of weak vocational training, and a patchy provision of social services. Such models nonetheless, incorporate limited welfare provisions, introduced and maintained to ensure continued social stability. In Britain in the 1980s, the Thatcher government introduced far reaching market reforms (Flynn and Strehl 1996b; Flynn 1996). This included the centralization of powers, to allow the national government to restructure the role of local authorities, and introduce market competition in a range of areas (Flynn 1996). Parallel to this centralization, the authority of managers was increased, with professional managerial positions being introduced at a range of levels (ibid.).

Second, there is what has been commonly referred to as the *Rhineland model*. These states – including Austria, Germany and the Benelux countries – have a long tradition of neo-corporatism, centring on tripartite deals between the government, unions and employer interests – the state plays a key role in reconciling the concerns of the latter two. For example, in the event of adverse external economic pressures, the state may improve the provision of social services or increase regional spending to offset the shock of large scale job losses. In these countries, the government is likely to actively intervene in labour markets, subsidizing employment in areas where there is high unemployment, and invest in training and retraining (Kraft 1998). Normally, the state is likely to be an important provider of jobs in its own right, in support of this role (Harcourt and Wood 2003). In turn, this is likely to result in considerable opposition to market reforms in the public sector (Pracher 1996: 168). As borne out by periodic political protests, marketization remains very much less popular in such contexts than in Anglo-Saxon countries (c.f. Schelder & Proeller 2002: 178). Even if governments are formally committed to change, the actual process of liberalization is likely to be slow (Kuitenbrouwer 1996). It is at local government where market reforms are likely to be the strongest, as local political dynamics may, in some cases, be more conducive to reform (c.f. Schedler and Proeller 2002).

Third, the *semi-peripheral fordist* model is encountered in countries such as Greece, Spain, and Portugal. These countries were isolated from the global economy in the 1950s and 1960s – reentry into the global economy was marked by a period of modernization, often linked to the introduction of a range of austerity measures (Holman 2001: 87). Some authorities, such as Perez Diaz have suggested that these countries will ultimately develop into *Rhineland* type economies. However, others, such as Roca, note that any neo-corporatist deals in these countries tend to be strategic accommodations, rather than long term power-sharing arrangements (Lucio and Blyton 2001: 109). Whilst the development of these countries has allowed them to catch up in some areas, in other areas, the more advanced societies have already moved on. SMEs in the retail and manufacturing sectors were placed under particular pressure, leading to painful adjustments, and the gradual consolidation of such activities (Holman 2001: 81). Again, the former parastatals have largely been privatized, and a professional managerial class has gradually developed (ibid.: 82).

This process of adjustment has been marked by a declining role of the state – governments are no longer in the business of managing enterprises, and have reverted to a more traditional role of carrying out security, general administrative and social service functions. However, reforms have often been

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episodic and uneven. For example, in Portugal reforms have had rather limited effects in a range of areas (Rocha 1998). This represented the product of legal checks and balances, which blocked wholesale marketization in which precluded the implementation of wholesale marketization in many areas, and contradictory political agendas. For example, conservative politicians often favoured both centralization and the introduction of private sector managerial functions; even more so than in countries such as Britain, these contradictory agendas often worked against eachother (Rocha 1998). Moreover, the privatization of a range of public services resulted in a lower quality provision and higher user costs (ibid.). Meanwhile, in Spain, public sector reforms were partially driven by a recognition of regional desires for greater autonomy (Schedler and Proeller 2002: 174). Nonetheless, this process has been contested, and the central government remains powerful in many areas (ibid.).

Forth, there is a *transitional model*, encountered in Central and Eastern Europe, following the overthrow of Soviet rule in 1989. Almost all countries in this region went through a period of rapid marketization. However, in some countries, firms coped with often difficult challenges to reverting to old systems and relationships centring on exchange through bartering (Smith and Swain 2001: 453). In all these states, a strong pressure has been to cost cutting, in both the areas of production and general administration (Voskamp and Wittke 2001: 475). All these countries have also seen cutbacks in many areas of the public sector. As is the case with many other countries experiencing market reforms, a "contradiction of managerialism" has been experienced – new democratic governments sought to place the state bureaucracy under their control, but also to introduce professional autonomous managerialism into this area (Guess 1997). As is the case with the peripheral economies of southern Europe, the result may be a convergence to the liberal market or Rhineland models, or, in some cases, the persistence of difference. Countries falling into the latter category would end up with weak states, underdeveloped banking systems, and the interpenetration of the public sector by informal networks of support linked to oligarchs (c.f. Boyer 2001) – arguably, Ukraine has already fallen into this trap.

A fifth model is the *regional or industrial districts* one, such as encountered in Italy (Whitley 1999).

In part, this has reflected a particular type of state development, resulting in persistent regional varieties in the way in which firms operate and in the role of government (Whitley 1999: 46). For example, there are over 40 000 autonomous public agencies in Italy (Kearney and Hays 1998). In the latter country, wide-scale privatization took place in the 1990s, with the aim of reducing the size of the state sphere(Segreto 1998). However, these reforms had limited wider effects, and indeed strengthened both larger firms operating the private sector and associated networks (Segreto 1998).

Finally, *France* is often held up to represent a distinct model in its own right. A strong public sector continues to play an important role in large areas of public and economic life (Whitley 1999: 71). Again, a powerful civil service – and a culture of mass political protests – have successfully blocked numerous attempts at market reforms by central government. Again, market reforms emanating from the European Union have often resulted in strong opposition in France (Thiers 2000). Unlike many other countries in Europe, France has not seen the rise of private sector style professional managers in the public sector. Instead, traditional government officials have fought to retain their existing powers and duties (Flynn and Strehl 1996a).

NEW PUBLIC MANAGEMENT IN EUROPE

It was in New Zealand, that, under successive neo-liberal governments that the term "New Public Management" (NPM) first emerged (Schedler and Proeller 2002: 163). NPM was soon infused into Britain, also building on the neo-liberal ideologies from the United States (Thiers 2000). Otherwise referred to as the new managerialism, NPM aims to introduce "best" business practices into the public sector (ibid.). Key priorities of the NPM are market discipline, customer service orientation, earning and income generation instead of spending, and a strong emphasis on performance (Maor 1999).

In the 1990s, a large number of European countries adopted NPM techniques to restructure their public sectors. Pressures for reform included cyclical budgetary pressures, the increasing amount of public spending as a proportion to the GDP in many Western European states, and demands for improvements in service quality given productivity improvements in other areas of the economy (Flynn and

Strehl 1996b: 3). In addition, rapidly ageing populations have placed increasing pressures on established European welfare states. However, as Pierson (1991: 182) notes, the core requirement of supporting a growing dependent population is unlikely to be resolved simply through privatization; in whatever way, the costs will still have to be met from current economic output.

Such reforms have included the removal of delivering functions away from central government, the use of the private sector in providing many public services and/or partnerships between private and public organizations in the delivery of public services. (Torres and Pina 2002). Whilst initially dismissed as yet another managerial fad, NPM has proved to be of far reaching historical significance in redefining the role of the public sphere (Kearney and Hays 1998; c.f. Anonymous 1997).

Proponents of NPM argued that existing bureaucrats had a vested interest in empire building and in maximising expenditure, sucking resources away from more productive areas of economic life (ibid.). More radical neo-liberals have revived the nineteenth century idea of the "undeserving poor", arguing that existing welfare states encourage individuals to claim benefits, rather than engaging in productive economic activities. Again, public servants may not always be fully accountable, opening the way for neo liberal attacks (ibid.).

The adoption of NPM policies and practices has been rather uneven in all cases, above all in measuring and ensuring value for money in outsourced or privately run government functions, and in accurately gauging performance. Nonetheless, most Western governments have attempted to manage and measure performance in this regard (Halachmi 2001). However, new levels of competitiveness may weaken existing solidarities in the civil service and leaden a greater fragmentation of state functions (Kearney and Hays 1998). On the one hand, Wallace (2000) has suggested that, within Europe, the introduction of NPM practices is likely to be diluted and mediated by existing national and regional realities. On the other hand, others, such as Streeck, have suggested that national systems in Europe are fragile. The effect of bodies such as the EU will be to encourage even greater use of liberal market practices, with the gradual spread of low value added "Delaware" standards (O'Hagan 2002: 40). Indeed, it has been argued that the EU has encouraged cutbacks in the role of the state (Masters 1998). It can also be argued that poorer regions of the EU simply cannot afford the comprehensive welfare states encountered in countries such as Sweden, leading to the persistence – or worsening – of existing regional inequalities (ibid.).

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CONVERGENCE: NEO LIBERAL PERSPECTIVES AND TRENDS

Celebrated for his suggestion regarding the "end of history", in 1992 Francis Fukuyama argued that a general consensus have emerged around liberal democracy and liberalized markets (Fukuyama 1992). This would result in a tendency in the public sector towards greater democratic accountability, but also to the introduction of market principles – the role of governments would be primary regulatory rather than an administrative or service role.

However, in the 1990s, the track record of neo-liberal reforms has been uneven. Many countries have been associated with weaker public infrastructures, smaller welfare provisions and rising social inequality, as well as a decline of key areas of economic activity such as manufacturing. Nonetheless, neo-liberal reforms remain popular amongst political elites in the absence of viable alternatives. This has resulted in mixed outcomes. Some countries have struggled to accurately monitor the relative costs and benefits of the privatization of public services (Torres and Pina 2002; Halachmi 2002). Nonetheless, it could be argued that globalization has led to the increased popularity of standardized solutions. In

Western Europe, both conservative and social democratic parties have continued with the privatization of state functions and the deregulation of company law (Blackburn 2002: 139; Budgen 2002: 33). Even if committed to a "social model", governments have continued to favour real cutbacks (Budgen 2002: 36–37). This process has been even more pronounced in central and Eastern Europe (ibid.: 140; c.f. Blackburn 2002).

There are also strong continental pressures towards greater liberalization and a greater use of NPM policies and techniques. The European Union launched two programmes for internal reform in 2000 – "Sound and Efficient Management 2000" and "Modernizing Administration and Personnel 2000" (Pollitt and Bouckaert 2000: 19). Both stressed the importance of decentralizing government powers and deregulation – for example, the latter aimed to decentralize the HR function. On an external plane, the Maastricht convergence criteria placed restrictions on national government spending (Pollitt and Boucakert 2000: 30). Again, the introduction of the Euro has placed further restrictions on spending by national governments.

Meanwhile, an effect of the wider dissemination of NPM practices has been towards both the rise of autonomous managers, and governments seeking more direct control over residual functions (Moar 1999). These tendencies have been noted in European countries as diverse as Britain and Malta (Moar 1990). These contradictory pressures have led some writers such as Torres and Pina (2002) to question whether alternative more integrated models for public management need to be developed.

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CONVERGENCE – AN EMERGING EUROPEAN SOCIAL MODEL?

Alternatively, it could be argued that whilst there are strong pressures towards a convergence in public sector management policies and practices in Europe, they may not necessarily be on the lines of NPM (c.f. Wallace 2000). Transnational institutions – most notably the EU itself – have promoted a broad social model, with far reaching consequences for public administration. This would result in the EU evolving into a more closely integrated cluster of states with highly competitive, high quality, high value added companies, generous welfare systems, with policy being the result of social dialogue (O'Hagan 2002: 6). Over time, the role of national governments will be gradually ceded to emerging trans-European bodies (O'Hagan 2002: 43). This would be based on the assumption that there is natural tendency towards stronger unity (ibid.: 44), an optimism that may, however, be challenged by recent setbacks to greater integration, such as the recent EU constitution debacle.

Again, "new governance theories" argue that a new European model is emerging, with the EU providing a source of new policy directions in a range of areas (O'Hagan 2002: 46). Cross border connections deepen between different member states, facilitated by new policy interventions (Wallace 2000). There have already been common – albeit increasingly challenged – policies in agriculture, but also through "soft policy co-operation" in the form of Directives (Wallace 2000), that have promoted the diffusion of a single European social model (e.g. Directives on outlawing discrimination, and on promoting codetermination at workplaces).

Several treaties – the Treaty of Rome, the 1985 Single European Act and the 1991 Maastricht Treaty – have all encouraged common practices in a range of areas, and laid the framework for a common polity and mutually supportive public administration practices (Schmitter 1997). Again, it could be argued that the above mentioned "Sound and Efficient Management 2000" and "Modernizing Administration and Personnel 2000" are more about efficiency than full marketization – both in part embody a commitment to traditional public sector values of consistency and service (Pollitt and Bouckaert: 179–180). Again, it can be argued that the operation of the European Commission continues to reflect the influence of the French public service tradition, a tradition that may be further spread as the role of the EU increases (ibid.: 58).

Again, despite pressures to liberalization, the public sphere in much of Europe remains stronger than the United States, supported by shared notions of the public space, and the retention of large areas of the media and physical infrastructure in public hands (Blackburn 2002: 135). However, in the poorer parts of the EU, the diffusion of a "new European" social model has been uneven, with continued strong pressures towards greater marketization (O'Hagan 2002: 6).

Distinct European state traditions and types of social organization have led to much better performance for high value added manufacturing than in the United States: this would reflect both more patient shareholder behaviour facilitating reinvestment and incremental innovation and effective state provided vocational training systems (Hall and Soskice 2000). However, performance has been less good in areas of low cost manufacturing and services, and in highly innovative sectors such as software design (ibid.).

It can be argued that many of the pressures faced by European social democracies represent the effects of once off developments (e.g. the costs of German unification, reconstruction in Central Europe, the need to establish the Euro as a credible reserve currency) rather than general failure of the social democratic model. Nonetheless, support for shared European positions "generally depends on a series of interlocking understandings" (Wallace 2000) – the development of a shared trans-European social model is likely to be uneven and episodic.

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PERSISTENT DIVERSITY

It could be argued that national level institutions – and public management practices – are remarkably durable, despite the homogenizing pressures of globalization, and the role of the EU (or any other transnational institution for that matter). Indeed, despite the fact that the EU has been around for some forty years, trans-European agencies remain of limited significance (Whitley 1999: 133). The impact of trans-European initiatives remains constrained and dependent on the goodwill of national governments (ibid.: 133). Hence, comprehensive Europeanization remains an incomplete ideal (Wallace 2000). Indeed, national governments have considerable autonomy in choosing the means by which mutually agreed goals are pursued (Salinas 2002). Hence, the process of Europeanization is less of hierarchical governance – with EU level bodies having more power than individual national governments – but rather about changes in policies and role of the public sectors at a number of different levels (Wallace 2000). The influence of the EU remains dependent on national level realities, and the development process underway in different states.

Whilst faced with common pressures, national governments will still opt for different policies: some nations may experiment with radical deregulation, and others with retaining, reforming or developing their own national social models.

All this has led Boyer and Hollingsworth (1997) to suggest that institutions and coexist at a range of levels from the sub- to the supra-national. Moreover, institutions may work horizontally (such as in the case of regional common market) or vertically (hierarchies of authority, lines of control) (ibid.). There are a range of complex and interlocking mechanisms of governance – states, markets and associations – with governments remaining important despite pressures to change the manner in which the public sector is run towards more cost effective models. Hence, national level institutions are "nested", interlinked with sub- and supra- national ones (ibid.).

The role of the public sector in Europe is reinforced through the role mechanisms that are neither purely state or private sector (Schmitter 1997: 397) – informal and formal associations, and inter-firm and inter-sectoral alliances of interests. These mechanisms represent more than simply market imperfections: they help secure competitiveness of much of European industry, allowing for flexibility, the sharing of research and development costs, and a supportive state role, including the provision of effective training and regional development and support incentives (ibid.: 398).

Thiers (2000) suggests that, faced with these realities, NPM in Europe represents an "incoherent reform wave", incorporating many elements. The role of the public sector continues to reflect distinct state traditions, ensuring that the role of the public sector administrator/manager in Europe remains different to that encountered in the United States (Stillman 1997). Even within Central Europe, the state continues to play a key role in "policy planning, judicial oversight, economic control, and effective program implementation" (Stillman 1997).

CONCLUSION

NPM is often represented as part and parcel of an unstoppable wave of market driven reforms, that will have far reaching effects on both management in the public sector, and in the wider economic domain. It is argued that companies and public have to be responsive to changing customer needs, and largely driven by the "bottom line" – should they fail to be so, entire countries face marginalization in the global economy. NPM allows for more room for private enterprise in the running of public services, whilst imparting private sector management practices is likely to make for higher performance and efficiency.

However, other writers – from within the broad institutionalist tradition – have suggested that the effects of the adoption of NPM policies in Europe have been very uneven. Indeed, a range of institutional constraints operate at regional, national and EU levels, resulting in the development and persistence of "mixed models" reflecting global and continent-wide developments, but also national dynamics and continuities. Hence, a more plausible alternative to the "homogenization thesis" is that the process of public sector reform – and the fuller adoption of the NPM model – is likely to remain contested, characterized by both the persistence of particular public administration traditions, and the emergence of new compromises, reflecting competing pressures and interests.

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