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The Globalization of Public Services Production: Can Government be 'Best in World'?

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ABSTRACT

New public management strategies (NPM) constitute a powerful model of how virtually all aspects of public services production can be brought to more closely approximate those in private industry. Although the full NPM agenda is only partially implemented in some countries, it has already had enormous impacts in creating a proto-market in the public services. This 'market' may remain a domain of diversified, small-scale, mainly single-country provider organizations. Or it may develop on more oligopolistic and trans-national lines as a new field of big corporate dominance. Private sector trends in the evolution of service industries, changing information technology, organizational patterns and commodification processes make the corporate option more likely.

Inside government agencies bureau-shaping motivations sustain the NPM approach and create a strong disposition towards embracing radical outsourcing, and residualizing government's implementation roles, a direction reinforced by the marketization of public services. Transnational pressures on nation states to standardize policies will powerfully erode the existing single-country distinctiveness of public service markets, increasing the potential for dominance by large corporations. These developments are likely to erode the 'core competencies' of government, undermining the state's ability to act even as an 'intelligent consumer' in the face of increasing concentrations of expertise, investment and implementation with corporate actors.

Introduction

'I know it upsets many people even to contemplate the possibility that we are caught up in social processes not under the control of any human agency'. Herbert Kaufman¹

In the last two decades public administration has had an appalling record of looking forward and correctly anticipating trends and future developments of

central relevance to the subject. When Ostrom warned of the 'intellectual crisis in American public administration' and argued for a series of public choice-influenced new approaches there was little response. Instead for the next decade and a half the discipline's textbooks and the writings of political scientists lagged further and further behind the wave of practice, less so in America but extremely sharply in Britain where the changes in public sector administration have been so rapid (Elcock, 1991). To take a current example, the erosion of multi-issue local public administration (municipalities and district health authorities) by micro-local agencies has been a key development in Britain in the last seven years. Yet as I write I can think of no single useful description of these agencies, still less of the theoretical rationale for introducing them (which is related to Buchanan's theory of clubs, and to the weakness of 'Tiebout forces' given the UK's heavily modernized local government structures and dominant non-local forms of municipal financing).

This pattern of anachronistic public administration approaches, lagging far behind the development of current practice, is likely to recede a bit in future as the current wave of 'new public management' reforms stabilizes, and as many of its internal difficulties emerge (Dunleavy and Hood, 1994). Public administration as a discipline has now internalized many NPM ideas and is slowly rebuilding a management-orientated orthodoxy to replace the lost certainties of the 1960s and 70s.

However, this article reflects a conviction that a new and even more fundamental source of disjuncture between academic ideas and administrative practice is opening up unnoticed beneath our feet – the decoupling of public services production from a single-country context. Although privatization and contractorization have progressively created 'markets' of various kinds in public administration over the last fifteen years, the involvement of private corporations has overwhelmingly been organized on a single-country basis. Most political scientists and public administration writers currently seem to believe that national political system idiosyncrasies constitute irremovable barriers to the development of broader trans-national corporations dominating public services production. In this paper I argue that the developments of the last decade strongly suggest that these barriers will not prove permanently substantial.

To establish this point I focus on three problematic terms. By 'globalization' I mean the substantial internationalization or regionalization of an activity previously handled in a single-country context. By 'public services' I mean collective consumption provision – those aspects of health, education, social services, transport, housing, infrastructure services, environmental improvement and urban planning organized or subsidized by government; social insurance provision (governmentally-organized unemployment pay, pensions, sickness compensation etc); and public administration. By 'production' I mean the direct organization of task implementation or of service provision to take place – rather than policy decisions about what is to be provided or what tasks should be undertaken, all of which form part of the 'purchasing' role (see below).

To see why the direct implementation of tasks in the public services may cease to be organized in a single-country way, and come to be organized by private corporations operating on a much wider scale, the paper has three sections. The

first reviews the existing impact of 'new public management' (NPM) on public services production. The second examines contemporary developments in technology, in private sector organizations, and in broader social structures which create pressures for 'markets' once opened up to enlarge in scale. The third section considers how the impacts of existing public sector shifts and of wider technological and social pressures for change may cumulate in future developments with strong implications for the role of nation states.

1. The existing impact of NPM on public services production

New public management is the domesticated, de-politicized version of 'new right' or 'market liberal' policy analysis, made somewhat more technical, consensual and generic. I first review its main elements and then look at variations in the implementation of NPM.

1.1: Components of NPM

Effectively NPM has become a generic label for a group of policy and administrative solutions emphasizing competition, disaggregation and incentivization.

Competition components have in common an effort to remove monopoly suppliers, to establish multiple competing sources of supply or at the least to show the 'contestability' of blocks of work, and thus to create a potential for future competition if a currently dominant supplier exploits their position or fails to maintain efficient technologies or working practices:

- ★ *Splitting up purchasers and providers* means separating out the planning and specification of services to be provided and their financing (the purchasing role), from the direct organization of tasks (the provider role). The rationale here is that even if the purchasing role remains an inherently public sector function, competition between multiple providers can be set in train.
- ★ *Compulsory competitive tendering (CCT) or 'market testing'* then enforces a regime where private firms (and sometimes not-for-profits, mixed bodies or voluntary associations) can always bid against in-house public sector teams, or against a previously successful private contractor, as contracts for service provision periodically come up for renewal.
- ★ *Government-to-government contracting and intra-governmental contracting* extends the logic of multiple providers into areas where for various reasons the retention of service provision within a fully public sector environment is required.
- ★ *Consumer-tagged financing* moves away from assigning budgets directly to 'provider' organizations or facilities, instead linking funding with clients or consumers. This step opens up the possibility of consumers making choices for themselves between competing provider organizations, by 'exiting' from those with declining quality of services and switching to more successful outlets. It also means that more popular or successful organizations or facilities gain larger budgets than less popular ones. Budget size is now directly linked with the scale of activities.

- ★ *Vouchers* take consumer-tagged financing and exit options to a limit by providing clients with a cash-equivalent which they can exchange for services in a wider range of outlets, which might be public sector bodies, quasi-governmental agencies or regulated private sector organizations.
- ★ *User control* expands consumers' capabilities beyond 'exit' options to include also 'voice' exercised via complaints, elections, lobbying, protests etc in some micro-local agencies (schools, housing estates): Usually in Britain user control has displaced previous patterns of indirect 'community' control, via municipal elections and councillors in local services for example. At a limit user control may imply single-facility organizations 'opting out' of integrated public service organizations. (The converse does not follow here: many 'opted out' bodies are management-controlled and not user-controlled). However, in Scandinavia user control has more often supplemented electoral influences, and been used as a finer-grain system of accountability within integrated public service organizations.
- ★ *Public/private sector polarization and the opening up of new lines of sectoral cleavages* has been used to stimulate 'competition' in the UK, mainly because of the close links of the Conservative party with 'private' sector social locations and of Labour with public sector locations (Dunleavy, 1989a). Sectoral polarization is a useful macro-strategy because people can be 'bounced' into changing sectors by adjustments in their relative subsidization (as in UK council house sales, or the funding of 'grant-maintained' schools compared with local authority schools) (Dunleavy, 1986b). Where sectoral competition is linked with modal consumption choices (for example, private car use versus public mass transit), competition is further intensified.
- ★ *Product market liberalization and deregulation* have become important stimulants for competition, with governments attempting to reintroduce 'entrepreneurial' flair and lower-cost forms of organization into previously stagnant service industries, especially those supported by substantial public subsidies, such as urban bus services (Gomez-Banez and Meyer, 1993).

Disaggregation components of NPM emphasize the chunking-up of public service organizations, creating far more deconcentrated or decentralized patterns than in the hey-day of functionally-organized, integrated public service bureaucracies from the 1950s to the mid-1970s. This change is the public sector equivalent of the earlier shift amongst large private corporations from unitary (U-form) patterns of organization to multi-firm (M-form) configurations (Williamson, 1975). The results of both trends are smaller, more coherently directed, product-focused forms of organization:

- ★ *Corporatization and strong organizational leadership* are achieved by separating out discreet blocks of activity so that they can be separately developed, and accorded a far higher degree of management attention than would be feasible where they are small components of a much larger organization. Concentrating leadership in a single chief executive (by

downgrading previously collegial forms of organizational direction) is a common sub-theme of corporatization.

- ★ *The growth of quasi-governmental agencies (QGAs)* is a corollary of the corporatization drive. Discrete agencies are set up, akin to product-focused firms, separating out specific tasks from multi-issue central government departments (or regional governments in federal systems).
- ★ *The creation of micro-local agencies (MLAs)* is an analogous process by which single-facility or sub-local, single-function agencies take over responsibility for local services production from multi-issue municipalities (and health authorities in the UK).
- ★ *'Hiving-in' at central government level* as in the Next Steps programme carries through a similar logic by setting up executive agencies within a loosened civil service framework, to take over discrete blocks of work previously carried out by central government departments.
- ★ *The creation of independent institutions* is a subtly different process. Whereas QGAs, MLAs and executive agencies remain subject to direction by higher tier political institutions (central government ministers in the UK), arguments for independent institutions stress the need to insulate some tasks or activities more completely from political interventions. All examples of corporatization implicitly constrain top decision-makers' scope of action, by creating new inter-organizational boundaries which multiply clearance points and circumscribe the scope for direct instruction (Pressman and Wildavsky, 1974). However, top-tier political decision makers commonly dispose of powerful financial, regulatory, policy system, and professional levers over corporatized bodies. With independent institutions these less visible forms of leverage are also screened out, and a potential for bargained or even adversarial processes is built in.
- ★ *Decoupling linked policy systems* is a necessary step in corporatization changes, and usually involves dismantling planning-based systems of coordination. Instead more discrete sub-systems are constituted, with interactions handled at-a-distance often in contractual or quasi-contractual form, or by the use of formula-based funding schemes (often associated with consumer-tagged financing).
- ★ *'Chunking' up privatized industries* so as to create multiple producer roles (as well as separating out regulatory roles from producer roles) is another form of disaggregation strategy. It responds to the profound inadequacies of early model privatizations, such as those in the UK which created integrated private sector monopolies in the gas and telephone industries. Simple forms of chunking include separating out large companies into regional units, or more complex efforts to make organizational forms follow role boundaries, as in the UK railway privatization arrangements.
- ★ *'Competition by comparison'* denotes pseudo-competition where the relative performance of chunked-up private industries or corporatized agencies is monitored, and some penalty attaches to laggards. Thus privatized companies in the same industry may strive to be efficient in

order to attract capital finance, or good stock market ratings, or more favourable treatment from regulators. Corporatized agencies may want to attract better funding from top-tier decision-makers, or to recruit more clients carrying with them tagged finance.

- ★ *Performance measurement* is a generalized NPM strategy, reflecting a long-run development of output measurement, output budgeting, and attributing costs to outputs.
- ★ *League tables* entail extending performance indicators to produce simplified aggregate measures of performance, which can then inform consumers or a wider public of the comparative efficiency or success ratings of different providers.
- ★ *A push towards limited deprofessionalization* follows from numerous pressures already listed – efforts to create strong or corporate leadership, displacing collegial forms of organizational guidance; the substitution of publicized performance indicators and consumer's decisions for professional evaluations and judgement of success; and the erosion of professional planning by contractual relationships.

Incentivization components of NPM introduce quasi-pecuniary motivations at an individual level, or revenue-maximization incentives at an organizational level, to supplement or to replace a previous 'public service' ethic focused on professional or organizational/bureaucratic motivations. These new forms of incentives are said to foster greater entrepreneurialism, and closer attention to cost-savings and organizational efficiency:

- ★ *The privatization of asset ownership* has been important in applying NPM to government enterprises, and increasingly to 'mainstream' government administration. In both cases the shift reflects a belief that private sector firms are inherently more efficient or dynamic than public sector equivalents – a proposition usually advanced for ideological reasons, and immensely difficult to establish empirically (net of conflicting influences).
- ★ *Respecification of property rights* is a more theoretically-based but equivalent component, reflecting a conviction that there must be some optimal configuration of property rights which could minimize problems of conflicting interests or externalities. A key proposition is that vesting an inclusive property right in one actor may produce a better pursuit of an overall social interest than splitting up ownership (Barzell, 1989).
- ★ *'Light touch' regulation* combines an effort to compel efficiency improvements on privatized industries (by specifying price increases less than inflation) with an effort to make regulators independent institutions. 'Regulatory capture' is supposed to be fended off by keeping an arms-length relationship between regulator and industry.
- ★ *Capital market involvement* broadens incentives acting on public service organizations by partially or wholly substituting private sector financing modes. Investor involvement is expected to increase pressures on managers for cost-savings (for example, in planning and undertaking construction work), or in estimating levels of 'market demand' for services.

- ★ *Unifying rates of return and discounting criteria* is achieved by removing previously available public sector finance regimes, especially lower rate of return criteria for funding investments stemming from public sector bodies' reduced risks or exemptions from taxes. Also targeted for change are public sector discounting rates for capital projects alleged to be overly generous to long-term benefits and to underestimate the costs of capital finance.
- ★ *The development of charging technologies* has emerged as a key NPM innovation in the 1990s, largely due to physical control technology enhancements made possible by better information technology. Examples include the computer coding of electricity packets, thereby allowing competing suppliers to use a common electricity grid and supply network to market energy directly to individual consumers; or the introduction of electronic forms of road-pricing, dramatically expanding the scope for private sector provision or maintenance of roads. The shift in charging technologies goes along with the general NPM emphasis on financial viability. It completes the process of displacing cost/benefit analysis and welfare economics criteria from the central position in policy analysis which they held in the 1970s.
- ★ *Valuing and managing the public sector equity* entails an extension of NPM so far actually implemented on a large scale only in New Zealand. To run government agencies on lines more directly analogous to private corporations (using 'generally accepted accounting conventions') public sector managers need to be able to value their organization's total equity, and to have policies to manage its depreciation. The introduction of accrual accounting methods is the basic innovation here.
- ★ *Anti-rent-seeking policies* are a corollary of the expansion of pecuniary incentives. They aim to identify areas where remuneration and outputs are inadequately linked, on the assumption that there is a near-universal tendency for people to try and acquire unearned rents.
- ★ *Deprivileging professions and public sector workers* has been the leading anti-rent-seeking policy associated with NPM, especially in the UK. The strategy focuses on projecting previously 'sheltered' pay formulae, employment relations, pension provisions, etc into more 'flexible', private-sector forms which remunerate employees more directly in relation to local conditions and market scarcities.
- ★ *Increased pay differentiation*, meaning greatly increased levels of pay inequalities, has followed from the replacement of national pay negotiations by regional or local deals, and by a general tendency for NPM arrangements to depress the pay of the least skilled workers and greatly enhance that of top managers (Hood and Peters, 1994).
- ★ *Performance-related pay* is an extension of the drive against rent-seeking, and the introduction of performance indicators. The main problem is the small proportion of pay which is normally performance-related. This component is also associated with the introduction of quasi-contractual methods of inter-organizational guidance, and the strategy of building-up

leadership roles in agencies.

- ★ *Mandatory 'efficiency dividends'* build into public budgeting structures an expectation that public service efficiency will progressively improve. In place of previous assumptions of constant costs, or real-terms inflation, efficiency dividends substitute year-on-year decrements justified by the idea that government organizations will show continuous productivity improvements, just as private firms must do.

The scope and scale of NPM changes is impressive, and their cumulative effect in accentuating a drift towards privatized production of public services is enormous. Especially in 'advanced' countries such as Britain and New Zealand (before the early 1990s) the transformation of public service systems has been dramatic, and the change of cultures even more so. Zifcak records a Treasury under-secretary minuting his colleagues in 1982: 'In my more extravagant/romantic moments I think of us as carrying the torch for change, but modestly, as befits the immensity of the task' (Zifcak, 1994, p.1). By contrast in 1993 a key Cabinet Office official complained at a private LSE seminar that it was completely anachronistic to see the higher civil service as a bastion against change, given their proven willingness to devise and implement radical reforms of public sector organization. Quite the contrary was true: 'We believe in "permanent revolution"', he said.

1.2: Limitations of NPM

Yet it is important to point out some ways in which the purely analytic summing up of NPM changes given above may be misleading. In the first place the characterization of NPM tends towards an 'ideal type'. Not all the changes itemized above are present in all countries or pursued as a coherent strategy even when many of them occur together. Although new public management as a whole is still an ideologically dominant wave in OECD countries, there are sharply varying levels of implementation across countries:

- ★ In Britain the third term Thatcher government inaugurated an across-the-board frenzy of administrative reform on purchaser/provider lines, which has been carried forward under Major's 'reform without purpose' regime. The strong faith of senior Cabinet Office and Treasury officials in radical management changes has begun to ebb somewhat in the face of disappointing efficiency results, soaring overhead costs, evidence that the cartelization of providers is impairing competition, the return of large-scale public sector sleaze in corporatized bodies, and rising public dislike of reduced democratic accountability.
- ★ The impacts of NPM on the constitutional and political equilibrium in Britain has been profound. The central state has virtually *become* a local government in its obsessive pursuit of an administrative reform agenda, in the process disintegrating all sub-national centres of political power. Little wonder then that the UK has been and remains a world leader in contracting out public services production.
- ★ In New Zealand public sector management was radically recast by governments in the 1980s and early '90s, thanks to a unicameral

Westminster system and a conversion by the Labour party to NPM ideas. But in 1992-3 the NPM wave was decisively halted by a strong public backlash. The 1993 election produced effectively a minority government, a further diversification of the party system, and victory for electoral reformers in a constitutional referendum (Vowles, 1994; Mulgan, 1989).

- ★ In Australia the Labour government successfully domesticated NPM in the form of the Financial Management Improvement Programme (FMIP), which compares favourably in its successful implementation with Whitehall's largely defunct FMI (Zifcak, 1994). Australian forms of 'humanized' NPM powerfully influenced Osborne and Gaebler, and via them the Clinton-Gore proposals for reform.
- ★ In the USA public management practices were gridlocked under Reagan and Bush, with only minor improvements in federal government financial management practices over twelve years (Massey, 1993). However, the advent of undivided government with Democratic control of the executive and legislature, together with the consensual National Performance Review opens up some potential for gradual but substantial changes in federal administration (Margetts, 1994; Peters, 1994).
- ★ In Scandinavia NPM's influence has been limited to the privatization of some service delivery in local and central government. However, there are fairly distinctive (perhaps 'Nordic NPM') elements in these changes, such as the combination of competitive tendering in municipal services with an emphasis on decentralization to neighbourhood level within democratic municipal structures.
- ★ In Germany there has been little adoption of NPM to date, due to constitutional constraints, the lack of party consensus, and a strong public service orientation towards legalistic forms of policy analysis and management. The severe recession in the early 1990s, plus strong efforts by the Social Democratic Party (SPD) to increase its electoral standing by embracing a humanized form of NPM, may trigger a break-up of the previous logjam. Some hesitant moves towards corporatization of public utility enterprises have been made, following experience of privatizing former government enterprises in the new eastern Lander.
- ★ Japan has been virtually immune to NPM ideas at the central ministry level. Some public enterprises (railways and telecoms) were privatized in the 1980s. But in the 1990s the main reform efforts have concentrated on changing Japan's electoral law (to a proportional representation system) and combating political corruption. The advent of coalition governments in place of LDP dominance may indicate a potential for loosening up 'feudal' civil service operations, but only over the long-term (See Margetts and Smyth, 1994).
- ★ Italy has been another country where public bureaucracy changes have generally hung fire for much of the 1980s. The installation of new election laws at local government level (creating a reinforced majority for the winning mayor's list on each council) and at national level (creating a majority for new right parties in 1994) may herald a drive for greater

efficiency, while anti-corruption feeling sustains a push for greater financial accountability and productivity. Privatization may appeal as a means of pursuing multiple objectives simultaneously.

The overall impact of variations in NPM will be to fragment at least for the immediate future the adoption of the full NPM agenda, slowing down the development of a cross-national or generally international market potential in the public services. The linkage between different parts of the NPM project will be obscured, and its similarities to private sector modes of operating will be less visible, for a time.

Second, there is now little doubt that NPM has become a differentiated movement of change, although there is little scholarly agreement yet on the most fruitful ways of considering variations within NPM. One approach argues that the most authentic (ie right-wing) form of NPM is a minimal purchasing state where the public and private sectors operate in very similar ways, and where there is little distinctive regulation of the public sector. But in practice most systems of organization so far affected by NPM changes have not moved into this configuration. Instead administrative systems have generally moved away from conventional public administration without necessarily coming any closer to the minimal state situation. Some areas of government have become less organizationally differentiated from the private sector, while nonetheless remaining highly regulated spheres of social life – the so-called ‘gridlock’ governance (Dunleavy and Hood, 1994). Other administrative systems have been deregulated, with overall plans being scrapped or replaced by efforts at creating competition between providers, but with public sector organizations nonetheless remaining very different in their pattern or organization from private sector corporations – a pattern which could be labelled ‘headless chicken’ governance (Dunleavy and Hood, 1994).

A different way of picturing the various strands of NPM focuses on political hostility to an extended state role, and the stability/fluidity of the scope of government activities (Margetts and Dunleavy, 1994). The core of new public management is technical or consensual NPM, where political hostility is medium and the scope of government activities is fairly stable. Other approaches include ‘ideological’ or ‘new right’ NPM, pursued where the scope of government is stable but political hostility is high (for example, Republican policy in the USA); or ‘humanist’ NPM, pursued by governments basically friendly to state intervention but where the scope of government intervention is in practice quite fluid (as in Australia under Labour governments since 1984). However, the most important contemporary differentiation in NPM is between the ‘residualization’ form apparently being practiced in the UK with the ‘market testing’ programme for contracting out civil service tasks; and the ‘re-engineering’ form of NPM indicated by the US National Performance Review, where the focus is on genuinely improving the efficiency of government by careful redesign of tasks and procedures, rather than on simply cutting back government (NPR, 1993; Hammer and Champy, 1993).

A final important point about NPM is that there is currently little or no basis for arguing that NPM strategies objectively increase the effectiveness of public

sector organizations. There is little or no evidence that the introduction of NPM triggers or facilitates economic success. On the other hand, there is a suggestive link between the onset of economic stringency and a shift by governments towards adopting NPM strategies. Since the enthusiasm for NPM has virtually all the characteristics of a 'policy boom', in many instances its introduction may simply be symbolic, the adoption of rituals deemed legitimate by significant elites, whether or not they have any effect (Meyer and Rowan, 1977). Hence NPM proponents have probably overstated the direct ameliorative effects of public sector management reforms in improving social problem solving. And they have neglected completely or underestimated two indirect effects:

- ★ the negative impacts of some NPM changes in reducing the level of citizens' autonomous capacity to solve their problems, a capacity which in most cases makes a critical contribution to social problem-solving; and
- ★ the impacts of many NPM strategies in increasing the level of problem complexity. For example, disaggregation increases the number of clearance points, competition increases residualization trends, and incentivization often reduces trust and increases instrumental behaviour in public sector organizations. Since problem complexity is also a key negative influence on social problem-solving, boosting it reduces welfare and offsets the positive direct impacts claimed for NPM strategies.

Because these effects are indirect, however, it is perfectly feasible for the NPM movement to continue or intensify for many years before triggering reconsideration or a public opinion backlash (such as that in New Zealand).

2. Why globalization of public services production is likely

If NPM changes contribute powerfully to pressures for privatization, in themselves they say nothing about the scale on which public service production is organized. Where NPM policies have been vigorously implemented, it is widely assumed that the separation of purchasers from providers and the chunking-up of previous functionally integrated organizations may produce a very diversified pattern of producer organization. Public services production could end up being carried out by a huge and motley array of mostly small and unconsolidated organizations – such as, small-to-medium private sector firms, not-for-profit organizations, contractized governmental units, private practice professionals, independent institutions, quasi-governmental agencies, managerial MLAs, user-controlled MLAs, voluntary associations or even interest groups, etc. Pluralist political science has already highlighted policy communities, policy networks and 'advocacy coalitions' as the key loci of much effective policy change in contemporary liberal democratic societies (Marsh and Rhodes, 1992; Sabatier and Jenkins-Smith, 1993; Dowding, 1994; Mills and Seward, 1994). If the benign picture of NPM leading to increasingly diversified producers of public services is realized, then public policy would inevitably come to be made in a new multi-organizational, contractualized form of policy communities and networks. Public/private sector boundaries would be blurred at the same time as purchaser/provider distinctions were formally sharpened. In practice we might expect 'corporatist' intermediation processes to create a progressively more

integrated consensus in stable NPM systems, especially where changes of providing organizations rarely occur. Consumer/producer distinctions would also be sharpened, except where services are provided in user-controlled MLAs or voluntary organizations.

My purpose in this section, however, is to consider whether other influences are pushing towards the creation of a very different future – one in which public service production is increasingly carried out in quasi-monopolistic or oligopolistic ‘markets’, by large and specialized corporations organized on transnational lines – which would determine what is feasible or not, what policy alternatives are available, what technologies are employed, and what treatments are attempted in public services. I first review a number of market pressures for this form of globalization, and second the forces internal to the state apparatus pushing in the same direction.

2.1: Market pressures for globalization

There are five principal ‘market’ pressures for the globalization of private services production, all of which are likely to have important corollaries or implications for public services production: the contemporary growth of services; changes in technology; new forms of commercial and industrial organization by firms; the development of radical outsourcing; and changes in commodification processes.

★ *Services growth* represents an important change in contemporary societies, as a range of authors has extravagantly claimed over the years (Bell, 1974; Rostow, 1960). Compared with goods instantiated in physical products, services are famously hard to define. Weber defined goods as ‘non-human objects which are the potential source of utilities of whatever sort’, and services as ‘utilities derived from a human source, so far as this source consists in active conduct’ (Weber, 1947, p. 151). This residual form of definition still persists, as in the *Economist’s* dictum that services are ‘anything sold in trade that could not be dropped on your foot’ (quoted in Quinn, 1992, p.6).

The black box character of services has produced very important misconceptions in previous authors who hailed a ‘services revolution’ and the coming of a ‘post-industrial society’, when there is much evidence that services growth reflects in part a changing organizational division of labour in the production and marketing of goods, changes which disguise the long-run decline of previously important services (such as domestic service) and their displacement by consumer durables and ‘do-it-yourself’ equipment (Gershuny, 1978). This sorry record of mis-diagnosis has not stopped new generations of services enthusiasts talking in cornucopianist terms of ‘an endless horizon’ of economic development and the ‘perpetual growth opportunities’ in prospect, without reference to any difficulties from satiation, under-consumption/over-production crises, or environmental and resource limits:

‘The capacity of services to create value is limited only by the capacity of human imaginations to think up more important things to do with their time as intermediate customers for final customers – and the imaginations of others to thing up better ways to serve

their customers' health, financial, communications, transportation, entertainment, security, distribution, storage, lodging, gastronomic, education, design, information, comfort, cultural, environmental, public service and specialized knowledge needs' (Quinn, 1992, p.436).

Behind the froth, however, there lies a kernel of important possibilities for changes in the organization of social tasks. Services growth focusing on new products (many of which, like financial futures and complex forms of asset holding, are really pseudo-products or even virtual-reality 'products'), or new techniques or processes (such as enormously speeded-up financial trading), can have real implications. The cumulative impacts in restructuring advanced industrial economies have become fundamental especially in leading-edge corporations. Old stereotypes of services as low productivity, low investment, labour-intensive and non-export industries have been decisively challenged by innovations in service markets and the scale and pace of investment in service capital (Quinn, 1992, pp. 339-64).

★*Technological changes* have provided a strong under-pinning for these developments in two ways. First, there has been a dramatic extension of the traditional 'productivist' emphasis of industrial organization on ever-finer task specification, routinization of operations, speeding-up and automation of processes, and attribution of costs.

Traditionally the modern capitalist drive towards intensive micro-management, continuous cost reduction, and re-engineering to avoid problems has been applied to physical production and design issues. It is now applied much more intensively to all aspects of firms' activities – support activities, services elements, R and D and innovation, and even top-level decision-making – penetrating areas previously seen as most intangible or judgmental. Technological change has been very linked with product redesign and repackaging. The disaggregation emphasis of NPM has been operating far longer in private industry, fuelling major increases in management attention to non-production areas, and stimulating huge investments and large-scale capital intensification, despite difficulties of tracking improvements into value-change or showing a bottom-line positive effect on profits.

Second, extremely rapid changes in information technology (IT) areas, and dramatic cheapening and controllability of processing power, have produced an 'informatization' transformation of leading-edge industrial and commercial organizations. The first wave of IT changes essentially automated pre-existing modes of organization, but later waves have progressively affected organizations' tasks, missions, products, and fundamental ways of operating. The controllability and portability of information, and its increasing cumulation on an altogether vaster and more detailed scale than previously possible, has accentuated the value of information and made feasible both wholly new products, and more targeted ways of implementing or marketing pre-existing goods and services (Quinn, 1992, Ch. 13; compare Strassmann, 1990).

Information technology has increasingly become a constitutive element of the distinctively modern form of Weber's rationalization processes. Its impacts on

organizational culture (and hence on most modern organization theory) has been limited, however, by the operation of displacement effects. Activities which are automated no longer command the same human actor involvement or interest that they previously did, so that the locus of 'problems' in the organization demanding of management attention and correctable by improved decision-making shift elsewhere. Hence the impact of technological changes on organizations is often underestimated by those most affected because of countervailing adjustments in their internal organizational cultures. But with critically important service procedures often already hard-wired into information systems, and with Simon's supposedly immutable cognitive limits on individuals' and organizations' capacities to process information pushed further back each year, the current decade will certainly see a huge increase in mass standardized services fuelled principally by IT developments.

★ *New forms of organization* have been made feasible by these shifts. The 'span of control' concept so central to traditional line hierarchical modes of organizing, especially in unified or functionally integrated organizational configurations, has been rapidly eroded. Modern IT-intensive organizational control systems allow for very large numbers of subordinate units to be handled by a single central core of servicing units, providing information, specialized support, regulation, logistical services and capital – a pattern of so-called 'infinitely flat hierarchy' (Quinn, 1992, pp. 113-20).

A key element here is a strong version of the same disaggregation principle discussed above. The private sector version focuses on developing large organizations with very great market presence by defining 'minimum replicable units' (very often service outlets, such as branches of a chain restaurant like Mac Donalds, or garages owned by a major oil company like BP), which operate in very tightly specified and exactly similar ways (Quinn, 1992, pp. 103-9). These units are then multiplied and disseminated, establishing a carefully standardized company presence in diverse countries and regions. Such 'cloning' strategies evade many of the problems of 'ever increasing control' and 'counter-control' which plague hierarchical dealings between traditional top-tier and lower-tier bureaucracies (Downs, 1967). Instead relationships between branches and the corporate centre are tightly focused and controlled within a contractual, franchising or other rule-governed and highly systematized format, while operational linkages are so far as possible automated and focused down on a few strategic interactions.

★ *Radical outsourcing strategies* have had far-reaching effects on services growth and the reorganization of corporations by splitting up previously unitary organizational configurations. The approach insists on the primacy of intellectual and knowledge-based developments as the 'core competencies' of corporations. Outsourcing, knowledge-based enterprise, service production and the expansion of information systems hang together as components of a 'new paradigm' of 'intelligent enterprise' (Quinn, 1992, p. 213). Company managements should ask whether they are (or could be) 'best in world' at a given activity they currently pursue. If the answer is no, then the firm should consider outsourcing that activity. By continuing to do something in-house when it is clear that rival firms

do it better, the corporation is inherently sacrificing comparative advantage, whether in price, or efficiency or effectiveness terms.

Effective companies are those which focus in depth on those areas where they have and can maintain a significant comparative advantage, which will generally involve identifying skills and intellectual capabilities that can be constantly improved and built upon. If the company is 'best in world' at an activity, then it must be recognized as a core competency of the firm, something to be nourished and shielded, carried on in-house, intensively managed, and protected from all forms of competitive erosion in the future. A small number of strategically necessary activities will also often have to be retained in-house without meeting the 'best in world' criterion, because they are so important for protecting the core competencies of the firm from erosion by competitors (Quinn, 1992, pp. 53-5).

★ *Changes in commodification processes* lie at the heart of contemporary globalization shifts, which some critics see as the realization of a debased, commercialized form of the enlightenment ideal of a universal liberating civilization. In its place we have progressively established a kind of 'Macworld' capitalism, where product choices whether for hamburgers or computers are increasingly homogenized and standardized across all countries, and where systems and tastes are alike controlled and developed in a proprietary mode by large corporations – challenged only by the diverse (often repellent) forces of 'jihad', affirming local identities through struggle (Barber, 1991). The scale of markets and competition has decisively escalated in some areas, screening out local solutions and corporations in favour of trans-national companies, dominant brands and standardized solutions. Cultural barriers to product acceptance have crumbled even in areas where they once seemed insurmountable. In other cases increased preference-pooling has preserved or even enlarged the diversity of choices open to consumers in any one country, at the same time routinizing the exotic so that it becomes familiar (often in subtly adapted forms). The result is that single-market choices expand, but the overall range of choices across different countries' markets may reduce. Cross-national learning mechanisms also seem undeniably to have increased, with shortened diffusion of innovation times. Although some dimensions of 'globalization' arguments are acutely problematic – such as, the argument that economic or political 'interdependence' has increased – these changes are substantial.

For example, suppose in the late 1940s one had been compiling a list of industries where significant globalization would occur over the next half century, then the restaurant industry would surely not have figured anywhere on it. In the 1940s the industry was an exceptionally low-concentration, low capital intensity, non-brand name area. Most firms were very small, with little capital and a craft method of working. Markets were overwhelmingly local, and highly idiosyncratic one from another, with strong culinary and cultural barriers to change. Yet now the fast food corporations such as MacDonalds have built up huge businesses by investing in heavily standardized food production and preparation technologies, and intensive marketing of standardized products which are sold in huge numbers in virtually identical form and settings in many different countries. The developments which have already taken place would defy

virtually any rational assessment of the prospects for internationalization of the restaurant market fifty years ago.

This example also illustrates a final important aspect of contemporary commodification processes. Large fast-food chains companies compete with numerous smaller, localized providers not just in terms of the food they provide but in terms of how customers are served. A key sales point is the speed and character of service, rather than the actual food served – which is in most cases simply routine. Modern commodification processes often focus not on goods themselves, considered as whole bundles or packages instantiated in a physical product, but rather on what Lancaster (1974) terms the ‘characteristics’ of goods – which can be isolated and highlighted by technological management combined with heavy marketing. Both goods and services have increasingly been disaggregated into their component characteristics, and some features previously seen as unalterable or of minor importance have formed the focus for globally-sized corporations’ efforts.

The particular contemporary significance of intangible services characteristics has been most evident amongst those corporations supplying basically standardized products and competing heavily in terms of point-of-service discriminators. For example, the ‘friendliness’ of their staff may be crucial for airlines, hotel chains or fast food outlets in establishing a market identity (usually in combination with heavy advertising).

2.2: State pressures for globalization

Within the public sector, there are analogous pressures for globalization, and some key differentiating features. I consider: the bureau-shaping incentives acting on bureaucrats and public officials; the potential for radical outsourcing in the public sector; the impacts of government procurement rules; and consequent changes affecting the commodification of public services.

★ *Bureau-shaping incentives* have emerged as dominant bureaucratic responses to the end of the post-war growth era in public services employment in the 1980s (Dunleavy, 1991, Ch. 8). Rationally self-interested bureaucrats have little stake in maximizing budgets and expanding empires, as older public choice models suggested (Niskanen, 1971). Instead of trying to increase their near-pecuniary utilities (a frustrating task in the public services), senior officials will seek to maximize their work-related utilities, insulating themselves from dependence on a high level of total budget, seeking to reduce exposure to public criticism, to simplify their work tasks, and to concentrate on rewarding and high status activities (Dunleavy, 1991, Ch. 7). All these objectives are best achieved by remodelling their organizations as far as possible to create small, central, elite, staff agencies where senior officials can concentrate their energies. These reshaped central government bureaus then set priorities and move money around to hived-off executive agencies, private contractors or diversified networks of sub-central agencies.

Both budget-maximizing models in public choice, and everyday stereotypes of bureaucracies as inertially-guided, unsteerable organizations, lead us to expect minimal change in response to the contemporary NPM challenge, because of

bureaucratic resistance, especially by senior officials. By contrast the bureau-shaping model predicts that senior policy-makers will over-promote changes such as privatization, corporatization, hiving off and deinstitutionalization, even when they reduce social welfare.

New public management strategies are perfectly consistent with bureau reshaping, and expanding senior managers' utilities. They load costs or potential risks primarily onto agencies' grass-roots workers, middle management (perhaps increasingly in an era of 'expert systems') and agency clients. So the potential for change stems both from corporations' efforts to move in to colonize public service production, and from rational bureaucrats' and politicians' predisposition to accept rapid bureau-reshaping. There is a strong potential for senior bureaucrats to favour reducing the scope of state agencies and capabilities beyond optimal levels if their utilities are thereby maximized. This willingness to embrace change even when it damages the public interest is analogous to the bureau-shaping incentive not to expand into areas involving difficult problems (such as, combating the growth of hopelessness in advanced industrial countries). Bureau-shaping incentives also work in a diametrically opposite ways to, for example, the re-engineering approach to task reorganization (Hammer and Champy, 1993). Bureau-shaping pushes officials towards residualizing or outsourcing tasks, paring down their involvement, and renouncing production responsibilities – in the process almost certainly avoiding any committed or creative attempt to reimagine ways of implementing services.

★ *Radical outsourcing in the public sector* entails generalizing 'best in the world' criteria from firms' and corporations' activity to apply also to public service operations. Quinn never considers how his prescriptions might work if transposed to the public sector, but the consequences could be far-reaching. Governments will find it extraordinarily hard to meet the 'best in world' criterion applied to many or most of their service activities. As large corporations progressively develop and refine their capabilities in current or new implementation areas (for example, fields like information systems management, or 'criminal justice services') they will often be able to acquire extra focus in depth, to make large capital investments, and to reap economies of scale by producing standardized service packages across many different localities, regions or countries. Unlike most governmental units, corporations are able to rapidly change their scope of operations by merging, setting up partnership deals, or franchising, so that scale-escalation in the corporate economy can rather quickly affect public services production. Major corporations are already emergent in key public service areas, and they will be able to take seriously 'best in world' criteria. In this perspective the prospect of trans-European or trans-global firms becoming major players in defining and developing public services production is by no means remote.

The bureau-shaping model also sheds light on the scope for radical outsourcing inside government. Empirical work in this perspective comparing the central governments of the USA, and UK, Australia and New Zealand has demonstrated the existence of a number of distinctive agency types (Dunleavy, King and Margetts, 1994; Dunleavy, 1989b; Dunleavy, 1992). The biggest potential for a

large-scale shift to contracting lies with delivery agencies, where public officials directly organize implementation of public services. This kind of agency is heavily concentrated in the defence and law and order fields at national government level, both areas where governments have historically maintained fully-public operations. However, conceptions of what tasks need to be handled by state employees and what can be hived-off have shifted radically in the last decade and will change further. In defence 'front-line' personnel will remain in large government line agencies, but there is enormous scope for logistical, back-up and research and analysis staffs to be parceled up into separate agencies, which can be first corporatized and later privatized. In law and order very similar processes apply, with uniformed police employment focusing on front-line staffs while back-up operations are progressively 'civilianized', and contractorization of courts and prisons operations proceeding fast. There are also delivery agencies in other domestic policy areas in all national governments, where the intense restrictions of the defence and law and order fields do not apply. Large national taxing agencies are important too; the scope for contractorization here is similar to delivery agencies, and is well-advanced in some areas, such as information system operations. If we drop down to the state/regional level, or to the level of municipalities and urban policy agencies, the importance of delivery agencies is greater, along with staff sizes – indicating a huge scope for contractorization (Osborne and Gaebler, 1992).

However, at the national government level most public monies already flow through agencies without much direct executant capacity – transfer agencies which shift subsidies to private sector individuals or enterprises; contract agencies which rely on corporations to implement policy; and control agencies which route money to subordinate public sector bodies. The scope for contractorization here is more limited than with delivery agencies, since the levels of public staffing are lower. Nonetheless large national transfer operations (such as the Social Security Agency in the USA or the Benefits Agency in the UK), and the substantial defence contracting agencies, can be further chunked-up and many of their components contractorized. At a limit even the policy development and advice roles at the heart of central government departments might be made the subject of competition, albeit under probably distinctive or more complex contracting arrangements (Boston, 1992).

★ *Government sector procurement rules* normally add a strong impetus towards less diversified competition when contractorization does take place. For most of the post-war period it is arguable that national governments in particular have been developing a 'shadow state' based on procurement, where employees of nominally private entities (corporations, universities, research laboratories etc) work full-time on government contracts, often carrying out tasks indistinguishable from those handled in-house by government employees (Garvey, 1992). In the USA, Garvey suggests a rule-of-thumb estimate that for every orthodox federal employee there is at least one 'shadow state' person.

The area of contractorized work is apparently a domain where the imperatives acting on public sector agencies do not apply – where pressures for accountability, confidentiality, scrupulous auditing, progressive personnel

practices, and sensitivity to political imperative can be evaded or toned down. Instead as Garvey observes, the shadow state operate on lines seemingly well captured by the new institutional economics, with all qualitative relationships transmuted into contractual specifications and penalties. Yet as the new institutional economics also emphasizes, it is very hard to achieve a complete contract (Williamson, 1985). Governments confront severe *ex ante* problems in fully specifying contract requirements, and *ex post* difficulties of haggling over how things actually turned out.

A key means by which governments have coped with the potential difficulties of spot contracting in markets has been using procurement to encourage industrial concentration. The most common government solution has been for contracts to be awarded to a smallish group of large, oligopolistic contractors, kept in competition to ensure price restraints, but also sufficiently large to internalize 'responsibility' requirements, and to be concerned about maintaining long-term relations with government. Traditionally the means of fostering industrial concentration via procurement included encouraging negotiated tenders rather than open competition, serial contracting, enlarging the scale of contracts (so as to exclude small suppliers), technological development, and pre-screening of contractors. For more routine purchases many Western governments have now moved back to open competitive contracting, especially for standard components. And periodic attempts are made to counter the obsolescence often built into procurement rules, such as the apocryphal stories of US federal agencies having to fill in a paper train of 23 forms before purchasing personal computers (Margetts, 1994).

In more policy-relevant and politically-sensitive areas, however, procurement procedures still emphasize significant restraints on competition which principally serve to create oligopolies dominated by large often trans-national corporations. Minimum size rules often exclude small firms from tendering, very important in areas such as the contracting out of government computer system operations, where the scale of public sector systems often means that only very large suppliers are credible tenderers. Quality of service constraints on competition have similar effects, especially where a company's size, record and marketing effort provide officials with the best available proxy indicators of its likely 'quality'. And contracting requirements such as equal opportunity policy create thresholds which are easier for large firms to surmount. The European Union's 'transfer of undertakings' (TUPE) regulations make it virtually infeasible for any but the largest companies to take over substantial blocks of government work with associated employees, a favourite mode of contractorization under the UK 'market testing' approach. None of these points necessarily suggest that the push towards oligopolistic relations in procurement is not public interested. There is a huge potential for ruthless private contractors to exploit cases where the social and internal costs of public sector provision diverge (Dunleavy, 1986a), and this tendency can be countered to some degree by pre-selecting or filtering contractors.

Current public sector contracting rules also place a premium on suppliers not deriving super-normal profits from government. These rules offer perverse incentives for high-capability corporations to seek to influence the substantive

content of policies in ways favourable for them. In addition to negotiated tenders, serial contracts, and so on, companies essentially search for policy characteristics which can serve as profit-surrogates, such as: use of forefront high technology (encourages proprietorial solutions, screens out competition, while government often subsidizes R and D efforts); gold-plating contracts (which boosts the level of sophistication demanded, and accentuates information-impactedness); proprietorial systems development (which locks-in government to unique solutions hard for other contractors to meet); and direct marketing of solutions by corporations to politicians, the mass media and the general public (see below). Asset specificity in government contracting is also high, and will not decrease much despite service automation being generalized across public and private sectors, strengthening companies' incentives to lobby for policy changes favourable to their interests.

The current wave of deregulation in government procurement, such as Clinton's National Performance Review, can be seen as partly countering and partly accentuating previous patterns of development (NPR, 1993). Purges of regulations are needed because fixed, rule-bound procurement regulations tend to decay, constantly lagging behind changes in physical technologies (such as the cheapening of processing power) and behind companies' learned ability to extract rents (in earned profits) from the rules. Devices such as computerized contracting may allow governments to shift back towards spot contracting on markets, rather than oligopolistic contracting or holding huge inventories. But they are likely to only open up competition again for a time, and only then on less complex items – basic PCs, for example, but not 'system integrating' IT contracts. Additionally it is possible that a cycle exists, where a deregulation stage is followed by renewed pressure for consolidating procurement with large suppliers if 'sleaze' issues grow.

★ *Commodification processes in the public services* have already been changed by new public management techniques. It is now the conventional wisdom that NPM's stress on competition (and pseudo-competition) between providers makes marketing a key tool in public service administrators' armoury. In a diffuse but important way even the advent of diversified quasi-markets, with multiple single-facility suppliers, has begun an important transition towards marketizing the public services. Since such trends are emergent only, it is currently hard to envision their long-term effects.

But we know from a mass of existing research that markets have tremendous significance in shaping social behaviour in general:

'The indirect effect of the market on the way we think is substantial. We assume without thought that goods are exchanged for precise money amounts and not given in the manner of exchange gift economies. We think of goods as individually and not collectively owned and that their usufruct pertains to their individual owners. We accept that we must earn our living in the labour market, that it is shameful to be dependent on kin, that the money in our pockets is exchangeable for commodities, and so forth . . . [What] we . . . think about often (but certainly not always) reflects what we have *learned* from the market. To a large extent

the assumptions that we learn are, in fact, *causal theories* about ourselves and the institutions that affect our lives'. (Lane, 1991, p. 26)

Marketization trends in public services are likely to be particularly significant in breaking down historically strong beliefs about the separation of different 'spheres' of social life from each other, some appropriate to market allocations while in others society creates 'blocked exchanges' in order to insulate the allocation of goods from money or power influences (Walzer, 1983).

A number of developments have supplementary effects in the same direction. In modern capitalism there is a strong drift in consumer responses towards private sector point-of-service standards, areas where government enterprises and public service agencies find it very difficult to compete (Lane, 1983, 1986). Marketization gives these generalization and comparison effects an extra spiral, and accentuates a push for the public services to compete increasingly in terms of point-of-service characteristics, especially encouraged by new right governments. At the same time the personal interaction between government officials and citizens has been progressively reduced by cutbacks in government personnel and reliance on other means of citizens interacting with government, such as mail, phone and increasingly electronic communications. The US federal government predicts that 85 per cent of its interactions with citizens will occur via electronic media by the year 2000, further fixing citizens' perceptions on impersonal indicators of government responsiveness and effectiveness.

An inherent consequence of NPM strategies is that citizens will interact increasingly with service-providers and not with purchasers. And because providers are more likely to develop up-to-the minute methods for managing point of service issues, whereas purchasing bodies will be relatively poor at handling such matters, citizens will see providers in a better light whereas purchasers appear more bureaucratic, out of touch and unresponsive. Whom citizens interact with may also come to be even more class structured than it already is. Tendencies for public services to become more exclusively residual or safety net provision will mean that the poor and under-privileged will have most frequent contact with 'mainstream' government agencies (such as welfare bureaucracies). By contrast, middle-income groups may deal overwhelmingly with providers acting on government's behalf, or with mixed public/private provision systems.

All these developments in different ways clear the ground for a transformation of the commodification dynamic in public services where a few large companies are able to put a proprietorial stamp on what is being supplied. If companies can come up with simplified packages, attractive to high or middle-income groups, and develop some brand-distinctiveness, then the stage is set for public service 'products' to first be marketed intensively to intermediate consumers (purchasing agencies), and later (when the market is better established) to final consumers, who can put pressure on intermediate purchasers. In this future, the normal processes of 'commodification' inherent in modern consumer markets would operate between providers and purchasers, with product innovations developed and marketed on lines similar to, say, the modern drugs industry. Consumers' role here might involve exerting pressure on purchasers to buy into one package

of services or another, whether based on direct experience or on company advertising. Such a development can give an important boost to the 'circularity' of polyarchies and market systems noted by Lindblom (1977), whereby capitalism creates its own social demand and business occupies a privileged position among all social actors.

3. Impacts on the Nation State

Up to now the state has been the primary actor in the field of politics and the collective life of society, with a highly distinctive set of defining features. The state could be briefly defined as a set of institutions with a unitary purpose, making collective decisions in a binding way, creating a specialized 'public' sphere, monopolizing the legitimate use of force in a given territory, able to define members and non-members of the society, making strong ideological/ethical claims, commanding a bureaucratic apparatus, financed by taxes and operating via a legal system and a constitution (Dunleavy, 1993). It is worth briefly considering the impacts which large-scale contractorization to major corporations could have on the operations of contemporary states, especially in the context of the development of the European Union and of the internationalization of much previously domestic policy-making.

3.1: Corporatization and the state

The development of NPM in Britain, New Zealand and possibly Australia has already had observable effects in reducing the distinctiveness of state institutions, a trend which the full NPM agenda promises to push further. The unitary character of nation state institutions is eroded when integrated planning systems give way to quasi-markets and a jungle of QGAs. The dichotomy between formally public and formally private spheres is deeply blurred as contractual relations pyramid upon each other. NPM has also eroded the role of legal systems and constitutional constraints in terms of government operations, for although re-regulation may be seen as inherent in fully specified contracts the law involved is essentially the civil law of contract. In many more subtle ways NPM has also reduced the distinctiveness of public sector practices, for example, substituting appointment processes for elections, compensating senior public managers with 'prize money' salaries, and linking remuneration not to legal obligations or respect for the public interest or planning for the long-term, but to short-term organizational 'performance'. Finally NPM tends to undermine the importance of most of the conventional arms of government, the activities in which it is seen to be acting uniquely with a capacity denied to any other social actors. Thus tax-raising is displaced by charging, and tax collection could soon be once again hived off to 'tax farmers' on the eighteenth century or even Roman Empire pattern: public sector debt-collecting is already widely handled in this way. Bureaucratic organization and direct implementation capabilities have already changed extensively at the national level under the patterns of 'non-executant' government built up over the post-war period. Similar changes are now under way in Britain at a local level under the guise of creating 'enabling' local authorities.

Increasingly the special characteristics of government may come to inhere less in physically observable or humanly populated organizations. More and more 'statehood' may come to be constituted by quite small-seeming features of large-scale and socially central information systems, finance-raising systems, budget-dissemination systems, and rule-making systems. The methods by which 'government' systems then interact with the parallel or rival systems of corporations, individuals, voluntary associations and other elements of civil society will also change radically, especially with the growth of electronically-mediated communication.

These prospective changes are unlikely to be coolly chosen by decision-makers well informed about the future and secure in a well-developed conception of what 'statehood' consists in and the steps needed to maintain 'governmentality'. Instead decision-makers will make hundreds and thousands of little decisions, with scant regard for long-term consequences. A particular stimulus driving NPM is likely to be a continuing climate of financial stringency in recession-prone governments, and of anti-government feeling in more successful states – the continuing reverberations of the 'fear of bureaucracy' surge in the 1980s which Kaufman (1981) aptly characterized as a 'raging pandemic'. The public services are also passing through an era of extremely rapid evolution of information technology and scarce supply of IT capabilities, with potentially important consequences for government administration (Hood and Margetts, 1993). Restrictions on public sector investment funds have made it very difficult for government agencies to match the strong investment by private corporations in services IT and production methods. Government agencies have shifted from being technological pioneers or leaders (especially in big computer systems) to an increasingly passive role, with the lead in development passing firmly to large IT corporations and consultancies, and indirectly to corporate IT purchasers.

As public service contractorization and commodification processes change in the future, these factors may create a 'coerced exchange' situation for governments. Here policy-makers may be forced into outsourcing not because demonstrable social welfare gains will result, but simply because welfare levels will otherwise decrease. The predicted consequence of this combination of forces is over-use of outsourcing, unintended loss of strategic state capacities, outward drift of the ability to specify public service outputs from government, and growth of producer power.

Current NPM thinking identifies government's optimal role, its core distinctive function, as being an 'intelligent consumer' on behalf of citizens, purchasing privately supplied services so as to maximize the public welfare. But consuming without producing is new territory for liberal democratic governments, and we have no developed guidelines that could prevent loss of core competencies and the creation of 'hollow state' structures. Contracting out central government policy advice roles (as recommended by Kemp, 1994) would give this potential for degeneration a strong extra spin (Boston, 1992).

In Britain at least, Conservative ministers and the civil service elite have reached a meeting of minds on an absolutely clear-cut right-wing version of NPM. Essentially their current strategy aims to discover the core competencies of

the state by a residualization process, outsourcing until and unless the shoe pinches, or a political backlash is triggered. Problems of protecting strategic non-core areas are estimated as minimal, but on a *priori* grounds only. Thus a 'mobilization of bias' highly favourable for the growth of large public services corporations already exists.

3.2: The changing context of state policy-making

The implementation of NPM changes in the public sector is taking place in a wider international context which has already had some significant impacts on the capacity of nation states. A first, rather general influence has been the development of increased cross-national policy standardization as a result of a number of forces. Some critical public policy problems, especially those caused by cumulative environmental degeneration (such as species depletion, global warming, or oceans and fisheries destruction), have escalated past the levels where they can be effectively addressed by any nation state, however large. Increasingly the development of advanced technologies and the multi-national corporate economy have also caused a scale-escalation of issues as mundane as the design of cars or as complex as genetic manipulation. These pressures have created powerful displacement effects, pushing issues up to a huge variety of supra-national bodies, some multi-purpose and others focused on single issues, some global and others regional blocs (see below). The much-reduced timescales for international policy learning also imply a progressively stronger pooling of ideas amongst liberal democracies, breaking down national insulation and distinctiveness on a wide range of policies, even on traditionally national-specific policy areas such as welfare state management and micro-economic support (Rose, 1993).

The second much more specific impact on nation states has followed from the growth of regional or sub-global blocs, such as the European Union (EU), the North American Free Trade Area (NAFTA) and possibly the Asia-Pacific Economic Council (APEC). These organizations have developed both in terms of the numbers and range of countries involved, and in terms of the scope of pooled decisions made or at least influenced at bloc level. The trend towards regionalization reflects in an institutionally systematized form the general pressures for upward policy displacement noted above, together with the concentration of trade and economic development into more spatially linked sets of countries than (say) two decades ago.

These pressures interact with particular force in the case of national governments in small or medium-sized advanced industrial states, particularly in Europe where effective control of many economic decisions has formally shifted away from the national level to the EC (with global fora important in additional policy areas). National governments' roles in formulating independent economic and industrial policies have progressively been reduced, either by successive crises of macro-economic management (as in the UK) or by a slower seepage away of industrial policy competencies despite public ownership efforts (as in France). Across north Europe some central governments have responded to their loss of functionality by moving out of fraught or failing efforts to retain nation-

state capabilities in international affairs or economic direction. Instead political controversy and attention has been concentrated on areas where the prospects of policy success offered by new public management agendas seem greater, especially micro-managing welfare state policies previously left to sub-national governments.

The EU has already called in question previously accepted features of 'statehood'. The EU treaties clearly limit member states' ability to control entry and exit from their territories. Member states no longer act as independent actors in some key international negotiations (such as the GATT talks), so that the EU seems to be accepted as a 'state' in this context by other states. A range of more subtle effects have also become evident. For example, EU institutions (such as the European Court of Justice and the European Commission) have reduced the unitary character of member state institutions, qualified member states' monopoly of authoritative decision-making, and tended to erode member state legitimacy in distinct policy areas. The links between populations and territories have also been blurred by labour mobility and European proto-citizenship provisions.

For the rest of the 1990s the rule-making activities of the EU are likely to have substantial effects in opening up public procurement systems to 'single-market' disciplines and forces (Cox, 1992). Existing provisions have already produced a substantial shift in patterns of European business organization in relevant service industries, which successive privatizations of public enterprises promise to push ahead. The effects of these changes will work through diverse pathways, some in the corporate economy in terms of company mergers, acquisitions and internationalization, and some inside the conventional public service apparatuses themselves, in terms of the erosion of cultural and linguistic barriers defending 'national' domains. The ability for EU citizens to gain public service jobs in any EU country has important complementary effects here, together with the progressive Europeanization of university education system.

Conclusions: The withering away of the state?

If governments indeed pursue a strategy of searching for their core competencies by a residualizing process of radical outsourcing, what end results can we expect? Different answers are possible. The Quinn thesis insists that the 'best in world' criterion does not create 'hollow organizations', but instead a lean corporation tightly focused on its core competencies. Yet the grounds for expecting governments to pass this criterion (rather than a 'Best in region' or 'Best in locality' test) are weak, raising a real prospect of creating 'hollow government' systems. British privatizers argue that government's role will become one of simply being 'an intelligent consumer', a kind of purchaser-in-chief with the private sector monopolizing all provider roles. Government would continue in a stunted form not as a proactive, strategic planner and service innovator, but as mediating agency condensing the influence of citizen-consumers in areas where collective action might otherwise not be effective. Government's role is simply to react to and scrutinize innovations made by private corporations and decentralized nets of implementing agencies, rather in the way that in the past it organized defence procurement or drugs policies for public health care systems.

The potent role of corporations and professionalized policy communities in distorting public policies in such areas in the past is apparently not seen as a source of problems in future public service production.

There is no technological determinist push in my account. It is worth stressing that the changes which have occurred so far and will occur in future are the product of a conjunction of forces – social, economic, and political, as well as technological. And possible countervailing trends towards the creation of corporate domination of future public services markets can be identified. The advent of more humanized, in-house versions of NPM strategies is possible, dethroning financial cost efficiency as an overarching virtue and reinstating more developed notions of governmental effectiveness and social welfare maximization in its place. Governments may develop improved modes of running dual structures incorporating conventional public administration operating on legal/juridified lines and a 'shadow state' run on principal/agent lines (Garvey, 1992). And opportunities may develop for socializing and democratizing both the complex structures created by NPM strategies, and regional block structures such as those of the European Union. A restatement and restabilization of nation states' roles and the evolution of authentic, democratic conceptions for the guidance of supra-national institutions is always possible.

But unless these countervailing forces become much stronger than they are at present, there is a clear danger of the radical outsourcing evangelism coinciding with bureaucratic incentives for organizational reshaping and political loss of confidence in the nation state as an expression of the collective life of complex societies. Taken together they may yet help to set in train significant steps towards the withering away of the state, or something like it.

The job of futurists has always been to connect two and two to make five. A wide range of intelligent speculation already exists in which by extrapolating current trends the role of the state is projected to reduce radically, or to disappear altogether in favour of new forms of corporate feudalism. To take a particularly graphic and dramatic example, in her science fiction novel *Body of Glass* the feminist author Marge Piercy envisions a future world where government functions have atrophied out of existence. Urban megalopolises have slumped into ungovernability. Multiple fiercely competing transnational corporations dominate the economy, and maintain their own company enclaves (edge cities and regional zones) for professional elites. The collective life has shrunk to a worldwide computer network essential for economic exchange and information sharing. Only a few small towns living on their entrepreneurial wits survive in the interstices between a corporately controlled culture, the major economic actors and an urban lumpenproletariat organized by large gangs. All this takes place against a background of extreme environmental decay, maintained in a perilous equilibrium only by a draconian 'environmental police'. It is easy to dismiss such fictional accounts. But as I noted above, forty years ago it might have seemed almost as incredible that there could exist worldwide restaurant chains. Some unlikely extrapolations are worth taking seriously.

NOTES

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1. Kaufman (1978), p. 24

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