

The first NPM wave

Upon taking the oath of office in 1981, President Ronald Reagan revealed his new Program for Economic Recovery. The president's controversial programme, which reduced the tax burden on America's highest income earners, would become the cornerstone of his economic agenda known as 'Reaganomics'. Comprising part of a wider ideological assault on the public sector, 'Reaganomics' included substantial cuts in a wide array of government social welfare programmes. In

his pursuit of smaller, and hence less 'obstructive', government, Reagan adopted a host of NPM-inspired 'devolutionary' reform measures aimed at transferring federal regulatory power to state and local administrative units. Under this initiative, known as 'New Federalism', many new administrative responsibilities would now be carried out by the states—often with little financial assistance from the national government.

Reagan relied on the use of a budgetary instrument known as 'block grants' in a strategic effort to transfer both fiscal responsibility and the management of many social programmes, ranging from school lunch programmes to Medicaid, to the states. While major entitlement programmes, such as Social Security, would continue to be managed and overseen by the federal government, the conservative president sought to introduce a lean

voucher system into the country's Medicare system in an effort to encourage 'competition' and 'efficiency'. While ultimately unsuccessful, Reagan's efforts represented an unprecedented move to introduce private sector principles to the administrative process involved in delivering a major social services entitlement programme.

Reagan's New Federalist agenda was deeply embedded in an ideological commitment to reducing the size of government. This was a doctrine also preached by the 'Public Choice' school of economics. Asserting that individual citizens 'vote with their feet', members of this school argued that local governments were more in touch with the needs of their 'clients'. Additionally, they argued, decentralized, slimmed-down forms of administrative governance were less likely to 'obstruct' private sector productivity through

‘unneeded’ regulations. In seeking to protect individual choice and private initiative as the highest social priority, the public choice school insisted that rigorous ‘economic’ principles and tools be used to assess the ‘worthiness’ of spending ‘hard earned’ taxpayers’ dollars on specific social programmes.

‘Reaganomics’ was heavily influenced by the work of William A. Niskanen, one of the president’s leading economic advisers. A student of the Nobel prize-winning economist Milton Friedman, Niskanen’s enormously influential 1971 work on *Bureaucracy and Representative Government* served to inspire NPM movements across the globe. Niskanen argued that ‘rational’ public sector bureaucrats and legislative leaders will seek ways to expand their own scope and power at the expense of the taxpayers and social efficiency. Niskanen

asserted that politicians tend to overspend on politically popular programmes in an effort to win more votes; public administrators, who are charged with implementing these same programmes, are always looking for ways to increase the size and scope of their government bureaucracies. Niskanen concluded logically that even in circumstances where public officials might be able to find ways to perform their duties and carry out their functions with fewer economic resources, they have little incentive to do so. On the contrary, public administrators will always seek to 'maximize' the budgets that have been allocated to them by politically minded legislators.

Impressed by Niskanen's argument, President Reagan signed Executive Order 12291, which required that public agencies use cost-benefit analysis to evaluate all proposals involving

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regulatory and social spending. Under its use, the budgets of many social programmes and public agencies responsible for administrative oversight and enforcement were either cut substantially or eliminated completely. Indeed, the regulatory powers wielded by government organizations like the Environmental Protection Agency (EPA) were significantly curtailed using these methods.

While British prime minister Margaret Thatcher shared Reagan's contempt for 'big government', she exhibited little sympathy for his New Federalism's emphasis on decentralization and empowerment of local government. Indeed, Thatcher viewed local public administrators as highly inefficient and susceptible to political corruption. Accordingly, Thatcher sought to replace traditional local tax rates with a new 'poll tax'—or 'community charge'—in an effort to severely restrict revenues available to

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local councils. Under heavy political fire, the prime minister would later reverse this unpopular decision.

Detesting the growth of government, which she associated with 'uncontrollable' rates of public spending, Thatcher strongly condemned the practice of taxing private wealth to finance 'inefficient' government-administered programmes and policies. At the heart of Thatcher's public sector retrenchment campaign was her controversial 'Medium Term Financial Strategy' (MTFS). The MTFS would redirect the focus of Britain's treasury and spending ministers away from a short-term tax-and-spend scheme toward a longer term strategic initiative aimed at limiting her country's monetary growth. The strict spending limits mandated by the MTFS naturally imposed new challenges on public policymakers and public

administrators. In order to justify her position, the provocative prime minister went to great lengths to convince her peers of the merits of her austere NPM-based public sector retrenchment campaign for the 'greater good' of society. To help her make her case for retrenchment, Thatcher made Niskanen's book on *Bureaucracy* 'required reading' for all members of her senior cabinet. Supported by a fiery band of party loyalists in parliament (known as Thatcherites), the ultra-conservative leader continued on a vigorous crusade to institute a rich mix of NPM-based reforms which included significantly reducing government regulations, and privatizing national industries.

Thatcher believed that the management and leadership structure reigning over Britain's enormous civil service bureaucracy had become inert and inflexible. In order to jump-start the

implementation of her revolutionary NPM-based efficiency and service reforms, Thatcher adopted a comprehensive administrative programme requiring public 'managers' to assume responsibility for 'managing' their organizations more effectively. Under a neoliberal programme known as 'Next Steps', various public services would be delivered through market-like arrangements and overseen by managers who possessed the administrative authority and resources required to fulfil their mandates. Specific service delivery tasks and functions that had previously been carried out by the various government departments would now be reassigned to independently run single-function-oriented agencies and organizations. Under this innovative administrative framework, ministers remained in charge of creating public policy, while the management functions and responsibilities

associated with implementation were administered through independent agencies. Now operating under strict 'private-sector-like' accountability standards, the performance levels of agency managers were closely monitored by their related ministerial department heads.

As part of her broader NPM agenda, Thatcher oversaw the sale of a substantial number of state-owned industries to private firms and investors. Her well-known privatization drive began in the early 1980s with the sale of such recognizable industry giants as British Aerospace, British Rail, and Associated British Ports, and later continued with the privatization of Rolls-Royce Aircraft Engines and British Petroleum among others. In many cases, state-run enterprises were sold below market values. This was done, in part, under the assumption that their new managers would use the