

PART II
THE PUBLIC SECTOR

5 Public Choice

The 1986 Nobel prize for economics was awarded to Professor James Buchanan of the United States. Buchanan, along with Professor Gordon Tullock and others, developed over many years the 'Theory of Public Choice.' First at the Virginia Polytechnic Institute, and more recently at George Mason University in Virginia, the public choice theorists put out a stream of monographs, research papers and articles in economic journals. The constant theme which ran through their work was that people behave in political life in a very similar fashion to their behaviour in economic life.

The 1970s saw the rise to prominence of several schools of economic theory, not all incompatible with each other, which gave theoretical refutations to the central tenets of the Keynesian system, beginning by then to be discredited in practice.

There was, first of all, a return to respectability of market economic systems in general, and a revival of the neo-classical ideas. The rise of the monetarist 'Chicago School' led by Milton Friedman continued remorselessly throughout the decade, pointing to the relation between the supply of money created by government and the rate of inflation. Friedman, himself a Nobel Laureate in 1976, was an articulate and eloquent critic of governments bent on economic interventionism.

Less visible was the slow rise of the 'Austrian School,' whose leading modern exponent, F.A. Hayek, received the Nobel prize in 1974. The emphasis of this school was on economics as a process, rather than as a series of equilibria, and one driven mainly by the aspirations and actions of individuals. A characteristic of 'Austrian' economics is its rejection of macroeconomics and its insistence that the reality lies in microeconomic activity.

Other schools and their offshoots introduced new concepts into economic analysis. 'Rational expectations' rose to prominence; while the celebrated Phillips curve sank into the swamp of 'stag-flation,' as countries managed to achieve simultaneously the high unemployment and inflation which were supposed to trade off one against the other.

It was, and perhaps still is, a period typical of the scientific revolutions described by Kuhn. The prevailing paradigm had collapsed under the weight of contradictions and anomalies, and scholars searched for something to replace the 'Keynesian consensus.' Kuhn describes such periods as those when the most creative work is done. It was certainly a creative period for economics.

Against this background of ferment, the public choice school was slowly rising in esteem as the quality of its work and the consistency of its outlook made itself felt. It never gained popular acclaim, and although it was regarded with respect, it was treated as tangential to the developments which were taking place in economic ideas. There is a reason for this. Public choice theory is not fundamentally a theory of economics, but of politics. It would fit happily into the old study of 'Political Economy', but sits uneasily in the classroom of 'Economic Science'. It applies economic ideas to political behaviour, and shows how certain economic principles can be used to explain and interpret behaviour in the political realm.

There had been a dichotomy between politics and

economics. That is, most scholars had supposed the two to be fundamentally different types of activity. When people engaged in economics they did one set of things; when they moved over into politics they did another. The public choice theorists have shown that the two are more closely related, and that people behave in politics as they do in economic activity.

In economics people make decisions on the basis of their goals. They respond to their own hierarchy of values, trading off some things in return for others. They might trade valued leisure time in exchange for even more valued additional income. They buy and sell in the market. Entrepreneurs enter the picture, linking investors and producers, sellers and buyers. Information has its price and is bought and sold. Scarcity increases value, as does proximity in time and place. When many people want something in limited supply, price goes up in response.

All of this is a familiar world, and has produced innumerable analytical works investigating its apparent laws and producing the insights to bring unity to what seems initially like random disorder. Politics was studied differently. Scholars had assumed that it was an altogether different type of activity. People were assumed to make decisions collectively, competing for majority support for their views. It was supposed that decisions were made intermittently at elections, and that minorities gave way before the majority will, except in areas protected constitutionally.

A major insight of the public choice school was the appreciation that political activity proceeds in very similar ways to economic activity. People act to maximize their advantage. They make the decisions which pursue their objectives. They make trade-offs. Instead of intermittent voting taking place at elections, the reality is of a constant series of 'votes' as people take actions to influence the political process.

The public choice theorists established that there is a kind of marketplace for votes. When they are in short supply they command a higher price and have to be bought more dearly. Some of particular value are bought at higher prices than others. The vote, in other words, has economic value and is traded as such. The majority does not simply overrule the minority. Rather does the minority trade its votes for an acceptable recompense. People trade the vote, which has an economic value, for something they consider to be worth more. It is like other economic exchanges.

All of this may seem rather abstract and philosophical. It appears to say more about the way people behave in political life and activity than it tells us about economics as such. Its value lies in part in its ability to predict the behaviour of groups within the political process more accurately than any of the conventional models. By assuming that the general rules of economic behaviour also cover political activity, it is possible to gain a much more realistic picture of what goes on in political activity than can be obtained by the traditional picture of politics as a series of decisions made collectively.

Far from seeing minorities give way every time before the will of the majority, public choice theory tells us why it is so often the other way round, that the minorities collectively have their way at the expense of the majority. The closure of one ailing factory may have very few votes at stake. But to those voters affected it matters crucially. Their representatives are prepared to pay a high price for support on so crucial an issue. They will trade support for others in exchange. Thus coalitions are put together which succeed in satisfying the various minorities on the issues which matter to them, even though this might be at the expense of the general good.

It costs little to support or subsidize each particular minority. On each issue, therefore, those who benefit

are prepared to pay a higher price in terms of support than those who will eventually foot the bill. It matters more to the former than to the latter. Political reality is constructed not upon the merits of the individual cases, but on the arithmetic of traded support. People act in order to maximize their reward from the system, just as they do in economics. The reward need not be material; it need only be whatever they count as important.

Public choice theory in effect breaks down the majorities we see in political activities into their constituent elements. It shows how they are assembled of groups trading with each other to gain what matters more for them in exchange for what matters less. It shows how minorities on a particular subject trade votes with others in a shifting pattern of support which really does evoke the smell and sound of the marketplace.

Terms already familiar to students of the United States Congress, such as 'horse trading' and 'log rolling,' are seen to apply to groups in society, as well as to elected representatives. Every election presents packages; part of politics consists of the assembly of packages whose attractive features are more important to many groups of voters than their unattractive ones. Not that the activity is confined only to occasions when actual votes take place.

Even between elections groups trade support with each other, supporting some Bills, acquiescing in some and opposing others. Sometimes opposition is powerful enough to merit being bought off. All of this wheeling and dealing is seen as an important part of political reality, and makes politics more comprehensible than it would be on the simpler models which place more emphasis on rational decision-making than on quasi-economic exchanges.

Public choice theory has shown itself to be an extraordinarily powerful tool when it comes to predict-

ing the behaviour of the various groups operating in the public sector of the economy, and the outcomes which they collectively bring about. It sees bureaucrats not as public servants who dispassionately implement the policies of elected leaders, but as a distinct interest group or series of groups with a strong interest in those policies.

Workers in public sector industries or services are recognized as groups in a position to influence very strongly the level and the quality of those services, and to have a conscious interest in the level at which they are funded. Those who manage state operations have an identifiable stake in the total size of the operation, its manpower levels and the range of its activities.

Even legislators cease to be simply the elected representatives of the public, and emerge instead as yet another distinct interest group with its own priorities and advantages to pursue. Activities which bring visible credit to legislators from voting groups, for example, are of greater benefit to them than activities which gain no visible credit, no matter how much more worthwhile they might be.

The interest of trade union leaders operating in the public sector does not lie in producing the best possible level of public service at the lowest possible price. It lies in maximizing the level of subscription to the union, which will normally mean maximizing its membership. This can, of course, operate against the interests of the public at large who are the supposed beneficiaries of the service.

When the voting public itself is broken into interest groups, each pursuing the objectives they value, some features of the supply of public goods and services in democratic societies become more explicable. It is usually in everyone's individual interest, for example, to maximize their own consumption of goods and services which are paid for collectively. They can exert

pressure through the political system to increase the level of services they receive, and groups which receive services form more distinct and more effective groups to trade with than does the general mass of taxpayers which foots the bills. The tendency of democratic societies to oversupply public goods and services can thus be understood in terms of the pressures within the system.

In a hypothetical case there might be ten people in a village who seek an improved level of maintenance for their road. Ten is not a powerful political group, but there are others who would welcome improved roads for their own area. There is thus the basis for a coalition composed of those who seek road improvement for their own areas, and who are prepared to seek general road improvement in order to secure it. Politicians will be able to bid for the support of that group by promising to increase the level of road maintenance. Even those whose own roads do not need improvement will probably not oppose very strongly the principle of road improvement, since they do not generally perceive the costs it imposes upon them to be sufficiently large to arouse their opposition. The cumulative effect of this activity might well be a level of road maintenance higher than necessary, and certainly more than people would spend if they had to part with the funds directly, instead of through government.

The general approach of the public choice school is to treat political activity as if it were economic activity, and to recognize that it is subject to similar inputs. It is very useful in this context to treat those groups which operate within the political framework as if they were businesses working in an economic environment. It is a good predictive tool to take it for granted that they are each trying to maximize their advantage within the rules which prevail. Just like businesses, they seek opportunities, they try to increase the benefits which

accrue to them, they compete for a share of the market, and they act always to lower the effort and sacrifices which have to be put in to secure a given output.

Just as business corporations struggle against each other for a market share, so do the bureaucracies of different ministries compete for the allocation of funds. In a similar way, the power play which goes on within corporations as senior executives vie for position and prestige finds its parallel in the civil service as department heads within a ministry struggle for advancement. A treatment of the bureaucracy which looked only at the stated political objectives and the response to them would miss the crucial element of the personal stake of the people involved, whose lives and careers were affected by the decisions.

The behaviour of businesses in pursuit of economic objectives has a major impact on the economic outcome; the same is true of the groups which behave like businesses within the political context. They have real power to influence events. Civil servants can assist or delay public policy. They can even thwart it if it threatens one of their vital interests. Public sector workers can undertake or threaten strike action to put pressure on legislators. The outcry from a public deprived of essential services is something to which politicians are particularly vulnerable, since popularity is their stock in trade.

Trade union leaders can threaten non-cooperation by their followers in order to secure agreements which maximize the job security, and which optimize the working conditions, for their members. Groups of the general public in pursuit of specific benefits for themselves can use protest to bring pressure on legislators, and use demonstrations to bring similar pressure from the media.

Members of the legislature who wish to be re-elected have to watch for signs that impending action on certain

issues, or the lack of it, will bring the wrath of the electorate upon them. They, in turn, put pressure on the executive and influence its determination to proceed with, or abandon, parts of its programme or to undertake new initiatives.

All of these pressures upon the political system are very real. The will of governments, by contrast, is a feeble reed. It might set out a course in its manifesto and embark upon a programme, but it has no choice but to respond to the pressures which it encounters. Part of the art of government is perhaps knowing what can be done, and seeing when there is too much resistance from the interest groups affected for a policy to succeed. It has, after all, been described as 'the art of the possible.'

The insight that politics is a marketplace is an explanatory device. Like so many of the explanatory theories of economics, it is at its most useful when it is pointed backwards. That is, we can look at what happened and interpret the events in the light of the theory. With public choice theory we can begin to see why some political programmes were derailed, and why others succeeded. Very often it comes down to the fact that the groups who stood to gain as a result perceived the benefit as small, whereas the potential losers stood to lose big, and were ready to pay a high price to prevent it. That high price need not be paid in money. It can be paid in time and effort, in sacrifice, or in terms of what is traded to secure the support of other groups.

Public choice theory helps us to understand what would otherwise be a curious and incomprehensible fact: that minorities can be benefited more readily than majorities. On the conventional political paradigm, one would expect the majority to vote itself the benefits at the expense of the minorities. The public choice model, however, points out that to benefit a majority it means

that an amount greater than that benefit must be taken from the minority. More crudely, to give a dollar to each of the majority involves taking more than a dollar from each of the minority. And the minority will squeal more loudly. Conversely, to benefit a minority requires less than that benefit to be taken from the majority. When the many support the few, the few receive a lot but the many give only a little each. The blame bestowed by the many is light, but the praise gained from the few is heavy.

This explains the fact that even though farmers now constitute a fraction of the numbers they did a century ago, they receive many times the state benefit. Indeed, it is typical of the advanced countries that the farmers are now in a small minority, and are supported with huge subsidies from the more numerous urban taxpayers. In less developed economies where agriculture still employs a majority of the population, it is typically the farmers who are taxed or forced to sell at artificially low prices in order to subsidize urban minorities. As the farmers decline in numbers, their ability to command support increases.

The case illustrates the general point explained by public choice theory; that it is easier to benefit minorities than majorities. It cost less to do so, and they value the benefit sufficiently highly to justify the trade-off to legislators.

Not all minorities count equally in the political process, nor do the actual numbers within them make up their most important element. On public choice theory, the value they place on the benefit makes them ready to trade accordingly. A group, small in actual numbers, might value their benefit so highly that they are prepared to pay a high price for it; that is, they might be ready to trade a great deal of support which potential allies find worth having.

The visibility of minorities is important to their

success. There are cases in which minorities stand to gain a great deal from a particular decision but are unable to influence it effectively because they do not present a visible group with which influence can be traded. For example, if a school is threatened by closure, the parents of the children who attend it form a highly visible group. They can meet and demonstrate, write to their representatives, hold street marches and be interviewed on television. Where the issue concerns the possible opening of a new school, however, the group of future parents who might want to use it are not as visible and do not count for as much politically because their support is difficult to trade.

A further factor which adds to the importance of minority groups is their ability to make trouble. Social workers might be more numerous than electric power technicians, but a potential disruption in social work makes less trouble than interruptions in the supply of electric power. This means that the power technicians count for more, regardless of the objective value of the contribution they make to society compared with that of social workers.

To trade effectively in the political marketplace, a minority group must be self-conscious. That is, it must identify its group interest and its status as a minority seeking particular benefit from the system. The minority of conservationists seeking to block the building of a new housing estate in their area form a clear and identifiable group. They know who they are, and know what their interest is in the matter. They can make their views known to legislators, attract publicity and cause trouble.

Those who might benefit from a new housing estate might well be more numerous, but they are not self-conscious. They do not know who they are. They might live all over the country at the moment, and not appreciate how they might be the direct beneficiaries of

new housing in the area concerned. Public choice analysis tells us that the former group, being aware of their position and what they stand to lose or gain, will be more effective, other things being equal, as traders in the political market than the latter group.

It is easy in retrospect to see the features of American politics which made the emergence of public choice theory more likely to take place there than in Britain. The United States is a more fragmented society, composed of people who identify themselves as members of sub-groups within that society to a much greater extent than in Britain. This does not mean that public choice theory is not applicable in Britain, or that its explanatory power is any the less: it simply means that the roots of it are less evident. Many of the groups which trade influence and benefits in the political market in Britain have tended to be based on categories of employment.

There is a long-standing tradition in American politics referred to as 'building constituencies.' It means appealing to sufficient numbers of groups to win a popular vote when they are added together. Majorities in American politics have often been thought of as collections of minorities put together for the purpose. The coalitions which characterize the main American political parties may shift and change, but the principle is one of satisfying enough interest groups to build a majority out of them.

The US parties make calculated appeals to such groups as 'Jews,' 'Blacks,' 'Hispanics,' 'Women,' 'Veterans,' 'Organized Labour,' and 'Farmers.' Coalitions are forged out of such groups, and they shift and change as the groups move across the political spectrum towards where they perceive their interests to lie. One of the classic mistakes of American politics, made by Senator Mondale in the 1984 election, is to secure the support of minority leaders, rather than that

of their members. The leaders tend to emerge because of their militancy, and may not reflect the general views of the minority groups they appear to represent.

It is easy to see, as it always is with hindsight, how observation of the role played by minorities in American politics led the public choice school to the insight that their behaviour in the political realm was characteristic of economic activity, with votes being traded for benefits instead of cash for goods and services. It gives a far more accurate picture than the previous idea that minorities supported parties and candidates which they thought 'represented' them.

It is also more productive because it does not deal only with the traditional and permanent groups commonly perceived. While a person's status as a 'Black' or a 'Hispanic' does not change, it is possible to belong in addition to different and changing minority groups on a whole series of issues. Depending on one's residence, one might be part of a group supporting more subsidy for highway maintenance or the construction of a new bridge. A person's job might place him in the group supporting particular industries, perhaps against foreign competition. A tenant might be part of a group in favour of rent control, whereas a home-owner might look to lower property taxes.

The behaviour of all of these shifting and changing groups in the political process comes within the ambit of public choice theory, as does that of the elected representatives at all levels of government who react to their pressures and trade votes and influence with them. Some of the products of democratic government seem irrational and counter-productive when we try to explain them on the conventional political model. Analysts have been perplexed at the apparent inability of societies to correct obvious wrongs. A great virtue of the public choice approach is that it gives us a paradigm into which such behaviour fits, and within which it can

be interpreted in terms of a market of political influence. Some of its most useful research has given us revealing insights into the structure and operation of the sector of the economy which comes under the direct responsibility of government.

6 The Public Sector

Public choice theory is particularly effective at explaining features of that part of the economy in which the goods and services are paid for out of taxation and produced by the direct responsibility of government. There are aspects of the public sector of the economy which seem very difficult to explain or to understand on any of the conventional political models.

There is, for example, the tendency towards over-production in the public sector. When people pay collectively for their goods and services, they consume more than they do when each makes payment individually. Public choice theory points the way. There is always a demand for more service. If there are no restraints, people prefer to have the bus service run twice a day instead of once, they choose to have even more street lighting, even better roads and more of them. When there are no restraints, this is almost regardless of use, and therefore the demand is potentially infinite. In an extreme case, people might want empty buses to pass every half-hour on the off-chance that they might wish to catch one. Without restraint, this is a reasonable preference to make.

There are restraints, of course, with cost featuring among those which limit such preferences. When people pay directly for goods and services, they have to

allocate limited resources, and limit their demand for each in consequence. In the public sector of the economy the restraints are less effective because they are felt less strongly and because they are less visibly connected to the supply of goods and services.

A minority in an area might demand an improvement in their service. Its shortcomings could occur to them spontaneously, or a candidate for elective office might raise with them the prospect of an upgrade in their service. The benefit of such an improvement is valued, whereas the fractional additional cost which this imposes is of less consequence. The group may be small, but their desires can be added to those of others who seek improvements in their own services. In this way there can be a general demand for more service, without any significant pressure to restrain it. The groups trade support for benefit in the political marketplace, and there is no equivalent support coming from those who object to the cost.

The result of this is to have public goods and services supplied in greater quantities than individuals would have chosen had the decision rested with them individually. This does not mean that the services are higher in quality or that they respond to the demands and needs of consumers. It simply means that people spend more collectively through the political process than they would choose to spend individually. When they have to pay directly for the service, they demand less of it than when it is provided through the public sector. The public sector is thus responsible for a misallocation of goods and services which would seem irrational without the insights of public choice theory.

It is not only consumers who perceive benefit from overproduction of goods and services in the public sector. Naturally enough, those who administer that production acquire responsibility and status as the service expands. Those who are employed in it gain

promotion opportunities and the opportunity to increase earnings as more demand is made for their services. The legislators themselves stand to gain the support of the groups whose services are over-produced, without losing that of the general taxpayers who fund this activity. The result is that of a massive one-sided support for additional service, with scarcely any effective pressure against.

The service, while being produced at greater levels than would be demanded or supported by individual consumers in a private market, is by no means responsive to their demands and needs. It responds instead to the pressures of the political process. In a private market, the consumer can limit the quantity of any goods or services purchased by deciding to spend resources elsewhere. The supply is limited by what the customer is prepared or able to pay for it. In the public sector the consumer is not able to limit the quantity of supply or the amount paid for it.

In the private sector, the consumer selects the goods and services which meet his or her requirements, and rejects those which do not. As a result of this process the goods and services tend to meet consumer preferences. Those producers who fail to do so risk bankruptcy if customers go elsewhere.

The public sector is subject to totally different pressures. The consumers have no choice but to pay for its production because the funding for the most part comes out of taxation. Consumers have no effective alternative, first because the public sector is often characterized by monopoly, and secondly, because when they have been forced to pay for the public supply, very few of them can afford to pay yet again for a private supply. This means that consumers have no opportunity to make economic inputs into the public sector. They have periodic political inputs, but these form part of a very large package in which the spending

on any particular item of public goods or services is very small indeed.

Consumers thus have very little impact on public goods and services. The political system favours over-production, but it does not favour consumer responsiveness. The producers, on the other hand, exert very considerable influence on the service. Those engaged in the administration of it at management level, and those employed directly in its production, all have a direct stake in the type of service which is produced.

The bureaucracy of a public service has an interest in a service which is run in a way convenient to administer, and which maximizes the career opportunities for the administrative and managerial class. The workforce has an interest in a service which minimizes the effort and discomfort of the employees, while maximizing job security and reward. Both of these groups are in a position to bring real pressure to bear on the system. Unlike the consumers who have no alternative but to take what is supplied, these two groups both have influence to trade. Both can make life difficult for the legislators.

The bureaucracy has the power to impede, to delay and to thwart changes which would adversely affect their own status and position. The workforce can interrupt, or threaten to interrupt, the service, and bring public protest down upon elected leaders. The result is that the public services tend to be 'captured' by the producers. By this is meant that over a period of time they tend increasingly to meet the needs of the producers rather than those of the consumers. The producers have real power within the system; the consumers do not. The producers have more influence to trade than the consumers.

Little by little over the years, the service ceases to be one which satisfies the needs and requirements of the public as a whole, and becomes one directed to

achieving what the limited class of producers prefer to see done. This 'producer capture' is explicable and, indeed, predictable, in terms of public choice theory, but would be very difficult indeed to explain on more conventional political models. Why should the citizenry choose to establish a service which will slip beyond their control and divert their resources toward the satisfaction of the group of people employed within it? It would seem extraordinary without the realization that the process involved giving some groups extra bargaining power in the political market place at the expense of the general public.

The products of producer capture are plain to see throughout the public sector. Services which exist nominally for the benefit of the public are increasingly geared to the benefit of those whose livelihood is gained within them. The Post Office provides a very typical model. The second Saturday delivery disappears. The Sunday collection is ended. Post offices cease to open on Saturdays. The telegram service disappears. None of this is the result of pressure by consumers. On the contrary, it is probably the opposite of what consumers want. But it does make life easier for the producers if they do not have to work at weekends.

Throughout the public sector the tendency is for the convenience and needs of the producers to take priority over those of the consumers. None of this is immediate. It is a pattern which builds up over the years as the pressures are exerted and the results of them emerge. The garbage collectors call in the early morning and wake householders with the noise they make. This is because they have negotiated working agreements which specify that they are to be paid on a 'task and finish' basis. What is supposed to be a fair estimate of the time for a task is calculated, and the number of tasks expected in a working day is calculated accordingly. The calculation is contested and argued every year,

until it is such that the workforce can start early in the morning and finish their day's work by midday. This would be virtually impossible in the private sector because firms would find the costs reflected in prices, and the public would turn to cheaper competitors. The public sector, however, rarely allows the customer the luxury of alternative choices, and is itself unlikely to go bankrupt in the normal run of events. The result is that agreements are negotiated over the years which increasingly put the conditions of service into the hands of those who produce it. Many of the specifications written into conditions of work would be incomprehensible without any analysis of the pressures exerted on the system. The working agreements which typify the public sector find no counterpart in private business, except perhaps in the production of newspapers and television programmes.

It is inconceivable that a private clinic would wake its patients before six o'clock in the morning because the staff found it more convenient to clean the hospital in the early morning. Nor is it plausible that they would keep patients waiting for several hours in corridors awaiting X-rays or other tests, or keep them waiting for similar periods to be taken back to their wards, all because the porters who performed this service had imposed rules designed to improve their own conditions of employment. Yet both of these practices can be found within the hospitals of the health service produced in the public sector. The difference is not caused by the fact that the private clinics have more money. It is caused by the fact that they have not been captured by producers, and therefore give a high priority to meeting the requirements and the needs of their customers.

If one feature of public sector supply is the prime consideration given to the convenience of the workforce, another is the tendency towards overmanning. The public sector is generally less efficient than its

private counterpart, in that it takes more resources to produce each unit of output. This is established by comparison. The unit costs of the public sector supply can be set alongside those of equivalent industries or services in the private sector; the unit costs can be compared with what they were before the service was taken into the public supply; or the contrast can be drawn between what is produced in the state sector by one country and in the private sector by another.

Comparison shows a repeated pattern of higher expenditure for equivalent output when goods or services are produced in the public sector. It takes more people, other things being equal, to produce state health, state steel or state transport, than it does to produce their private counterparts. Public choice theory tells us why.

It is generally in the interests of producers and consumers to have efficient manning levels. Producers in a competitive market keep their costs down by making more efficient use of labour, and thus can either increase profits directly or keep prices down to attract more custom and augment their share of the market, and the lower prices benefit consumers. But the public sector does not usually operate in a competitive market, and does not usually allow its consumers the luxury of choice. The normal incentives which lead to the efficient use of labour are thus absent, and other pressures dominate.

It is in the interests of management to have responsibility for a large workforce. The additional responsibility will bring extra reward. The workforce perceive it to be in their interest to have overmanning. On the face of it, it appears to mean that each worker has less to do, and that there are more jobs available, and thus greater job security. For those who negotiate on their behalf, this perception is also a reality. It is not in the interest of union activists to concede reductions in manpower

achieved by more efficient use of labour. Lower manning levels equal lower union membership figures. Public sector negotiations are marked by a notorious reluctance by the unions to accept new equipment or new working methods which will generate job losses.

Although there might be a desire on the part of government and the administration of the public sector goods and services to achieve efficiency, it normally takes extreme measures to attain it. It is usually easier to concede to the demands of those with real power at the expense of those without it. This means giving more to the producers at the expense of the consumers where the public sector supply is concerned. An American executive of the National Association of Solid Waste Management Operatives declared at their 1986 annual conference that the real tourist sight in London was not the royal family or the historic buildings; it was the sight of five men on the back of a garbage collection truck, picking up sacks by hand and throwing them into the back. He found this sight more historic than the buildings.

The degree of overmanning and the costs which it imposes upon the general public as consumers may be seen by what happens when contractors are brought in from the private sector to perform a public service formerly carried out by a workforce employed by the state. The contractors are able to perform the same task more cheaply and with less manpower. They do not achieve this by making the employees work harder; they do it by making more efficient use of their labour. It might involve new types of equipment or more often, better management techniques. They are able to achieve these working conditions because they compete with other contractors and face bankruptcy if they lose their market share. The workforce accepts these conditions in the private sector because their jobs are at stake if they do not. An

interesting feature of the switch from public supply to private contractors is that many of the workforce which move across to the new private firm express more job satisfaction than they enjoyed in the producer dominated state sector. Although their work is managed and used more efficiently, and manning levels are lower, they find new opportunities for earning bonus pay for extra work, and new chances for promotion to upgraded jobs carrying greater responsibility.

One feature of the public supply of goods and services which is not predictable on conventional political theory is that it will be characterized by chronic under-capitalization. There appears to be no reason on the surface why people would want to provide services for themselves which lack adequate capital to maintain themselves. Given that the funding for each service represents a small item to the taxpayer, it is difficult to see why they should be under-capitalized to the extent to which they are. The tendency towards over production has already been noted; why is there no similar tendency towards over-capitalization?

The answer is to be found in terms of the pressures which are exerted on both the current and the capital side of the account. The funding for every service is limited by what legislators feel that taxpayers can tolerate. Although each recipient of a benefit values it more highly than he or she objects to the incremental payment which sustains it, there is a general background of interest to keep taxation to the levels which the pressure of those services require.

On the total funding there is a stronger pull towards the current side of the account. Current spending sustains the provision of existing services and the payment of those involved. Capital spending, on the other hand, sustains future services. The pull on the current side comes from a public which will protest if there are service cuts, and from a workforce which can

interrupt the service if their demands are not adequately met. There is no such pull on the capital side because the beneficiaries of future service can exert little current pressure. They are a diffuse and unidentifiable group who do not readily perceive their loss when capitalization is cut.

The parents of an existing school threatened by closure can exert pressure to trade in the political market; the future parents who might benefit by expenditure made now on a new school cannot. For the most part they do not themselves know who they are, nor do they perceive the connection between today's capital spending and the benefit which will accrue to them tomorrow.

Given the unequal balance of forces pulling at total funding, it is always easier for legislators and administrators to seek savings on capital expenditure in order not to cut into current spending. It involves less political cost to postpone the purchase of new equipment or the building of new premises, than it does to oppose pay claims or to implement service cuts. Over a period of years this lopsided pressure results in a constant decline in the proportion of funding devoted to capital spending within the public sector.

The effect of this can be seen in terms of the tendency of the public services to be characterized by out-of-date and poorly maintained equipment. The private sector industries cannot afford to fall behind in the race to modernize and make use of the latest technology. Companies which do so will lose out in the marketplace. In the political marketplace, however, the gains are to be made by cutting into capital expenditure, which has few self-conscious beneficiaries, in order to fund current spending, which has many.

The phrase 'private affluence and public squalor' was coined to describe adequately funded private goods and services, but what were seen as inadequately funded

public ones. It might be applied to the state of their equipment, because the public sector will tend to be under-capitalized regardless of its total level of funding. Even if vast extra funding for capital projects could somehow be justified and supported politically, it would not find its intended target. Rather would it be distributed heavily toward the current side as the pressures there exerted the same pull upon it as they have applied to previous funding.

One result of this is that we see a sleek and modern private sector alongside what seems to be a shabby and out-of-date public sector. Equipment in the public realm is made to serve longer than it should. New purchases are postponed, and the consumers have to accept services which seem years behind the times in terms of the technology they use and the modernity of their equipment. It might be puzzling to account for on conventional models of political decision-making, but becomes readily explicable in terms of the economic nature of political markets. Current spending has more traders than capital spending.

The public choice model is particularly effective in accounting for the behaviour of the bureaucracy. The traditional model sees the bureaucracy as the instruments of government, which itself reflects popular will within certain limits. On this basis comes the picture of the dedicated and dispassionate Civil Service whose function is to put into effect the policies determined by their political masters.

While civil servants may indeed be dedicated, and may form an essential and valuable part of the 'machinery of government,' the public choice model in no sense regards them as machines. They are people, and are motivated by aims and aspirations similar to those which motivate other people. They are a distinct minority group with assets of value to trade in political markets. By treating them as if they operated like

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private businessmen to maximize their advantage, we obtain a much more detailed picture of their response to given situations, and a more comprehensible account of their overall behaviour.

In the bureaucracy, reward comes partly from seniority, partly from responsibility. It is in the personal career interest of each of them to extend their responsibility and status. It is against their interest to preside over a reduction in the size of their department unless there are compensating advantages to offset the reduction of responsibility which this would imply. On the contrary, the bureaucracy will be more likely to suggest new areas of departmental activity calling for expansion of both budget and personnel.

A hypothetical programme might start with a real demand from a certain section of the public. It might be instigated by a candidate for elective office suggesting the new service in an implicit trade for supporting votes. The group might use protest and demonstrations to bring the matter to government attention, or it might be taken up and highlighted by the media. At some point it is taken up by legislators, who in turn put pressure on government to do something about the problem.

This is the point at which the Civil Service comes in. They will be asked to study the alleged problem, and to propose some means of dealing with it. It is very much in their interest to add new programmes to their field of responsibility, and even to compete with other departments to be the one selected to do so. This is the origin of the process known as 'empire building' within the Civil Service, and under which they act to expand their own areas of activity, the size of the staff under them, and the salary scale open to them.

The process parallels that of senior executives in a private corporation, who will compete with each other

for influence and status within the firm, each seeking to have as large a number as possible responsible to them and dependent on them. Just as it is routine in the private sector to expect executives to move into new areas and to suggest moving into new markets, led by their own section of the company, so does the bureaucracy mirror this pattern of behaviour. While they may indeed be dispassionate and dedicated, a more accurate explanation of the way they behave is generated by the assumption that they behave like businessmen, bidding and trading in a political market instead of an economic one.

The difference introduced by public choice theory is that it deals with the bureaucracy as an interest group and takes into account their own motivations. Instead of treating them as the traditional view does, in the role of referees standing outside to administer the rules in a fair and unbiased way, it treats them as players in the game, as yet another group dealing and trading in the political market. It recognizes their interest as participants, as well as their role of administrators.

The tendency of the public sector to undergo steady expansion in democratic societies is not only explained by the interest which the bureaucracy has in expanded responsibility. Nor is it only accounted for by the perception of greater benefits than costs on the part of their recipients. There is more to the public sector than the administration of the direct transfer of benefits, with gains by both administrators and recipients. Everyone whose livelihood comes from public funds is part of the public sector.

The list includes automatically all members of the armed forces and the police. It includes all of those employed in state health or state education. It includes not only those directly employed in state-run industries, which might include mines, railways and even automobile manufacture. Added to these must be all those

who are employed in industries dependent for their survival on state subsidies.

Even this list is far from complete. On it must be included those employed by different levels of government, county and city. Thus employees from street sweepers to architects, from park keepers to lawyers, must all feature as part of the public sector. All of the above have a vested interest in seeing spending in their particular section kept up or increased. Each may object to the costs in taxation which fall upon them because of increases elsewhere, but each will fight their own corner more strenuously than they will oppose the spending elsewhere. Collectively they constitute a powerful force for the steady expansion of public sector operations.

Shrewd politicians have understood, centuries before the articulation of public choice theory, that it might be possible to forge a majority out of such groups. From the point of view of an elected representative, there is great advantage in having more than half of those who vote dependent upon the state for their livelihood. Whether they are public servants, public employees, or public beneficiaries, if there are enough of them to constitute a majority, they will generally elect politicians who live and trade by redistributing benefits in the political market.

The process may be self-sustaining, perhaps self-accelerating, even though it is probably against the interest of most of the parties involved. It causes them to sustain a higher level of consumption of most services than they would have chosen themselves, and there is the additional cost imposed by producer domination of those services, under-capitalization and over-manning. Adding the cost of the layer of bureaucratic control, it can be seen that people are voting for more services than they want, and at prices higher than they need pay. But once again, the loss set against each

programme is tiny, compared with the large gain brought to them by their own benefit. The pattern of trade in political markets leads people to act individually in ways which can be opposed to the general good, including their own.

One group which has nothing to trade with in the political market is the next generation. It brings no current gains in terms of support, and can therefore strike no bargains. There is a strong tendency, therefore, for gains to be offered to this generation at the expense of the next one. By persuading today's voters that their benefits will be paid for by tomorrow's voters, today's support is gained, while tomorrow's support is of no account.

In democratic societies there is a marked tendency in pensions and social security for benefits to be handed out which bear no relation to payments made by the recipient. Typically, a new and generous scale of benefit is introduced which is justified on the basis of higher payments. The immediate beneficiaries naturally support it. Those of whom higher payments are required support it on the basis that their own promised benefits will be higher still. These, in turn, will be funded by their children and grandchildren who at the moment have no say in the matter.

Even simple demographic calculations are sufficient to show that the system can only be sustained, and the promises met, by a burden upon tomorrow's taxpayers which they may well refuse to accept. The morality is that of the chain letter, with those who embark upon it paying now in the belief that there will be more who will embark upon it further down the road to pay them in return.

John Maynard Keynes said that 'In the long run we are all dead.' In his case it is true, but the cornerstone of the system of pensions and insurance is that it will also be true of those who made gains by introducing and

extending it. They make their gains now in today's political market, and by the time tomorrow's generation emerge to perceive themselves as losers, today's politicians will be beyond their reach, safely transformed into statesmen.

Any politician who tries to tackle the problem before it reaches its crisis point will come up against the expectations and the interests of the promised beneficiaries. The formula of asking people to pay more now and receive less later is not one likely to command much value in the political market. Observers have often noted the short-sightedness of politicians, and of their failure to plan for the long term, even when trends can clearly be seen to be unfolding. The answer in public choice terms is that future stock is discounted. The only value it holds in the present is the concern of today's voters that their children and grandchildren will inhabit a tolerable world; but this concern is difficult to set much value upon when politicians are so intent on focusing people's concern entirely upon today's world.

The features of the public sector of the economy which appear both irrational and counter-productive to observers armed only with the conventional paradigm, become susceptible to prediction and interpretation when the public choice model is brought to bear upon them. That people act unwittingly against their own interest is explained in terms of the relative value set upon their own benefit as opposed to those of others. That people collectively contrive by their behaviour a situation they would not have accepted by choice is explained by the value which votes and influence command in the political market.

The public choice model does more than make the present system comprehensible. It also sets out a detailed and clearly woven pattern of explanation which tells why and how that system has been able to resist so many of the attempts made to reform it or to improve it.

7 Response of Bureaucracy

The features of the public sector which run counter to the general interest have long been noted. Its comparative lack of cost-effectiveness, its inefficiency, even its frequent lack of adequate capital funding, have been the subject of many studies. The way in which it fails to respond to consumer demands and needs, or takes an excessive time before it does respond, reluctantly and sluggishly, have also been noticed, both at the level of anecdote and in more serious statistical studies.

In a similar way, the tendencies of the bureaucracy to behave in particular ways have also been documented. The 'empire building' which goes on within departments, the struggle between them to take on areas of responsibility, and the constant pressure towards expansion of the state sector, are known not only at the level of political science, but in popular humour in addition. One of Britain's most successful television situation comedies took as its theme the behaviour and attitudes of the Civil Service, and assumed that its audience would understand the fundamental truth which lay behind its humorous exaggerations.

Before the public choice type of analysis was put forward, there was a general assumption that the problems within the public sector and the bureaucracy which administers it are accidental, and not essential facets of the system. That is, the adverse features were

thought to reflect instances where the public part of the economy had gone wrong, and done things it was never intended to do. Indeed, this is true, but the supposition was that these were contingent activities which could be eliminated, rather than inherent defects of the system itself.

On the face of it, and at a straightforward level of rationality, it seems that defects can be identified and corrected by the appropriate remedial measures. If the public sector is overmanned, then its manpower levels should be trimmed. If it uses antiquated and dilapidated equipment, it should be re-equipped with new material. If it is inefficient and non-cost-effective, new management techniques and working practices should be brought in to improve it. If there is insufficient response to the needs and requirements of consumers, some mechanism should be put into place which will bring those to the attention of the management so that changes can be made accordingly.

The assumption throughout is, on the face of it, the reasonable one that if there are faults they can be corrected. The same has been thought of the bureaucracy itself. Again, the adverse practices have been identified, and the assumption made that it is simply a question of introducing remedial measures. The bureaucracy tends to be larger than that sustained by equivalent private sector operations, so it should be cut down to size. There seems to be a totally excessive amount of paperwork and duplication. In which case new systems should be established which make much of it no longer necessary. If bureaucrats are prone to build empires, then circumstances must be established in which they can no longer do so. If departmental responsibility is always pushing out to extend its range of responsibility, then measures should be adopted to limit it.

All of these responses, like those to the defects within the public sector as a whole, take the commendable

standpoint that what is wrong can be put right. If the attitude was fundamentally sound, one would have expected the public sector to be very much better than it is, however. After all, the deficiencies observed in the public sector and the bureaucracy have been identified for some time. Many studies have been published to document them, and they have been written of as well-established features of the system. Occasionally the studies have themselves suggested measures which could rectify the defects identified. The question arises as to why, after being studied and known about for so long, and with remedies suggested, the adverse practices should still be a feature of the public economy.

The answer is that the remedies failed. Although they were tailor-made to remove specific defects, they did not succeed in doing so when they were implemented. The reason for their failure is itself instructive, and it is well worth charting the course of them as they are applied.

It is not a difficult thing to recognize that part of the public sector is over-manned. Simple comparison with private counterparts will reveal it. The attempt to reduce manning levels meets with more resistance than it encounters in the private sector. In private industry there is the ultimate threat of closure; there are limits beyond which the workers cannot push without losing everything. Private firms must be competitive, and occasionally cut manning levels. This is opposed, but accepted after some negotiation concerning the conditions because it is in the interest of the workforce as well as the management.

None of this is true for the public sector. There is not normally a risk of closure or bankruptcy, nor any need to be competitive. It is not in the interest of either workers or management to acquiesce in cuts in manning levels. Workers value the security of a job in the public sector, especially when it is accompanied by fringe

benefits more generous than private industry could afford, including perhaps index-linked pensions. It is not in their interest to accept any job cuts. Union leaders lose unless they keep manning levels, and potential membership, to a maximum. Management, normally paid on the basis of responsibility, will lose if they end up in charge of a smaller operation.

The capacity which workers, union leaders and management have for thwarting any attempt to impose job cuts is immense. They have control over the service itself, and access to the media via protest and demonstration, and access to the general public and through them the legislators via strike action or the threat of it. The level of resistance encountered in practice to job cuts is such that a great deal has to be endured in order to achieve a very little. Legislators soon learn that the costs in political terms exceed the gains in economic terms.

Attempts to deal with capital depletion in the public sector fare a little better, but not enough to solve the problem. A lop-sided pull of influences makes it easier for capital funds to be raided in order to concede demands made on the current side for services and salaries. After a time the serious erosion of capital stock becomes apparent, and remedies are called for. Difficulties arise because the problem is treated simply as if it were simply there, without cause.

The attempt to solve it by voting additional funds for capital spending is like trying to cure a sickness by working only on the symptoms. Any new funds are subjected to exactly the same pull as the previous funds. The extra cash intended for the capital account is used instead to relieve pressure on wages. It becomes yet another source of finance, making it easier to concede to the wage demands of the workforce. The unions themselves, at some critical impasse in negotiations, will suggest that the purchase of new

equipment or the building of new premises can be delayed by a further year or two in order to free extra cash needed to break the deadlock.

The lack of consumer input is dealt with by the establishment of new institutions designed to represent their interests. In the private economy, consumers express their needs and requirements by their purchases, or by the lack of them. Firms respond to what customers want to buy, otherwise those customers go to someone else who will. There is no need for institutions to tell industry what consumers think of their service. In the first place they say it by their spending patterns, and in the second place the industry concerned will do its own market research to find out what it should be doing.

Because consumers cannot express themselves by purchases or the lack of them in the public sector, 'consumer watchdogs' are set up to represent their interest. When the Post Office decides to raise the price of first class mail, the official body which is supposed to represent the Post Office users tells them what 'the public' thinks of the idea. The actual public has little chance to express its opinion in the absence of alternative mail services. The Post Office, meanwhile, may or may not pay whatever attention the users' council merits. It has no power to influence events, and is not elected by the public nor is representative of it. If it were, it would probably be worse, giving the illusion of democratic control where there was none.

There is a sense in which these watchdog bodies are 'captured' by the industries and services they are established to monitor. They study the industry over the years, negotiate with it, and come to understand its problems and difficulties. Very subtly, their role switches from representing the public to the organization to one of acting as spokesman for the organization to the public. A watchdog is less effective

if it has dined for years at the same table as the intruder it is supposed to guard against. The real public does not take the trouble to learn about any problems and organizational difficulties which Honda might be going through. They are not interested. If Honda fails to deliver the right quality at the right price, they buy Hyundai instead; and Honda knows and accepts this.

Attempts are made to deal with the problems of the bureaucracy, as they are with those of public sector goods and services. They start from the same disadvantage, in that they derive from a standpoint which treats them as contingent; that is, one which regards them as unfortunate features which have somehow attached themselves onto the system and which have to be removed. The standard practices and procedures of the bureaucracy give rise to features immortalized by C. Northcote Parkinson in his famous laws. But the books would not have become humorous classics were it not for the seam of truth which permeates them. The same is true of the 'Yes Minister' series on television. Foreign audiences often wonder whether to regard these works as humour or as a species of social documentary.

Knowing the practices is one thing; correcting them is another. Given that the procedures of the Civil Service are more complex and cumbersome than those of private industry, one possible solution might be to study the practices of the private sector and to introduce them into the public bureaucracy. In many of the advanced economies the public sector administration has been subject to detailed and repeated study of its operations. Experts from the private sector have been called in to do management efficiency studies. Time and motion specials have examined the practices and procedures. Critical path analysis has been applied to their work. The phrases which are in vogue change from time to time, but the cycle of study and report continues.

Recommendations are made, expressions of intent are declared. The practices continue, perhaps with some token and temporary improvement in some areas. Departments might be amalgamated, some abolished, with their functions transferred elsewhere. Yet at the end of it there is still a bureaucracy which engages in empire building, expansion of operations, extension of areas of responsibility. Reform of the Civil Service is like a tide which washes backwards and forwards, but the rocks are still there each time the tide recedes.

The fundamental error of this method of examining faults and seeking to apply corrections is that it assumes that the public sector is capable of behaving like the private sector. Most of the adverse practices of the public sector are made evident by comparison and contrast with the private sector. In other words, private industry is used as the base model by which the public sector performance is judged. Where the latter falls short of the former, the attempt is made to transplant the techniques of the one onto the other: to make the public sector behave more like its private counterpart.

There is no reason to expect that it should be capable of doing so. It is a totally different kind of animal. The mistake derives from the assumption that it can be made to do what the private sector does, but in the absence of any of the forces which make the private sector behave in that way. The public sector is subject to pressures upon it and within it which are totally different from those which bear on the private sector. This is why it behaves differently.

A great deal of the study and research of the public choice school has been devoted to minute examination of those pressures and to the consequences which follow from them. It may well be that the motivating forces within both public and private sectors are the ordinary aims and aspirations which people have in common. Their desire to maximize their advantage and

to improve their position in life, their conditions of work, and the rewards which accrue to them may indeed be common to both sectors; but the rules and conditions which prevail in each are so different that these same motivations will inevitably produce different outcomes.

The failure to recognize the structural differences is the source of the error. The public sector is different because the forces operating upon it make it so. No one designed it that way; but the group interests and pressures produced that outcome. The private sector is not a rational creation of man. It is certainly man-made, but not according to some preconceived plan. It does what it does as a result of the interplay of many different human activities. The features which make it as it is are such things as freedom of choice, competition, the ability to allocate one's resources according to preferences, and to limit consumption to what one is ready to pay for.

Many of these features are either not present at all in the public sector, or operate there to a very much less degree. The outcome in the public sector is therefore very different from that which emerges in the private economy. The features referred to play an important role in the structure of the private sector by limiting the degree to which individuals can operate the system to their exclusive advantage. Because there is choice, price is restrained. Because consumers can withdraw demand, the service cannot serve only the needs of the producers. Because expenditure is limited to what people will willingly part with, the quality of what is on offer must be sufficient to attract it.

It is a significant aspect of the public sector that the factors which impose restraints and disciplines upon the pursuit of exclusive advantage are by no means as effective. One would expect the public sector to be characterized by the pursuit and the achievement of

advantage to its participants at the expense of the general public. The state sector of the economy behaves as it does not because of any accidental features which have crept in by chance during its growth, but because of inherent structural aspects of it.

The reason why the attempt to transplant private sector practices does not take is that the pressures which sustain those practices are absent. The public supply of goods and services is less cost-effective than private industry can achieve because it does not have to be efficient. The pressures leading towards efficiency are weak compared with those which lead towards over-manning and to the adoption of restrictive practices.

The desire to have more capital spending, more modern equipment and new buildings is weak compared with the pressures which pull available funds towards the current side of the account. The feeling that consumer interests ought somehow to be taken account of and safeguarded becomes no more than a pious wish in a system where most of the forces lead to the satisfaction of producer needs and desires at their expense.

A similar pattern repeats itself in the public bureaucracy. At the base-line is the fact that public administration does not operate like private management, nor does it achieve its levels of efficiency, because it does not have to. It faces none of the penalties which fall upon inefficiency in the private sector, and faces instead pressures which lead to expansion of staff and extension of function. The top executives of private firms might similarly compete for influence and try to expand their own areas of influence. The difference is that in the private sector there is the ultimate test in the market. If it results in better sales or greater savings or a more competitive company, it may last. Otherwise the pressures will take it out. There is no equivalent market test by which to measure success in the Civil Service.

All of the various attempts to improve the public sector and to eliminate some of its adverse features have in common that they are derived from the performance of the private sector, and they assume that the public sector defects are accidental ones, and are susceptible to removal. The public choice style of analysis suggests that both of these characteristics make it unlikely that such attempts will succeed. In the first place, without the pressures which sustain those features in the private sector, there is no reason why they should be kept in place in the state sector. Secondly, the examination of interest groups and the consequences of their motivations suggests that the major disadvantages of public sector supply are necessary, rather than accidental. That is, they are an almost inevitable consequence of the way the public sector is set up and of the way in which it operates.

To put it in the terms of public choice theory, the problems in public sector supply are a by-product of the political market. In the economic market the goods and services which are traded bring one type of result. In the political market the votes and support which are traded bring quite another. The features which make the economic market successful and responsive to the general good are absent from the political market. In their place are features which make it successful and responsive to the minority interest groups which trade within it, at the expense of the general good.

The same features which enable minority interest groups to pursue their advantage in the public sector to the detriment of the general good also enable them to resist successfully the attempts which are made to graft private sector methods and practices onto their operations. Bluntly, it is against their interest to accept such practices and limitations, and they have the power to oppose any attempt to apply them.

Once again, a hypothetical illustration can be used to

trace some of the techniques and practices which thwart the attempt to make the state sector behave more like private industry. Whether these are applied consciously by the participants, or whether they emerge as a result of the unconscious desire to protect the privileged position they enjoy, is not relevant. The fact that they are applied and that they are successful is what matters.

The case might be one which occurs from time to time in which the study of government operations shows that there is opportunity to make savings, to achieve the same output or better, while cutting back on the inputs. When the political decision is made to seek major economies, it signals the start of infighting between the various departments as each one struggles to make sure that the cuts are imposed elsewhere. Even if some departments are finally selected as the ones to bear the brunt of cost savings, there is still a struggle between the operations which come under their ambit, and an effort made to make sure that someone else has to take the painful medicine.

With each department fighting to maintain or increase its budget, the pressures which they collectively bring to bear on government militate against major savings. The top bureaucrats in each department produce projections to show the dire consequences which will follow from major budget cuts. The ministers in turn fight within the cabinet for their own departmental budget, using briefs prepared by their civil servants. Other cabinet members know even less than the minister does about the working of other departments. They are not in a strong position to evaluate the figures.

What starts as a simple attempt to cut out wasteful spending has already turned into a fight between ministers at cabinet level, with the pressures building up for compromise and for scaling back the degree of saving originally postulated. The process is repeated on a smaller scale inside each department, with sections

putting their efforts into justifying their appropriation, rather than on seeking opportunities for saving. The bureaucrats are perfectly aware that it is not in their interest to have less spending within their section, or on their overall departmental budget.

Two methods have been tried in an attempt to overcome the pressures which lead each section and department to seek to maintain its own appropriation and make the cuts fall elsewhere. One is the device of imposing the cuts equally across the board, and requiring, for example, that every department reduce its spending by perhaps five per cent. The other method is to impose total cash limits on each department, and leave it to the department itself to determine how these shall be achieved.

Both of these methods acknowledge that civil servants will fight to defend their own appropriation, and attempt to contrive a way of making this ineffective. If everyone has to accept an across-the-board cut, this could eliminate the tendency of each department to pass the buck, and try to make the burden fall elsewhere. This will at least prevent, in theory, the struggle at cabinet level as ministers act as mouthpieces for their departments and oppose each other in order to keep up their own funding.

Similarly, cash limits on each department are designed to confine the battles within the ministry. The theory is that each section must struggle against the others for its budget, with the overall ceiling of the cash limit as the final aggregate. Instead of each section justifying its own total, and sending the minister out to fight for the total demanded, the cash limit predetermines that total and internalizes the struggle.

Behind both of these strategies lies the assumption that if unnecessary spending and wastage can be identified, they can be eliminated, or at least curbed, if only sufficient discipline can be brought to bear. The

idea is that across-the-board budget cuts or cash limits impose an overall ceiling which cannot be broken through, and under which the departments must learn to live. They will have to cut down on duplication and excessive administration in order to carry on the work of the department at less cost.

The reality is different. The bureaucrats find it easier in practice to push through the limits than to achieve savings within them. Ministers respond to the suggestion of across-the-board cuts with the response that this is fine in general, but should not apply to the essential work of their own department. There should not be cuts in the vital area of health, for example, or education, or pensions, or social security. It would be false economy, they say, to attempt cuts in environmental spending. Security would be threatened by defence cuts. A highly public defence of each department's essential work turns what was designed to be a cut falling equally on everyone into the more familiar picture of a cabinet fight for privileged position. This is a scenario in which bureaucrats feel comfortable, and which they know how to manipulate.

With cash limits the response is twofold. First, there is direct opposition to the limit imposed on each department by its Civil Service. They supply budget figures showing the impossibility of keeping within them. Secondly, after some degree of cash limit has been approved by government, they respond with pressures which burst through the limits. As each individual case comes up for consideration, the circumstances will be contrived to ensure that the original appropriation is exceeded.

It might be, for example, that the cash limits were used to set a maximum pay increase below any figure acceptable to a vital workforce, such as teachers. The resultant labour dispute puts pressure on the government, and when a compromise seems acceptable to the

work force, the minister asks the cabinet for the increase in the cash limits of his department required for him to meet it. In this way the cash limits can be broken through by means of a series of separate incidents, each one of which presents a compelling case. The notion that the extra cash for each one might be met from savings elsewhere within the department is not a viable option. It will simply transfer the pressure elsewhere. The only option which does not do this is one which raids the capital account to fund increases in current spending.

Although the idea behind across-the-board cuts and cash limits is that administrative wastage will be curbed, the pressures are such that it is easier to overturn the policy than to achieve the savings. Exceptions are made to the across-the-board policy in favour of particular departments; extra funding is allocated to those which find situations force them to exceed the cash limits. The bureaucrats have much experience in contriving situations which will achieve this.

If one took public servants at face value, on the conventional political model, one would perhaps expect them to seek savings in order to give better value for money. Thus one might expect to see public money saved by the adoption of more streamlined practices and working methods. Some sections might be closed, with their workload taking up the slack in others. Unnecessary or unproductive activity might be sought out and eliminated. The end-product would be the achievement of the outputs of the department at somewhat less cost in inputs; this would represent an increase in efficiency.

Using the public choice model which treats the participants as traders in a political market, working like businessmen to secure their own advantage, a different pattern is expected. It is the one which conforms much

more to the reality of experience. When the cuts are imposed, the plans presented propose to achieve them not by administrative savings, but by cuts in services. Instead of office work facing the brunt of the economies, it is those who receive the services who face the burden. Furthermore, the cuts which are proposed are commonly in sensitive and valued areas, with a vociferous and articulate public as their recipients, and with high media visibility.

When the proposed cuts are announced, there is an immediate outcry from those whose services are threatened. The media respond accordingly, and the ministry feels itself under pressure as the protests mount. The government in turn experiences the unpopularity increases, and its members begin to show political concern. Legislators receive hostile mail, and opinion polls show how much support there is for maintaining the service. The saving to be achieved seems too small a gain to justify the losses being incurred at the political level. The government calculates that it can afford to lose only a certain level of support before the exercise is no longer worthwhile, and its enthusiasm for the savings diminishes. This was, indeed, the effect intended by the civil servants when the cuts were proposed.

Public choice analysis suggests that the proposed cuts will tend to be in services rather than in administration, and that they will be proposed first in those services which have effective supporting groups. The effective groups are those which perceive their benefit, value it highly, are visible to the media, and which have articulate spokesmen and the capacity to cause trouble for government. The benefit might be an indirect one, in that it might not be the supposed recipients which constitute the interest group, but those whose livelihood is made in representing them, and who are thus major beneficiaries of the programme under threat.

Economies in the health service might involve hospital closures or the suspension of life-saving operations in certain areas. Cuts in the education budget could reduce the number of mathematics teachers. Reductions in the naval estimates might cut the number of ships. The pattern is similar throughout. It is that proposed cuts will be offered first in the most valuable area of service, and that in which the government is at greatest vulnerability. It is a consequence of this that economy campaigns have rarely been sustained for long, and have rarely achieved major administrative savings. In general, the cost in terms of effort and unpopularity proves to be more than the results justify to those seeking to achieve them. A mountain of bitter and debilitating struggle against administrative obstruction labours to bring forth a mouse of cost saving.

A fictional episode of *Yes, Minister*, the television comedy series on the Civil Service, showed the result of cost cuts in the health service. The hospital had the same administrative staff, as busy as ever, but it had got rid of all of the patients. No administrative savings had been possible, even though the service had been eliminated entirely. Anyone who supposes that it is only in fiction that bureaucrats respond in this way should study the record of the US Customs and Immigration Service. When a cut of 10 per cent was announced in its appropriation, its director responded by immediately taking off duty all of the officers whose job it was to stop drugs coming into the country through the airports. No administrative saving was offered, just the most valuable service, and the one government was most vulnerable on. This was considered an extreme case, and the officer in question lost his job. He was not dismissed, however, just transferred to another department.