16. Public Management in The Netherlands

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Introduction

In the Netherlands, attempts to reform public management and to reorganise the public sector have been made since the late 1960s. In the fields of politics and administration, public management reform is considered to be part of a larger operation, aimed at fundamental reorganisation of the public sector and of government in general. Consequently, in this chapter, the issue of public management reform in the Netherlands is analysed within the framework of reorganisation of the public sector. Public reform processes have been proceeding for more than twenty five years so it is appropriate to present a critical assessment of these reform processes, analysing the extent, the degree of success and the possible future direction of the reforms.

In this chapter a description of public management reform processes in the Netherlands is combined with a critical analysis of the reform process itself: the policy objectives involved, the policy activities undertaken, the results of the reform process, and the determinants of success as well as of failure. The analysis draws on elements of the theory of public administration, the theory of business administration and economic theory, in particular welfare economics and public choice theory.
Criticisms of 'Big Government' and the Plea for a New and Modern Government

The current plea for a smaller but better government is inspired by the criticisms of 'Big Government'. These criticisms require some explanation. The background to this plea is a deeply and commonly felt desire for improvement of various aspects of the organisation of government and of public service delivery. Deficiencies are evident in these areas, deficiencies which are at least partially caused by the size of the government organisation. Logical reasoning would suggest that the size of the government should be decreased in order to improve the quality of the public services delivered to the citizens. This implies a reformulation of the well-known 'postulate of consumer sovereignty in the market place' into a postulate of citizen sovereignty in the public sector.

Why smaller but better?

Authors favouring a smaller but better government argue that the performance of smaller governments is considered to be better (either absolutely or relatively) than the performance of larger governments (see Hoggett 1991, Ringeling 1993, Bogdanor 1994 and Stretton and Orchard 1994). In the first place, the effectiveness of government policies pursued by bureaucratic government organisations is believed to increase with a reduction in government size. Effectiveness implies the best possible connection between the outcome of public policies and individual or social demand. Secondly, the efficiency of government policies is improved because of a better cost-benefit ratio in public policies. Efficiency implies the minimisation of the use of production factors in the public transformation process. Wolfson (1988, pp. 42-43) speaks of 'economic efficiency as a criterion for the demand side of public policy' and urges increased efficiency in order to achieve success.

In addition to these economic standards, two political arguments can be distinguished. A smaller government enables better democratic control. The controlling role of politicians, as both political representatives and political managers, increases as government organisations become smaller. Possibilities for discretionary behaviour of bureaucrats and maximisation of their own welfare function are limited and the results of policy implementation correspond more closely with the original decisions of the elected politicians. Not only the controllability but also the legitimacy of government organisations will be greater in the case of smaller governments.
with the behaviour of the political actors being perceived as both legal and just (accepted in law).

These political and economic policy standards for the organisation of government are related in many ways. A more efficient and effective government organisation may count on a greater legitimacy among the citizens, who must pay for the services by enforced taxation and not by voluntary market transactions. The efficiency and effectiveness of public service delivery are considered to be subjected to the 'economic law of diminishing marginal return': as the size of government increases beyond a certain critical point, this efficiency and this effectiveness decrease accordingly. The size of the government reaches an optimum, where the marginal benefits of public service delivery (in terms of efficiency and effectiveness) are equal to the marginal costs.

Some elaboration problems

The previous reasoning implies that a larger government does not necessarily mean a better government. On the contrary: beyond a certain optimum point the reverse occurs, where a better public service delivery changes into a worse system. Determination of the exact position of this optimum point poses both theoretical and empirical problems. Just as economists have yet to determine the optimum point on the well-known Laffer curve, which expresses the specific relation between the tax structure and the tax revenue for government, so political scientists have difficulty in pointing to the optimum position on the curve expressing the relation between the size of government and the quality of public services delivered by government. Empirical measurement is extremely difficult and the assumptions underlying hypotheses about the relation between size and quality become crucial.

A second problem arises, related to the previous one. When we do not know the optimum position on the curve, neither do we know whether the actual size of government is too large or too small. When objective measurement methods are lacking different individuals (citizens, politicians, civil servants and scientists) hold different assumptions, and different assumptions produce different outcomes. There is some evidence that in Western Europe, many countries take a position above the optimum point on the curve, and consequently the size of government should be diminished in those countries.

In the school of public administration and public finance at the University of Twente, much empirical research has been conducted on various aspects of the effectiveness and efficiency of public policies and of public provision versus market provision of goods and services. Many case studies have been
carried out, but they have not yet resulted in general conclusions about the optimal contents of public policies and about the optimal size of government or the range of tasks to be performed by government. A comparable conclusion can be formulated for the size and tasks of the non-commercial institutions of private initiative in the Third Sector (see Boorsma and Van Mierlo 1992).

The general policy objective of a 'smaller but better government' has been a continuous source of inspiration for twenty five years of attempts at public management and public organisation reform in the Netherlands. These attempts, started as early as the late 1960s, were reformulated in the so-called 'Big Operations' in the late 1970s and 1980s, and have been reformulated again in the early 1990s under the overarching umbrella of 'Big Efficiency Operation'. Progress has been moderate, mainly due to problems with making political choices, slow procedures of political decision-making, bureaucratic resistance and vacillation among the public. The conclusions of empirical research are contradictory and often disappointing, in particular with regard to criteria such as effectiveness and efficiency, political and financial controllability, and the democratic legitimacy of government. Approaches to the problem which emphasise economic rationality are insufficient because they neglect aspects of political rationality and political power, such as the distributive problem of 'winners and losers' (Van Mierlo 1990a).

The Netherlands: An overview of Public Management Reform

Already at the end of the 1960s, public management reform was at the top of the political agenda in the Netherlands. 'Reorganisation of the civil service of central government' became a popular theme. The following section is based on the summary presented by Tjeenk Willink and Hupe (1991). There is a direct connection between the Committee for Interdepartmental Task Distribution and Coordination (in Dutch: 'Commissie Interdepartementale Taakverdeling en Coördinatie', CITC), publishing its first report in 1971, and the Committee Main Structure of the Central Government Service (in Dutch: 'Commissie Hoofdstructuur Rijksdienst', CHR), reporting ten years later.

The functioning of the civil service of central government is considered to be the main difficulty. This problem is thought to be concentrated in the stage of policy-formation. The solution has been sought in organisational changes. These organisational changes have to be realised at the level of the Cabinet: the Council of Ministers, specific sub-councils of this Council, and
in interdepartmental committees. The Project Reorganisation of the Central Civil Service (1982-1985) will be discussed in some detail in the next section. This Project also embodied the first attempt to accomplish substantial changes according to a rational plan. This first attempt at planned change was the direct result of the approach employed by the CHR.

By contrast with the CITC, the CHR ended each stage of its activities with the publication of a report. These reports had the objective of stimulating public reactions and political discussion. Tjeenk Willink and Hupe (1991, p. 22) stress some other differences. The CITC limited itself to an inventory of problems at the stage of policy-formation and formulated recommendations for the central civil service as a unit. With political support and bureaucratic co-operation, these recommendations could have been executed. The CHR considered the reorganisation of the civil service as a permanent process, whereas the CITC used a programmatic approach which necessitated a separate and temporary provision. In the opinion of the CHR, reorganisation implies not only organisational measures but also a change of attitude and hence touches upon the culture of organisations. The Committee suggested that these structural and cultural elements should be elaborated in a cohesive plan aiming to strengthen the civil service's own capabilities for reorganisation in such a way that the change process could eventually be embedded in the organisation of the central government.

The attempt to bring about tangible improvements based on the solutions suggested by the CHR failed in three respects. First, the conditions necessary for successful planned change were not identified. It was not recognised that planned change is only possible when the measures to be taken, the organisation responsible for the implementation process and the organisations which were the object of planned change are in accord. The selection of the sub-projects and the formation of the project organisation took place along separate lines and, as a consequence, a clear strategy for change could not be developed.

Second, serious doubts arose about the status of the analysis and about the effectiveness of the measures recommended by the CHR. On publication of the first report of the CHR, some critics already asked whether the systems approach adopted in this report was a suitable model for analysis of government organisations.

Third, the CHR changed emphasis during the process of reorganisation. The problems in the upper echelons of the civil service took precedence, with the relationship of the civil service with the political and social environment receiving less and less attention. Thus, the original external orientation of this first planned public management reform was replaced by a more internal orientation, as the reorganisation process continued.
In a background study by Tjeenk Willink (1980), a different starting point of analysis is employed. In this study a dilemma is recognised, a dilemma which arises because the government is part of the reorganisation process and at the same time the manager of change processes and procedures who has to stand above all other parties in the change process (the problem of the 'playing referee'). This dilemma cannot be solved by measures applied only within the central civil service. The political and social environment of the civil service is more than just a difficult side condition. This recognition has been elaborated further in the reports published by the special government commissioner, who was appointed in 1982. In all these reports open relations are a central theme: relations between bureaucrats and politicians, between politicians and non-governmental organisations and also between these organisations and the civil service. Van Esterik (1987, p. 26) quotes Tjeenk Willink as follows: 'These relations have never been the primary object of change. Nobody is responsible for them.' The various analyses of the government commissioner Tjeenk Willink have been welcomed with much enthusiasm, but the solutions and remedies he suggested during his time in office have never been implemented.

'Big Operations' at the central government level

In the 1980s so-called 'Big Operations' started at three levels of the public sector: at the central government level, at the local government level and in the third sector of non-commercial institutions of private initiative (see Van Mierlo 1993c). The 'Big Operations' at the Central Government level started under the first Lubbers Cabinet in 1982 (see Van Nispen and Noordhoek 1986). These Big Operations at the central government level include:

1. Reconsideration of Public Expenditures (Van Nispen 1993);
2. Reorganisation of the Civil Service of Central Government (Kickert 1993);
3. De-regulation of Government Intervention;
4. Decentralisation of Central Government Tasks;
5. De-bureaucratisation of the Government Organisation (originally defined as the reduction of the number of civil servants at the central government level by 2 per cent; the 'minus two per cent operation');

These Big Operations are connected to each other with regard to theoretical background as well as in practice. They are interrelated and were designed to strengthen each other when implemented.
Characteristics of the 'Big Operations'

The so-called Big Operations in the Netherlands were inspired by political and social developments in the United States and in the United Kingdom, where the role of government in the economy and in society had already been challenged. In these countries the challenge resulted in a radical policy change with less emphasis on governance and more on market influence, as evidenced by 'Reaganomics' and 'Thatcherism'. A few years later, arising from these new thoughts on government versus market and following the change in policy-philosophy, the extensive government intervention in the economy and society of the Netherlands was severely criticised (see Van Nispen and Noordhoek 1986; De Kam and De Haan 1991).

The first Lubbers Cabinet came into office in 1982. The cabinet immediately initiated several activities, which were collectively known as the six 'Big Operations'. Impelling these operations was the desire to adapt the functioning of government to changing opinions about its role and tasks in society. Some of these activities however, were not so new, since some of them had already been started many years before.

The quest for decentralisation is a recurrent theme in the Dutch debate on (re-)organisation of government (see Toonen, 1987). This quest was labelled 'Big Operation' in 1982. Decentralisation implies that the central government hands over existing public tasks or delegates new public tasks to lower territorial levels of government (provinces or municipalities) or to other functional public institutions (such as Chambers of Commerce, semi-public organisations implementing social security regulations, public water protection and water delivery authorities, public environmental authorities, etc.).

In the same way, the Reconsideration of Public Expenditures had already been undertaken long before the appearance of the first Lubbers Cabinet. In the spring of 1981 the first round of reconsideration resulted in the selection of thirty important policy areas for a critical re-examination of the necessity for public activities in these areas. These areas of activity were scrutinised to find ways of improving their effectiveness and efficiency (see Van Nispen 1993). Since then, these so-called 'reconsideration investigations' have been repeated frequently in order to identify a number of cut-down proposals from which the policy-makers can make a choice. Reconsideration has become a regular feature of the activities of the Ministry of Finance. The yearly Government Budget Proposals contain the results of every new round of reconsideration.

De-regulation is the third Big Operation and implies the quest for fewer and less intensive regulations by government. Almost every regulation embodies certain costs. For government the bureaucratic costs are caused by
the implementation, the control and the maintenance of regulations. Compliance with regulations also involves costs for producers and consumers. For example, private business plays an important role in the collection of the tax revenues for government (payroll taxes, sales taxes) and in the implementation of social security laws (collection of social premiums, social security payments to employees). Private firms render these services to government free of charge. Another example is the continuing intensification of environmental demands. This type of regulation results in larger burdens for firms (investments in purification installations and in clean production technologies) and for consumers (higher prices for cleaner fuel and cleaner cars). De-regulation aims at decreasing these hidden costs of regulation, measured in time and in energy as well as in money. The original policy objective of de-regulation has been the improvement of the functioning of the market sector. Later on, improving the quality of regulation became the primary objective of de-regulation so that unnecessary, unworkable and counter-productive rules could be eliminated from the legal system.

The fourth Big Operation is directed towards the *Reorganisation of the Civil Service of Central Government*. As we have seen above, in the Netherlands the origins of this activity can be traced back to the late 1960s. Initially, the policy objective was to improve the steering capacity of central government. Later on, the policy objective shifted towards the management of government organisations. Various organisational measures had to be taken in order to improve the efficiency of the civil service. More emphasis is now placed on entrepreneurial and market-oriented functioning of government.

*Decreasing the number of civil servants* was labelled as the fifth Big Operation. During the first term of office of the Lubbers Cabinet, this was called the 'minus two percent-operation'. During its second term of office, the attempt to reduce the (growth in the) number of civil servants employed by central government was labelled the 'cut-down operation'. In the period 1983-1986 this 'minus two percent-operation' resulted in the elimination of 6,100 civil service jobs. During the period 1987-1990, the officially budgeted number of civil service positions was reduced again by 20,000.

This result has been achieved largely by the sixth and last Big Operation, aiming at *Privatisation* of government tasks. The policy objective of privatisation is to transfer tasks now performed by government organisations to private business organisations in the market sector, or to change direct government control of certain public tasks into more indirect control. Privatisation has many variations, for example the direct transfer of public tasks to the private sector, contracting out public tasks to business organisations in the private sector, and making public organisations more
autonomous, more independent, and more self-reliant (in Dutch: 'verzelfstandiging').

**Linkages and conflicts between 'Big Operations'**

The common label of 'Big Operations' suggests that all the activities under this label are combined into a cohesive package. However, this is not the case. These operations seem to contradict each other in many respects and they sometimes conflict. For instance, experiences in the United States and in the United Kingdom have shown that privatisation of certain public activities may be accompanied by an extension or an intensification of the amount of regulation. Frequently, privatisation goes hand in hand with regulation instead of with de-regulation. Without supplementary regulation the objective of the particular public activity could be endangered.

Some reductions in public expenditures could only be realised by strengthening the control of central government over public activities carried out by lower levels of government. This strengthened control frustrates attempts at decentralisation. National standards for social expenditure at the minimum-subsistence level allow central government to limit the discretionary power of local governments, in order to control the total amount of public expenditures. These examples show that the policy objectives of the Big Operations may conflict. For this reason, plans to increase the discretionary power of local governments are now under preparation in the Netherlands.

Because of the fact that Big Operations were undertaken simultaneously the top management of the Dutch ministries has been confronted with enormous co-ordination problems. Agreements had to be made about the extent to which the results of a particular operation were allowed to influence the results of other operations. For this purpose, the net effects of one or more operations had to be split up into partial effects, attributed to each discrete operation. The reduction in personnel (minus two percent per operation) could be achieved because it was agreed that the employees of the privatised government organisations must be included in the cut-down operation. In fact, the number of public employees has not really decreased, but many public employees were granted a different legal status, no longer being a civil servant but a (semi) private employee.

De Kam and De Haan (1991, p. 19) state, that the undertaking of Big Operations implies a re-examination of the position and the significance of government intervention in the economy and in society. According to Van Nispen (1987, 1993), it was the critical economic situation, and not the re-examination of the role of government, which motivated the Big Operations
at the beginning of the 1980s. The budget deficit of the Dutch government was estimated to be about 10 percent of net national income in 1983. Total public debt increases every year with the amount of the budget deficit. Increasing public debt and high interest levels have caused a fast growth of public interest payments during the 1980s. In turn, these expanding public interest payments have crowded out other government expenditures. Reduction of the budget deficit in accordance with a clear and agreed time scale received top priority in the financial-economic policies of the first Lubbers Cabinet.

The second Lubbers Cabinet has continued this policy, aiming at a further reduction of the budget deficit. The cabinet followed the same policy with respect to the Big Operations. According to the coalition agreement of the second Lubbers Cabinet, during the period 1987-1990 another 26,000 positions were to be eliminated in the central civil service. Furthermore, it was emphasised in the coalition agreement that 120,000 public employees would lose their status as civil servants in 1990, due to further privatisation. During this period some large privatisation projects have been undertaken, such as the partial privatisation of the Postbank (through a merger with the Dutch private bank NMB into the NMB-Postbank and a subsequent merger with the Dutch private insurance company Nationale Nederlanden into the International Netherlands Group ING).

In general, the results and outcomes of the Big Operations until about 1990 may be considered disappointing. Decentralisation of central government tasks to lower levels of government was delayed, as has so often been the case. Political procrastination was responsible for this delay. In addition, any decentralisation is counteracted by the increasing centralisation process within the European Union structures, from national government level to the supranational European level. Periodically reconsidering public expenditure has become a routine activity, but the quantitative effects are no longer spectacular. De-regulation only plays a role in the formation of new regulations and law-making. Reorganisation of the central civil service is limited to the introduction of techniques for improving public management such as self-management and contract-management. This is important of course, but in the beginning much higher ambitions were expressed. A reduced number of central government employees must now confront new public tasks and new public policies (environmental policies and the fight against crime, for example). Privatisation appears to have been limited to some large and spectacular projects. In short, by 1990, after two Lubbers cabinets and ten years of Big Operations, no spectacular reforms had been put in place and a sense of apathy was spreading.
Towards an over-arching Efficiency Operation - and back

When the new cabinet came into office in 1989, the centre-right coalition of Christian Democrats and conservative Liberals was replaced by a centre-left coalition of Christian Democrats and Social Democrats. In the autumn of 1989, some policy shifts were decided upon. The Minister of Finance had serious doubts about the continuation of the privatisation policies undertaken thus far. In 1990, the personnel reduction operation came to an end. Instead, the third Lubbers Cabinet launched the so-called 'Big Efficiency Operation'. This operation aims at greater efficiency of central government by reducing its tasks, improving its organisational structures and its operations. In the Budget Proposals for 1991 it is stated: 'Within this framework, one can think of reorganisations, reshuffling of tasks within and between ministries, de-regulation, decentralisation, more autonomy and independence in the implementation of public tasks (if this is more efficient) and a reduction of intermediary tasks' (p. 36). According to this explanation, the various separately conducted Big Operations of the 1980s are combined in this Big Efficiency Operation.

This does not imply that the various projects have been discontinued. It appears that the Big Operations are continued in another manner. The Advisory Council for the Central Civil Service ('Adviescommissie voor de Rijksdienst', ARD) published, in June 1990, a report titled 'Advice regarding Big Efficiency and Effectiveness of Central Government' ('Advies inzake Grote Efficiency and Effectiviteit Rijksoverheid'). In this report, a Big Efficiency Operation is proposed which aims primarily at improving the effectiveness and efficiency of the organisation of central government. In this report, a specific connection is made between various forms of territorial and functional decentralisation, various forms of privatisation (autonomous and independent public bodies, self-management and contracting out), public entrepreneurship, de-regulation and de-bureaucratisation. The Minister of the Interior Mrs. Dales signed a government letter dated 2 October 1990, announcing the official start of Operation 'Big Efficiency' ('Grote Efficiency Operatie', GEO), headed by a 'Ministerial Efficiency Improvement Committee' ('Ministeriële Commissie Efficiency-Verbetering', MCEV). The policy objective of this operation was originally defined as a gain of NLG 300 million in 1994, later on in consultation with the secretaries-general of the departments reduced to NLG 150 million. This would result in a decrease in the organisational costs of the departments, of which 60 per cent could be spent by the departments themselves in order to stimulate the search for ways to improve the quality of the government organisation. Because of the small amount of money involved (originally NLG 300 million, later downgraded to NLG 150 million), this operation can be characterised as a
relatively small one, certainly when compared with the ambitious policy objectives of previous separate Big Operations.

On the one hand, in 1989 a policy shift appeared to be occurring. On the other hand, despite the political colour-change of the cabinet (from centre-right to centre-left), the previous policies seemed to be continued. Reduction of the budget deficit remained the top priority. Over-optimistic estimations of budgetary principles, over-optimistic budgetary projections for the future and shortfalls in anticipated government revenues, became apparent in 1990, with serious consequences for the national financial situation. In 1991, a so-called 'Half-term Evaluation' ('Tussenbalans') was issued, in which the policy objective of efficiency improvement was reiterated. Thus, the impression of policy continuation was reinforced. Not only the employees of the central government, but also other branches of the public sector were involved. In total, a gain of NLG 1070 million was agreed for 1994. The departments had to contribute NLG 420 million; the reduction in the costs of implementation of social security measures was to yield NLG 300 million, the health care sector NLG 300 million and the educational sector NLG 50 million. The reduction in the size of the civil service implied a loss of 9,000 positions. This would change the estimated growth of 2,000 jobs in the period 1990-1993 into a decrease of 7,000 positions. In the Budget Proposals for the year 1995, this policy has been continued.

In 1994, the Kok Cabinet, a coalition of Social Democrats (PvdA), Progressive Democrats (D66) and the conservative Liberals (VVD) came into office. This so-called 'Purple Coalition' has continued the policies for public management reform initiated by the previous Lubbers Cabinets. It appears that the policy-makers have advanced from the old-style 'Big Operations'. De Kam and De Haan (1991, p. 20) observe a tendency for policy-makers to concentrate more on specific projects. This explains why old policies sometimes receive a new label. For example: many elements of the earlier decentralisation-debate have been echoed in the debate on public policy formation for social innovation.

The Big Efficiency Operation was heralded as a super-operation. This image has not been supported by significant quantitative and qualitative policy objectives and policy results. As long as no substantial outcomes are realised, such super-operations are characterised by new labels and not by new contents. Geelhoed (1986, p. 59) speaks of 'label fraud', of a verbal exercise, and a magic game with words. This produces further confusion about the substantive reorganisation of the public sector. Merely renaming former Big Operations as new 'super-operations' will not change policy failure into policy success.

The Kok Cabinet seems to have discontinued the rhetoric of Big Operations and Super-Operations. Instead, new and more realistic initiatives have been
taken. For instance, the new cabinet recently tried to end another long debate. In July 1995, a General Civil Service ('Algemene Bestuursdienst', ABD) was constituted, headed by a newly appointed Director-General. The ABD-bureau is responsible for the professionalisation of top civil servants and for career-development programmes for these officials. Horizontal mobility of these top civil servants between the various ministries is an important policy aim. Top civil servants will no longer be appointed as employees of a specific ministry, but will be employed in this General Civil Service. The fragmentation between the ministries is being dealt with thus. The British Civil Service served as the main source of inspiration for the constitution of a General Civil Service in the Netherlands (see Kickert 1993).

Concern has been expressed about the separation of policy-making and policy-implementation. It is believed that many aspects of policy-making, including preparation for decision-making, can be concentrated in smaller ministries. Contracting out of policy-preparation and policy advice is not yet a serious option (see Boston 1994), whereas policy-implementation can be transferred to more or less independent executive agencies within or outside the public sector. Many agencies have already been established in the Netherlands, which are responsible for policy implementation in various policy-fields (especially public service delivery at the central level). However, this development has not yet resulted in smaller ministries. Moreover, these agencies are increasingly criticised because of their monopoly positions and practices. Political control of private or semi-public monopolies appears to be more difficult and less effective than political control of political monopolies.

'Big Operations' at the Local Government Level

During the 1980s, Big Operations were also undertaken at local government level, by the Dutch municipalities. These local Big Operations include: financial cut-downs, application of the benefit principle, reorganisation, reductions in personnel, de-regulation and decentralisation. At local government level almost the same Big Operations are being undertaken as at the central government level. This can be explained by two reasons. When the central government reduces its financial contributions to the Municipality Fund ('Gemeentefonds'), the financial resources of the municipalities diminish, since part of the local government income comes from this fund. The first Lubbers Cabinet urged local governments to support the Big Operations at central government level by undertaking similar operations at
local government level. This prompting has been repeated periodically, by the cabinet as well as by parliament, so that the results of Big Operations at central government level would not be eroded at local government level. Empirical investigations and surveys on Big Operations at the local government level are rare in the Netherlands. Our assessment below is based mainly on publications by the Association of Dutch Municipalities ('Vereniging van Nederlandse Gemeenten', VNG, 1986; 1987; 1990) and by Korsten (1993).

Characteristics of the local 'Big Operations'

The Financial Cut-down-Operation concerns both the revenue side and the expenditure side of the budget. These financial cut-down-operations may be described as: 'Taking measures on either the revenue side or the expenditure side of the general service budget, in order to assure a balanced budget in times of decreasing budgets' (VNG, 1990, p. 25). These cut-downs include incidental measures as well as structural measures, but also general measures and more specific measures. During the 1980s, the cut-down operations were substantial. They began with non-political, technical measures, which were widely supported. Local cut-down policies put greater emphasis on limiting expenditures than on expanding revenue since municipalities have only limited opportunities to collect their own revenues.

The Benefit Principle refers to the revenue side of the budget. Since 1982, municipalities are restricted in their budget transfers from the Municipality Fund. In the coalition agreement of the Lubbers Cabinet of 1982, municipalities were supposed to compensate for this cut-down by applying the benefit principle in the financing of their local public service delivery. The benefit principle implies that citizens have to pay for public services according to the benefits they derive from them. The benefit principle can be applied to some public services but not to others. The principle should be applied to those services for which citizens can avoid consumption and hence for which no consumption force exists (no pure collective goods but quasi-collective or individual goods). Through application of the benefit principle, taxes become prices for local public goods and services. During the 1980s, municipalities applied the benefit principle on a large scale. The percentage of costs of public services thus covered was substantially raised. In the meantime, the ideology of the benefit principle has withered away slowly (see VNG, 1990, p. 56). However, this did not prevent local governments from raising their local public prices and taxes continuously, as is shown by research of the VNG and of the National Consumer Association.

Privatisation can be defined as the process by which the task, powers and responsibilities of the public sector are diminished in favour of the private
sector (VNG 1990: p. 57). At the local level, various forms of privatisation have been undertaken: semi-autonomous and independent public bodies, devolution and contracting out. Privatisation has risen from a low position on the political agenda of municipalities in 1979 towards a high position in 1989 and afterwards. In particular, the contracting-out variant has been applied frequently. The popularity of privatisation may be explained by the long experience local governments already had with privatisation of public tasks.

Reorganisation is a Big Operation which has been undertaken since 1975 in almost every local government. Municipal reorganisations vary widely in size and style, depending on the size of local governments. In particular the classical Dutch 'secretary-services model' has been largely replaced by the modern 'sector' or 'concern model' of local government organisation. It is difficult to define criteria for success of this operation. Much emphasis is put on policy integration and on the recognition of the role of policy sectors in the stages of policy preparation and policy implementation. Consequently, the position of the municipal secretary and of the secretarial department became weaker. This structural change of the local government organisation has been elaborated in detail in the so-called 'Tilburg model' (named after the Dutch city of Tilburg, where this institutional innovation was first developed and practised).

The Personnel Cut-down Operation concerns the number of public employees. A distinction can be made between quantitative reductions, reductions of personnel as a qualitative problem, and qualitative changes in personnel policy (e.g. introduction of human resource management). In the period 1982-1988 the number of job positions at the local government level decreased by 19,500. This amounts to 8.7% of the total number of personnel (VNG 1990, p. 75). This reduction of the municipal labour force is partially caused by other Big Operations at the local government level, such as financial cut-downs. In turn, these financial cut-downs have been caused by a reduction in the proportion of local government revenues received from central government.

De-regulation implies the critical re-assessment of municipal regulations, aiming at elimination or adaptation of local government rules, or at a change in the implementation of these rules. Since 1980, the pattern of local de-regulation has remained constant. In one out of every five municipalities, de-regulation has been undertaken. Various regulations (local government regulations, local police regulations) appear to be outdated, but conditions for critical investigation were lacking in two out of every three municipalities. In many cases, even an accessible and adequate data-base of local government regulations is lacking: many local governments do not know how much local regulation is present in their own jurisdiction.
Provisional balance-sheet of local 'Big Operations'

In an unpublished paper Korsten (1993, p. 10) has made an inventory of Big Operations at the local government level, which may help us to devise a provisional balance-sheet. At the local government level, there is no sign of a 'retreat of government'. The number of local government tasks seems to have increased instead of decreased. The reductions in personnel have not yet resulted in smaller municipalities. With regard to de-regulation, no obvious reduction in local government regulations has taken place. The financial cut-down operation seems to be the most successful.

During the 1980s, governments had to cope with the effects of reduction by the central government of the Municipality Fund. Initially, these reductions concerned incidental measures, but over time they became more structural. During this period, local governments acquired expertise in undertaking Big Operations. In particular larger municipalities developed practices of critical re-assessment of current policies, in order to create political and financial possibilities for new policies. Some of these new policies, such as the maintenance of municipal sewerage schemes or roads, warranted immediate implementation, while others such as public day nursery and environmental policies were accorded political priority.

Local governments have co-operated on various local Big Operations and have frequently succeeded in their attempts. They did not become involved in lengthy and exhausting political conflicts over these operations, since the operations had mainly a technical and non-political character (as is confirmed by the reports of the VNG in 1986, 1987, and 1990). Privatisation has not proved to be a problem of ideological principles, but an issue which stems from the changing perspective by local governments, a perspective which emphasises more business-like functioning and more public entrepreneurship. The only exception seems to be the application of the benefit principle in local taxation and local public pricing. Municipalities ruled by left-wing politicians try to postpone tax increases, for example higher housing rents, in accordance with their political ideology. The non-political nature of many Big Operations has not affected citizens. Empirical research by Tops et al. (1991) shows that Dutch citizens are satisfied with the quality of local public service delivery but not with their local politicians. Reducing local government expenses has resulted in a reduction in staff levels. Initially, the effects of staff reductions have been spread over all policy sectors, but recently, more strategic choices between policy fields had to be made.
'Big Operations' in the 'Third Sector'

The Dutch non-commercial institutions of private initiative in the Third Sector of the economy serve an important function in the execution of public tasks, in particular in the policy fields of health care, education, housing, and social services (see Van Mierlo 1989; 1990b; Van Mierlo and Gerrichauzen 1988). In exchange for their responsibility in performing public tasks, they are subsidised by central and local governments. During the 1980s, these private institutions were also involved in Big Operations. They were affected directly by the consequences of the Big Operations at central government level. Financial cut-downs, application of the benefit principle, privatisation, reorganisation, staffing reductions, decentralisation, and de-regulation were imposed on the private institutions. On the one hand, they were stimulated or even forced to put their own affairs in order by an inconsistent government (advocating less subsidisation and at the same time, greater government control). On the other hand new competition from firms in the market sector served as an important incentive towards streamlining.

The central government attempted in the 1980s to use the subsidisation of private initiative for performing public tasks as a policy instrument with which to improve the efficiency and effectiveness of the public activities of these institutions. For this purpose, new methods of financing the institutions were developed. The most important new method of finance is so-called external budgeting. The enforcement of a regime of external budgeting may be considered as the most important Big Operation in the third sector. Some of these developments started autonomously and indigenously in the third sector, others were initiated by central government.

Budgeting in second-line health care

Second-line health care in the Netherlands includes the hospitals and the nursing-institutions. In the 1970s, production of goods and services in these institutions was accompanied by substantial negative internal effects and dysfunctions. There was a continuous demand for the expansion of service provision. Some evaluation of the efficiency of service delivery was carried out but not regarding the effectiveness of these services. Decisions were taken by the medical profession and were automatically financed as a consequence of the so-called 'declaration system'. The expanding costs of second-line health care provisions during the 1980s resulted in new government measures. In 1983, the existing system of process budgeting of health care provisions was replaced by a system of input budgeting. This input
budgeting, however, had the disadvantage of freezing the unequal original positions of hospital and nursing-institutions for many years. Input budgeting is not suited to dynamic financial adaptations to changing demand. Among the institutions and professionals in the policy field, there was a strong conviction that this budgeting system contained unjust elements. After a few years, the negative reaction led to the introduction of so-called 'function-oriented budgeting'. In this budgeting method, process characteristics are taken more into account without returning to a declaration system. The closed-finance characteristics of external budgeting are thus combined with elements of process budgeting.

External budgeting, also known as 'task-assigning budgeting', implies that the total budget of a subsidised private institution is restricted to a certain maximum. This maximum is derived from a maximum number of medical activities (volume-component), multiplied by a certain price factor (price-component). Exceeding the maximum number of activities will not be financed by supplementary budget financing by government. Beyond a certain historically or politically determined maximum, budgets and activities are restricted. The policy objectives of this restriction are the following:

1. Control of the cost developments in health care.
2. External budgeting is considered as an effective policy instrument to stop cost expansions and to realise effective cost cut-downs.
3. Decreasing the strongly intensified regulation of the health care system.
4. External budgeting implies also the elimination of many rules, by which the costs of regulation can be decreased, resulting in a cost reduction without endangering the quality of the service provision.
5. Expanding the local policy discretion of hospitals and nursing institutions.

By eliminating detailed rules, hospitals are enabled to take autonomous and independent decisions about the allocation of their resources. Resources can be reshuffled between various type of costs, and also between various categories of patient. This may also result in the integration of the financial-economic policies of the hospital and the medical service provisions, by the hospital management and by the medical profession in the hospital.

External budgeting appears to have affected the volume and the costs of medical production in the Netherlands (as reported by the empirical research of Maarse). In the 1980s, volume and costs showed a downward trend. On the other hand, it is not easy to attribute the various financial effects to the budgeting measures adopted by government. Causal relations cannot always
be determined empirically or made plausible by theoretical arguments. Moreover, it seems necessary to improve the internal planning and control systems of hospitals. This need emerges because of the slow progress of the system of reform in Dutch health care and because of the recent rise in operation costs, which will affect local negotiations between suppliers of health care and the financiers (public and private insurers). Due to these developments, the management of the health care institutions will be forced to pursue a coherent policy. Within this policy the quality of the service delivery, the effectiveness of medical treatment, and cost factors have to be balanced against each other.

**Budgeting in academic education**

Since the 1980s, the financing system of Dutch universities has undergone various substantial changes. Many of these system changes have been initiated by central government. This was considered necessary because the government budget for education was decreasing and because policy-makers believed it desirable that universities improve their efficiency and effectiveness. Universities had a strong financial incentive to retain students for as long as possible. Within the university sector there was no available data about the specific numbers of personnel employed for teaching, for conducting research and for rendering services. There was therefore no incentive to increase the efficiency and effectiveness of public task performance.

To overcome these problems, two measures were introduced by the Ministry of Education. In 1983, a system of conditional finance was introduced, in which output data decided the budget determination for research. The remaining tasks were made visible and were financed in a separate model, the so-called Positions Money Model ('Plaatsen-Geld Model', PGM). In this model of budget determination, university-specific circumstances are taken into account. The corresponding allocation model attempted to approximate the real cost-structure of academic education and research. However, this attempt resulted in a very complicated budget system. University policy-makers experienced difficulty in deciphering the budget system. Consequently, the budget allocation could be less easily influenced by the behaviour of actors within the universities, both managers and the professionals. Due to these problems, the PGM-model was discontinued as a control instrument.

In January 1993 a new finance model was introduced, the Higher Education Finance Model ('Hoger Onderwijs Bekostigingsmodel', HOBEK). The model advocated financing by process budgeting. In the HOBEK-model, the emphasis is shifted to output budgeting based on numbers of graduates,
number of PhD dissertations, and centres for research. Because of the emphasis on output budgeting, universities have more freedom to select the methods for implementation of the public tasks. This is strengthened by the increased freedom for universities to spend the lump-sum budget according to their own policy objectives. The HOBEK-model is less suitable for application as an internal budgeting system (only 31 per cent of the resources are allocated to education activities). Hence, universities have to construct their own internal budgeting models, which correspond better with their particular circumstances. This could reinforce considerably the movement towards increasing autonomy for universities.

The new model was also an attempt to render incidental rounds of financial cut-down superfluous. The financial instrument of the PM-model had not realised the large financial cut-down which had been agreed during the 1980s. In 1983 the operation Task Division and Concentration ('Taakverdeling en Concentratie', TVC, achieving budget gains of NLG 258 million) and in 1987 the operation Selective Shrink and Growth ('Selectieve Krimp en Groei', SKG, budget gains of NLG 129 million) were implemented. At first sight, these two operations appear to have had other positive effects: more students, more publications and more contract research. Unfortunately, there were also negative effects: less funding to enable teachers to support the students and high administrative costs, the latter due to the disturbance and resistance in the universities provoked by these incidental operations. Quantitative improvements seem to have been realised at the cost of qualitative deterioration. Further improvement of the budgeting techniques is necessary. Improving the budgeting system in the HOBEK-model makes it no longer necessary to rely on incidental financial cut-down operations when governments face serious financial problems.

Provisional balance-sheet of budgeting operations within the Dutch public service

The effectiveness of budget systems is determined by a multiplicity of factors, which must be taken into account in constructing the system. The diversity of budget systems becomes apparent in comparing different budgeting experiences. In particular the following three factors seem important:

1. The strategy of the budget supplier.

In addition to the financial cut-down target, government employed various other policy objectives in different branches of the Third Sector. In the second-line health care, external budgeting was introduced, whereas in
university education a deliberate choice was made to adopt process budgeting.

2. The technical characteristics of the production process of the budgeted institution.

Measurability of output and visibility of the production process determine largely the possibilities for the application of budget systems. In these respects, medical production differs from the production of education and research, and this explains partly the choice of different budget systems for the two sectors.

3. The (potential) reactions of the budget receivers to the budget system.

These reactions may be positive but they may also be negative. Many adaptations of the budget systems in the second half of the 1980s can be explained by the negative reaction to the introduction of budget systems during the first half of the decade.

The Issues of the 1990s

The Big Operations of the 1980s at central government level, at local government level and within the third sector have contributed to a greater awareness of the standards demanded by government and an improvement in the organisation and of the policies of government. Three major issues dominate the public management reform agenda of the 1990s, namely, professionalisation of the civil service, strengthening the client orientation and improving the productivity of public organisations.

Professionalisation

Bureaucratic organisations of government are being rapidly professionalised. Public organisations are subject to the same externalities as private organisations. The level of education of the labour force has increased due to expansive technological developments at the supply side of the economy. The educational level of civil servants and of public professionals has risen correspondingly, as the demands imposed by the public and by the politicians on bureaucratic service delivery increased. In 1989, of the job vacancies for newly recruited civil servants 29 per cent was reserved for vocational trained employees and 35 per cent for academics. This means that
only a minority (37 per cent) of job vacancies at the level of central government were open to applicants without a higher education (see Ministry of the Interior, 1988 and 1990). This tendency has continued in the 1990s. In addition, in-career development activities at all levels of the civil service have increased enormously. The growth of specific training and education programmes in public administration (as measured by the number of institutions, courses and students) is spectacular. These are all indicators of a rapid professionalisation of the government bureaucracy. Similar developments are occurring in the third sector of non-commercial private institutions.

Problems have been encountered because professionalisation is scarcely compatible with the hierarchical structure of bureaucratic organisations. Professionalisation implies that the civil servant does the assigned tasks on the basis of professional expertise and can be relied on to do so. Thus, professional values may sometimes conflict with the commands given by hierarchical superiors. This problem has already been recognised in organisational theory (see, for example, the various publications of Mintzberg), but there is evidence that government bureaucracies still display insufficient sensitivity and attention to this problem of conflicting competencies.

Handling conflicts between hierarchical competence and professional competence should be part of the professional training of both superiors and subordinates in the government bureaucracy. The Big Operations of the 1980s did not seem to recognise this problem since these operations aimed mainly at changing the bureaucratic structure of government organisations and not their bureaucratic culture. In the 1990s, further professionalisation and a change of bureaucratic culture are essential elements of the concept of 'public entrepreneurship' as advocated by writers such as Osborne and Gaebler (1992) and by Dutch public management consultants such as Boer and Croon (De Waal et al. 1994).

**Strengthening client orientation**

Increasing client-orientation of bureaucratic activities is an important element of the professionalisation of public officials, particularly when their daily activities imply direct contact with the public. The entrepreneurial business manager, who is forced to continuously increase the firm’s client orientation because of the disciplining powers of the market, serves as a model for client orientation of government organisations. On the other hand, this also may aggravate the potential tensions and conflicts between politicians and hierarchical superiors in the bureaucratic organisation, and the public, for whose benefit the professional bureaucrat works.
When the demands of the clients are unclear or ambiguous, or when the demands of the politicians contradict those of the public, the public employee is faced with a problem. Which demands ought to be satisfied, and against which standards and criteria will activities be judged? Again there is evidence that the bureaucratic government organisation pays insufficient attention to such problems. Civil servants run the risk of being caught in this Catch-22 situation. This dilemma cannot be completely resolved. Either the public direct the bureaucrats, as is the case with private firms in the market sector, and bureaucrats comply with public preferences, or the sponsoring politicians are the puppet-masters and bureaucrats comply with their preferences. Modern public organisations are expected to obey two masters at the same time. Inherent in public entrepreneurship is the existence of double command structure. When bureaucrats are forced to become public entrepreneurs, they have to learn how to overcome this problem. Accordingly, public management reform in the 1990s should pay great attention to the resolution of this dilemma.

**Improving productivity**

Another element of professionalisation is the increasing pressure on the bureaucrat to improve productivity. When the tasks of government grow in number but the number of bureaucrats available to fulfil these tasks decreases, the work-load of each bureaucrat increases accordingly. Most of the bureaucratic activities consists of public services which are subject to 'Baumol's Law'. Baumol (1967) has emphasised the existence of a fundamental dichotomy in the supply structure of the economy: the divergence between sectors with a fast labour productivity growth and sectors with a slow labour-productivity growth. Sectors with a fast technological innovation, much accumulation of capital and large economies of scale generally show a fast productivity increase. In labour-intensive sectors of the economy, in particular in the service sector, labour-productivity growth generally lags behind. Service production offers fewer possibilities for improving technological efficiency than industrial production. In addition, there are social and allocative limits to wage differences between both sectors. When quality is constant, the costs of service production will rise relative to the costs of industrial production. The public sector, which is dominated by service production, suffers severely from this slow labour-productivity growth. The differential development in labour-productivity between the public sector and the industrial sector leads Wolfson (1988 p. 154) to the conclusion that: 'this difference may contribute to the development of the public sector into a garbage can of bad bargains'.
In addition, the empirical measurement of labour-productivity is very difficult because of the service character of bureaucratic activities. This difficulty is confirmed by various studies of the Dutch Social and Cultural Planning Office (1989; see also Van de Kar 1981; 1983; 1984; De Groot and Goudriaan 1991). If measuring the labour productivity of the civil service is hardly possible, it is unreasonable to judge the functioning of bureaucrats on this criterion. A choice must be made. If the labour productivity of civil servants cannot be increased, the cost of each civil servant must be decreased by reducing their salaries. But this poses a different problem. If the salaries of civil servants, in particular of those in the higher ranks, diverge too much from salaries earned for comparable work in the market sector, a massive exodus of public employees towards the market sector will take place. This applies particularly to the financial-economic branches and information-technological sectors. Labour productivity of the civil service is an important theme of public management reform in the 1990s. However, it must be borne in mind that success will be limited by the effects of Baumol's law.

Conclusion and Outlook for 2000

The history and analysis of twenty five years of public management reform attempts in the Netherlands brings us to the following conclusions.

1. As the Big Operations have shown, public management reform is not an isolated process. Demands on public organisations, formulated by society, will increase in number and intensity. These demands will also become increasingly more heterogeneous. Accordingly the specific contents and policy objectives of reform activities will become more varied and more complex. In a world of perpetual transformation, the management of public organisations will be forced to facilitate continuous organisational change. Public management reform and public reorganisation will be constantly necessary in order to enhance the strategic management and innovative capacities of public organisations.

2. The results of individual public management reform operations will have to be measured and standards strictly enforced. The management of public organisations must pay more attention to this aspect, as should politicians and the public. If not, public management reform and public reorganisation will become harmless political rhetoric, without any positive effect on the practice of public administration and public policies.
3. There is a need for much more debate on the contents of public management reforms and public reorganisation. The policy objectives, the policy instruments and the time scale should be agreed with the public employees involved and with the clients of the public organisations. In modern society, vertical and hierarchical authority relationships between the administrators and the administered, between politicians and bureaucrats, bureaucrats and the public, and politicians and the public, are being replaced by horizontal, more democratic relations involving increased consultation and negotiation. Success or failure of reform operations is determined by active involvement of the professionals within public organisations as well as the clients and the public outside these organisations. This implies that issues of external management and external relations in public management reform are more important than issues of internal management and internal relations. In addition, public management reform should be managed by a process approach and not by a programme approach. Synoptic-rational planning techniques will have to be replaced by various forms of mixed scanning, interactive planning and co-operation in horizontal policy networks. Success and failure of public management reform and public reorganisation will depend on harnessing the support and co-operation of all actors involved.

4. The most important question remains: will public management reform serve as a tool for administrative innovation in the public sector or as symbol of political rhetoric? The answer depends on developments in the areas of professionalisation of the civil service, strengthening the client orientation and improving the productivity of public organisations. The definitive answer will be determined by the search for a dynamic equilibrium between, on the one hand, political and administrative ideals and ideologies, and, on the other hand, political and administrative interests. It is vital that administrators continue searching for such a dynamic equilibrium, and that they learn from their mistakes. The history of public management reform and public reorganisation in the Netherlands shows how difficult this is and the future looks equally complex.

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