

# EUROPEAN POLICYBRIEF



Coordinating for cohesion in the public sector of the future (COCOPS)

## The responses of European governments to the fiscal crisis

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This policy brief summarises the findings of a large-scale comparative study on the responses of governments to the recent fiscal crisis in 14 European countries by focusing on the contents of consolidation measures, cutback decision-making patterns and the effects of the crisis on public administration and management.

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### FISCAL CONSOLIDATION IN EUROPE

The recent global financial and economic crisis, followed by the fiscal crisis, have lifted the topic of cutback management on the political agenda, as many governments in Europe and elsewhere either plan or have already implemented austerity measures in order to cope with the concurrent problems of lower revenues and high public deficit and debt. The existing studies show that up to now the government responses to the crisis have been diverse and in many cases even diverging. Although the number of single-country studies in the field of public administration addressing the recent crisis has been rapidly growing during the past couple of years, there still is a lack of comparative studies. The COCOPS project attempted to address this shortcoming and carried out a comparative study of fiscal consolidation in Europe based on a common research methodology.

The COCOPS project aimed to comparatively investigate how a variety of European countries have dealt with fiscal consolidation between 2008 and 2012. More specifically, the goal was to describe and explain similarities and differences between country responses and to explore the effects of the crisis on public administration and management. A literature review of the cutback management in the 1970s and 1980s was carried out to build an analytical framework for the comparative study. The empirical study was based on three sources: country reports, academic country case studies and the COCOPS survey carried out in WP3. The survey was based on the answers of 4,814 senior public sector executives in ten European countries. Among its main focus on public sector reform, it explicitly addressed the impact of crisis on public administration. The country reports and case studies covered 14 European countries (Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, the Netherlands, Slovenia, Spain and the UK). The analysis led to the compilation of a comparative report, "Fiscal Consolidation in Europe". The policy brief at hand summarises the findings and lessons learned of the comparative study on the governments' responses to the fiscal crisis.

## CONSOLIDATION MEASURES

Consolidation measures can be divided into expenditure and revenue measures, the former including cuts in government operational expenditure, programmes and investments, and the latter entailing revenue-enhancing measures most often by means of tax increases. Although all studied European governments made use of both, expenditure and revenue measures, the project focused upon expenditure cutbacks.



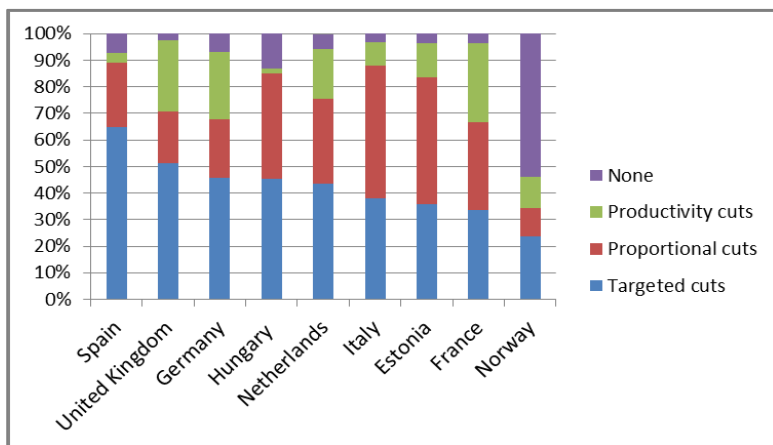
**Figure 1: Cutback measures applied during the crisis in 9 European countries (1=not at all; 7=to a large extent).**

The comparative study and the COCOPS survey of European public sector executives demonstrate that during the fiscal consolidation, public

sector **hiring freeze** was the most widely applied measure in Europe. In some countries the period for hiring freeze was explicitly fixed, whereas in others its duration was treated more flexibly. Also, a great majority of European governments had to **cancel or postpone new policy programmes** and **cut expenditure on the existing programmes**. Cuts in programmes were most intense in the health sector and social security, in total making up the biggest share of expenditure reductions in most of the countries. In order to achieve cuts on government spending, **downsizing back-office functions** was applied more often than **downsizing the frontline staff** involved with delivering public services. **Pay freeze** was also applied rather extensively during the retrenchment, especially so in the UK, Spain and Estonia; on the contrary, pay freezes were not common in Norway and Germany. Real **pay cuts** have been rather exceptional, as they occurred at a more substantial level only in Estonia, Lithuania and Spain. Countries which had to seek financial assistance from the IMF and the EU, such as Hungary, Ireland, Italy and Spain, were requested to implement pay cuts in return. Germany, on the other hand, has a specific civil service system which prohibits wage reductions and even pay freeze. Lastly, **reduction of staff** has been perceived as a measure not used to a great extent in general, but in Estonia and in Lithuania extensive layoffs were applied at the very beginning of the retrenchment.

## CUTBACK DECISION-MAKING

In cutback decision-making, the basic distinction is made between across-the-board (proportional) and targeted cuts. Across-the-board measures refer to cuts in equal amounts or percentages for all institutions, while targeted cuts imply that some institutions and sectors face a larger cut than others.



**Figure 2. Perceived types of decision-making by European public sector executives.**

Our findings show that European governments applied different types of cutback strategies during the crisis. As shown in the figure, Norway yields the highest outcome of “no cuts”, as the country has hardly experienced an economic and fiscal crisis. The drastic and fundamental cutbacks taking place in Spain and the UK are confirmed by the relative-

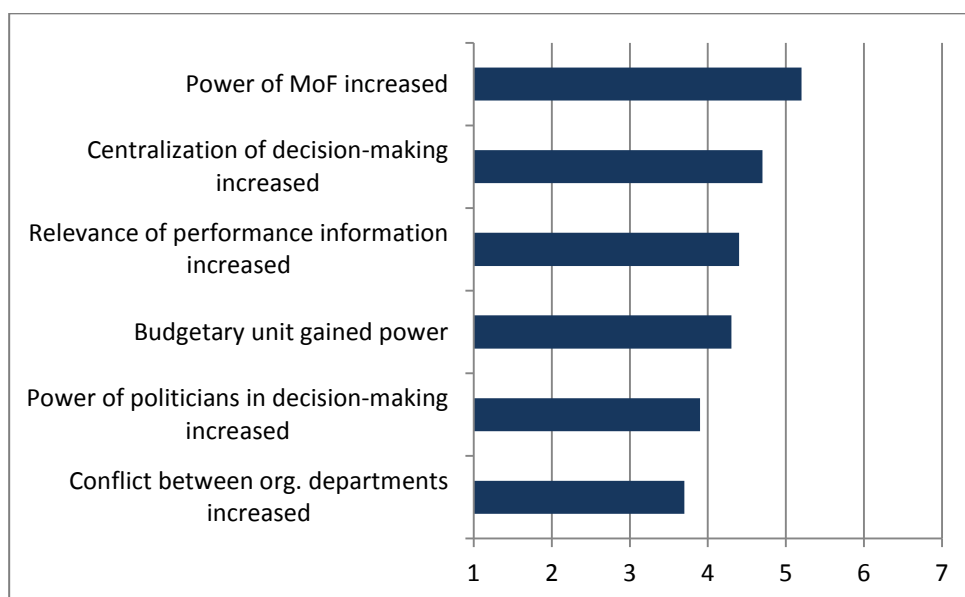
ly high share of **targeted cuts**. At the same time, in Estonia and Italy severe cutbacks were carried out by using predominantly **across-the-board cuts**. In other countries like Germany, the Netherlands and Hungary, the relatively large share of targeted cuts is combined with a considerable share of proportional cuts. Interestingly, productivity cuts make up the smallest portion among different strategies in all countries except France. The survey results also show that it is rather difficult to draw a clear line between targeted and across-the-board cuts. Most often, governments tend to use a combination of the different strategies.

The comparative study indicates that the contents of consolidation measures as well as decision-making strategies were not only influenced by the financial-economic situation but also by political-administrative factors including, for example, the composition and prevailing ideology of ruling governments, electoral cycle and the relative power of the key decision-makers. Applying cutback measures during the fiscal crisis was not a one-off event, but consisted of a series of stages in the majority of European countries. At first **denying or delaying the cutbacks** prevailed, and only temporary and small measures were undertaken, materialising in **moderate adjustments**. In the later stage, a gradual recognition of the severity of the fiscal crisis and compliance with the necessity of cutbacks could be traced, leading to first attempts at **serious cutbacks**. Thereafter rather resolute cutback decisions were taken – first across-the-board efficiency-cuts, followed by targeted downsizing, and ultimately leading to **fundamental political priority-setting**. As an exception to this general trajectory, some countries hit hardest by the crisis, such as the Baltic states as well as Southern European countries, reached the stage of serious and resolute cutbacks faster. In the bail-out countries, the conditionality of the Troika of IMF-EU-ECB forced governments to apply immediate cutbacks including targeted cuts and fundamental priority-setting. Besides the immediate conditionality of the Troika, also the EU pressure to keep within the Maastricht budget deficit limit was influential in guiding the cutbacks in European countries. Also the developments in the worldwide economy clearly affected the state of economy and public finances in several European countries. The swift economic recovery of Germany, accelerated by rising exports to Asia, also facilitated the economic recovery in neighbouring countries.

**Table 1. External influences to European governments during the crisis.**

	BE	DE	EE	ES	FR	HU	IE	IS	IT	LT	NL	SI	UK
<b>Impact of worldwide economy on swift recovery</b>	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	No	No
<b>Influence of the EU-budget deficit</b>	Large	Small	Large	Large	Small	Large	Large	n/a	Large	Large	Large	Large	Large
<b>IMF, ECB and EU conditionality</b>	No	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No

The study addressed the impact of the fiscal crisis on patterns of public management and administrative reforms that have occurred during the retrenchment (and in some cases in the immediate years following the cutbacks).



**Figure 3: Dynamics of decision-making during the retrenchment (1=not at all; 7=to a large extent).**

The study shows that the **power of the Ministry of Finance (MoF)** increased in all countries during the era of retrenchment. Also, the **centralisation** of decision-making occurred in most of the countries. **Performance indicators** received more

importance during the crisis-time budgeting and decision-making processes. Likewise the **role of budgetary units** in public sector organisations increased as a consequence of crisis. Interestingly, the increase in the power of politicians was not very strongly perceived by the public sector executives. The country studies reveal that **the impact of the fiscal crisis on public administration reform** was the largest in the countries that were most severely hit by the crisis and had been compelled to request foreign financial assistance, such as Iceland and Ireland. For the bail-outs by IMF-EU-ECB, these countries were conditioned not only upon severe budgetary cuts, but also upon administrative reforms. In other countries, the impact of fiscal consolidation upon public administration was less evident. In a number of European countries, the important administrative reforms had already been initiated before the outbreak of the crisis. In some cases, the already on-going administrative reforms were enhanced by the fiscal crisis, thus showing only a weak and indirect link between the crisis and administrative reform. Although several European countries showed tendencies towards centralisation – strengthening of central (financial) control over public agencies and local governments, search for improved coordination at the centre of government, rationalisation of public sector organisation (mergers of agencies) and downsizing back-office functions via the creation of shared service centres – it is yet not possible to draw broader generalisations about certain crisis-related reform trends in Europe.

**Table 2. The implications of the fiscal crisis on administrative reforms.**

	BE	DE	EE	ES	FR	HU	IE	IS	IT	LT	NL	SI	UK
Crisis caused new reforms	-	-	-	+	-	+	+	+	+	+	-	+	+
New reforms planned	-	-	-	+	+	+	+	+	+	+	-	+	+
New reforms carried out	-	-	-	+	-	+	+	+	-	+	-	+	+
Crisis boosted existing reforms	-	+	+	+	+	+	-	-	-	+	+	-	+
Crisis hindered existing reforms	+	-	-	-	-	-	+	-	-	-	-	-	-
Postponement of existing reforms	n/a	-	+	-	-	-	-	-	-	-	-	-	+
Cancellation of existing reforms	n/a	-	-	-	-	-	+	-	+	-	-	-	+
Crisis and reforms were unrelated	-	-	-	-	+	-	-	-	-	-	-	-	-

## LESSONS LEARNED

- **Short-term savings during the crisis may lead to long-term costs.** Cutback management is likely to require difficult trade-offs between short-term and long-term goals, and between organisational present and future capacity. It is crucial not to limit cutback management to short-term budget cuts but to handle it as the management of the organisational resources for the long term (also including the after-crisis period), as the short-sighted approach may lead to solving wrong problems or making the current problems even worse.
- **There is an urgent need to make rational decisions during the cutbacks, but meanwhile, the needed resources (time, people, finances) for rational decision-making may be limited.** During the retrenchment, organisations tend to fall short on critically needed skills but are at the same time unable to hire (or train) people with these necessary skills. There is a need for high-level expert advice when the best experts can be overburdened and/or demotivated. When public organisations need the analytical capacity the most, they may not be able to afford it.
- Sooner or later across-the-board and incremental cutback decisions will become insufficient to turn the fiscal tide. The longer-lasting and the more severe fiscal stress is, the more likely it is that the governments start imposing targeted cuts. Moreover, **fundamental political priority-setting is necessary** to arrive at far-reaching and drastic spending cuts to address the mounting fiscal crisis. The basic dilemma is between the seeming incapability of several European governments to take swift and drastic measures and the ultimate inevitability of such decisions.
- The contextual factors that define the depth of the crisis and hence shape the response(s) to the crisis are vastly different due to country-specific features. Consequently, instead of searching for simple solutions from the experience of other countries, politicians and public managers are expected to localise the specific context of crisis and undertake appropriate measures for retrenchment. **No prescribed tools exist for fiscal consolidation, and every government must find its own strategies and instruments** to fight its way out of the crisis.
- When compared to previous eras of austerity, today's public managers have to deal with a much wider scope and variety of actors when managing cutbacks. Because of the highly complex linkages between states, markets and citizens in the contemporary world, the countries are less "isolated" and **the role, power and authority of the international institutions must be considered more than ever before.**

- The crisis context requests public managers to be inspiring leaders and take an encompassing view, as besides straightforward cutback issues they are faced with **rediscovering and rebuilding values, integrity, legitimacy and trust in government and its institutions.**

## PROJECT IDENTITY

<b>Project name</b>	Coordinating for cohesion in the public sector of the future (COCOPS)
<b>Coordinator</b>	<p>Steven Van de Walle, Erasmus University Rotterdam, Department of Public Administration, Rotterdam, Netherlands, <a href="mailto:vandewalle@fsw.eur.nl">vandewalle@fsw.eur.nl</a></p> <p>COCOPS WP7 was led by Tallinn University of Technology (Prof. Tiina Randma-Liiv, Dr. Ringa Raudla, Riin Savi) in close cooperation with Erasmus University Rotterdam (Prof. Walter Kickert).</p>
<b>Consortium</b>	<ul style="list-style-type: none"> <li>• Bocconi University, Department of Institutional Analysis and Public Management &amp; Centre for Research on Health and Social Care Management, Milano, Italy</li> <li>• Cardiff University, Public Management Research Group, Cardiff Business School, Cardiff, United Kingdom</li> <li>• Corvinus University Budapest, Department of Public Policy and Management, Budapest, Hungary</li> <li>• Erasmus University Rotterdam, Department of Public Administration, Rotterdam, Netherlands</li> <li>• Hertie School of Governance, Berlin, Germany</li> <li>• Katholieke Universiteit Leuven, Public Management Institute, Leuven, Belgium</li> <li>• Tallinn University of Technology, Ragnar Nurkse School of Innovation and Governance, Tallinn, Estonia</li> <li>• University of Bergen, Department of Administration and Organization Theory, Bergen, Norway</li> <li>• University of Cantabria, Department of Economics, Cantabria, Spain</li> <li>• University of Exeter, Department of Politics, Exeter, United Kingdom</li> <li>• University Paris II &amp; Centre national de la recherche scientifique (CNRS), Center for Studies and Research on Administrative and Political Sciences (CERSA), Paris, France</li> </ul>
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<b>Further reading</b>	<ul style="list-style-type: none"> <li>• R. Raudla, R. Savi and T. Randma-Liiv. 2013. Literature Review on Cutback Management. <a href="#">COCOPS Research Report</a>.</li> <li>• W. Kickert, T. Randma-Liiv and R. Savi. 2013. Fiscal Consolidation in Europe: Comparative Analysis. <a href="#">COCOPS Research Report</a>.</li> </ul>