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# **The Impact of Fiscal Crises on Public Administration: Cutback Management and Changes in Decision-Making**

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Declaration

*Hereby I declare that this doctoral thesis, my original investigation and achievement, submitted for the doctoral degree at Tallinn University of Technology, has not been submitted for any other degree or examination.*

/Riin Savi/



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## LIST OF ORIGINAL PUBLICATIONS

The dissertation is based on the following original publications:

**I Raudla, Ringa, Riin Savi and Tiina Randma-Liiv.** 2015. “Cutback Management Literature in the 1970s and 1980s: Taking Stock.” *International Review of Administrative Sciences*, xxx-xxx (forthcoming).

**II Savi, Riin and Tiina Randma-Liiv.** 2015. “Decision-Making in Time of Crisis: Cutback Management in Estonia”. *International Review of Administrative Sciences*, xxx-xxx (forthcoming).

**III Savi, Riin.** 2014. “Public Policy Making in a Time of Cutbacks: The Role of the Street-Level Bureaucrats in Estonia.” *Administrative Culture* 15(1), 100-119.

**IV Randma-Liiv, Tiina and Riin Savi.** 2015. “Managing the Public Sector under Fiscal Stress.” In G. Hammerschmid, S. Van de Walle, R. Andrews and P. Bezes (eds). *Public Administration Reforms in Europe: The View from the Top*. Cheltenham: Edward Elgar Publishing, xxx-xxx (forthcoming).

**V Kickert, Walter, Tiina Randma-Liiv and Riin Savi.** 2015. “Politics of Fiscal Consolidation in Europe: A Comparative Analysis.” *International Review of Administrative Science*, xxx-xxx (forthcoming).

**VI Raudla, Ringa and Riin Savi.** 2015. “The Use of Performance Information in Cutback Budgeting.” *Public Money and Management*, xxx-xxx (forthcoming).

**VII Raudla, Ringa, James Walter Douglas, Tiina Randma-Liiv and Riin Savi.** 2015. “The Impact of Fiscal Crisis on Decision-Making Processes in European Governments: Dynamics of a Centralization Cascade.” *Public Administration Review*. Published online 20 April 2015, available at <http://onlinelibrary.wiley.com/doi/10.1111/puar.12381/abstract>.

# INTRODUCTION

## FOCUS AND AIM OF THE THESIS

The recent global financial, economic and fiscal crises and their aftermath amount undoubtedly to the most important and urgent problem the Western countries face today. After the outburst of the crisis in 2008 governments all over the world have been challenged to react to and cope with the sharp economic downturn and related societal effects. Also the European countries were hit hard by the global crisis when in 2009 the GDP plummeted by more than 14% in the Baltic States and decreased by around 5% in most of the other member states of the European Union. In addition, the severe deterioration of the general government deficit and a sharp rise in the government's gross debt (exceeding 100% of GDP in Belgium, Greece, Italy and Ireland) were prevalent all over Europe. (Kickert et al 2014) The severity of the recent crisis has brought the question about the implications of the fiscal crisis on public administration to the research agenda, as many governments have implemented significant cuts in public expenditure to reduce their growing budget deficits and initiated several reform measures to cope with lower revenues (Randma-Liiv and Savi 2014).

Economic downturns and their alleviation by the government is nothing new to the market economies. It is therefore rather surprising that the academic literature dealing systematically with fiscal crises and their implications for public administration is not plentiful. Indeed, though "a great deal of academic thought has been given to explaining ... government growth, there has been no comparable attention to explaining ... the difficulties of cutting back government ..." (Dunsire and Hood 1989, 1). The scholarly interest in fiscal crisis, governmental expenditure cutbacks and its implications for public administration has not been absent; however, it has been cyclical and followed the fluctuations of economic decline and growth. This has been confirmed by the quick rise and fall of cutback management literature reflecting on the crisis of the 1970s and the recession of the early 2000s (I; Bozeman 2012; Cepiku and Savignon 2012; Pandey 2010) and the sharp increase of academic studies addressing fiscal crisis, cutback management and related impacts on public administration in the post-2008 fiscal environment (see, e.g., special journal issues on fiscal crisis in *Governance*, *Public Organisational Review*, *Public Money and Management*, *Academic Culture*, *International Review of Administrative Sciences*).

According to Bozeman (2012) the cutback management research came to a halt after its vibrant rise with a series of articles by Levine in the late 1970s (who first introduced the "earthy problems" of cutback management), because the literature focused on strategies for mitigating decline but excluded the implications and role

of decline in a broader organisational and institutional context. Indeed, so far the focus of the retrenchment literature on cutback strategies has tended to sketch a disjointed picture of the whole cutback-management struggle by excluding some relevant issues and players in the government system. Namely, until now most of the academic studies have investigated cutback management strategies and tried to sort out budget-cutting algorithms either at the central government level or the organisational level (for an overview see I; Di Mascio and Natalini 2013; Kattel and Raudla 2013; Kickert 2012; Peters, Pierre and Randma-Liiv 2011). Only a handful of works have touched upon the pressures occurring at the individual level in cutback management (e.g. Greenhalgh and McKersie 1980; Greiner 1986; Kogan 1981). As a rule the cutback management challenges and dilemmas faced by actors at the national government, organisational and individual levels have been treated separately, and how they relate to each other has been underexposed in the academic literature. Still, at the very heart of public policy-making is not only taking the decisions but also implementing the decisions (Lipsky 1980). Therefore it is of utmost importance not to isolate cutback management from the very decisions, actions and responses at the organisational and individual levels where strong pressures emerge during cutbacks and where in the end the real outcomes of retrenchment-time public policies are determined (Savi and Cepilovs 2014).

The current thesis aspires to fill this gap in the academic literature and take a step towards a more coherent approach in investigating cutback management by linking the struggles occurring at the national government, organisational and individual levels during cutback management. For this purpose, the thesis is based on the approach proposed by seminal authors of cutback management, Dunsire and Hood (1989), according to which difficult trade-offs during cutback management occur at three levels in government (Dunsire and Hood 1989, 1). Firstly, the macro level, where the main struggle comprises the central government's search for the general strategies for cutting back the public expenditure. Secondly, the meso level, where organisational-level dilemmas on preserving vs. rearranging the existing patterns of organisation and service delivery emerge. Thirdly, the micro level, where the professional and behavioural problems of "doing more with less" in an unsupportive work environment occur at the individual level. More precisely, the thesis aims to shed light on the challenges, dilemmas and motives of different-level actors during cutback management and outline the interlinkages between them. Specifically, the following research questions are addressed in the dissertation:

- What are the main cutback strategies and related challenges/dilemmas/motives behind the adoption of the different strategies? What are the main implications of the central strategies for the meso and micro levels?
- What are the main cutback instruments at the organisational level and related challenges/dilemmas/motives behind the adoption of the different

strategies? What are the main implications of the meso-level strategies for the micro level?

- What are the main coping strategies and challenges/dilemmas/motives for the individual level? What are the implications of the coping strategies for the delivery of public services?

The main body of argument of the thesis is developed in seven original articles analysing the fiscal-crisis-related cutback management from three perspectives. First, academic studies examining the cutback management at the macro and meso levels in the 1970s and 1980s are analysed and systematised in the form of a literature review, “Cutback Management Literature in the 1970s and 1980s: Taking Stock” (co-authored with Ringa Raudla and Tiina Randma-Liiv) (I). Second, a comparative analysis of European countries investigates the dynamics of the recent fiscal-crisis-related cutback management at the macro and meso levels. The chapter “Managing the Public Sector under Fiscal Stress” (co-authored with Tiina Randma-Liiv) in a book edited by Gerhard Hammerschmid, Steven Van de Walle, Rhys Andrews and Philippe Bezes (IV) outlines the reactions to the crisis in 17 European governments, focusing on cutback strategies, consolidation measures and shifts in public management patterns at the organisational level. The article “Fiscal Consolidation in Europe: Comparative Analysis” (co-authored with Walter Kickert and Tiina Randma-Liiv) (V) explains the main similarities and differences in responses to the recent crisis in 14 European countries. The dynamics in decision-making patterns in 18 European governments during crisis is investigated in the article “The Impact of Fiscal Crisis on Decision-Making Processes in European Governments: Dynamics of a Centralization Cascade”, co-authored with Ringa Raudla, James William Douglas and Tiina Randma-Liiv (VII). Third, a single-country case study on Estonia is carried out to enable in-depth process-tracing and a thick description mirroring the cutback management dilemmas encompassing the macro, meso and micro levels. The article “Decision-Making in Time of Crisis: Cutback Management in Estonia” (co-authored with Tiina Randma-Liiv) (II) investigates the dynamics of decision-making at the central-government and ministry levels during cutback management in Estonia in the period of 2008-2013. The use of performance information in budgetary decision-making during fiscal crisis in Estonia is investigated in the article “The Use of Performance Information in Cutback Budgeting” (co-authored with Ringa Raudla) (VI). The impact of crisis-related expenditure cutbacks on organisational- and individual-level policy actors and the specific role of street-level bureaucrats in public policy-making during cutbacks is addressed in the article “Public Policy Making in Time of Crisis: The Responses of the Street-Level Bureaucrats in Cutback Management in Estonia” (III).

As the current thesis is part of a larger research project, most of the articles are co-authored with the supervisors and other researchers active in the project. Article III

has been single authored. In article **II** the author of the thesis was the lead author formulating the research problem, structuring the research design, conducting data collection and analysis and writing a major portion of the paper. The author of the current thesis has contributed equally with the co-authors in articles **I**; **IV** and **V**. In article **I** the author of the thesis reviewed the existing literature, analysed and systemised the literature dealing with cutback management instruments and summarized the findings of the review. In articles **IV** and **V** the author of the thesis was engaged in organizing and conducting the data collection, analysing and portraying the data and describing the main results. In articles **VI** and **VII** the author was engaged in data collection and analysis.

The theoretical framework of the thesis relies on cutback management research (e.g. Dunsire and Hood 1989; Levine 1978, 1979) and combines it with public administration and public policy literature, the latter including also street-level bureaucracy discourse (e.g. Adolino and Blake 2001; Andreson 2000; Lipsky 1980; Meyers and Vorsanger 2003; Peters and Pierre 2004). Connecting these three streams of literature allows process-tracing, exploring the interaction of different-level actors and detecting the (power) shifts in the (perceived) role of these actors in the cutback management context.

The introductory discussion of the dissertation is developed as follows. First the methodology for analysing cutback management at different levels of government is set forth. This is followed by the delineation of the main challenges and dilemmas during cutback management at the macro, meso and micro levels and the drawing of interlinkages between the different-level actors. Thereafter the main traits of cutback management as established in the current thesis are summarised. The last section proposes new avenues of research.



## METHODOLOGY

Taking into consideration the existing terminological ambiguity of the crisis literature (more than 35 concepts have been applied when studying austerity (Overmars and Noordegraaf 2014)) the current paper follows the approach of Kickert (2012) for analytical clarity. Accordingly, the recent global crisis is seen as consisting of different (sequential) phases – banking crisis, economic crisis, fiscal crisis and Eurozone crisis – each with specific characteristics concerning governmental action, the policy actors engaged and problems involved (see V). The current thesis focuses on the *fiscal crisis* that materialised when the governments’ budget deficits (and accumulated gross state debt) became excessive and initiatives to reduce the growing deficits were undertaken. Fiscal crisis can necessitate fiscal consolidation, which can take the form of increasing the revenue side or cutting the expenditure side of the state budget, or a combination of these measures.<sup>1</sup> Once the decision to consolidate via expenditure cuts has been made, governments can choose from a range of cutback strategies, methods and instruments (I; Cepiku and Savignon 2012; Klase 2011; Overmars and Noordegraaf 2014). The current thesis focuses on cutback management including decision-making about where the cuts would fall, which specific cutback strategies are applied and how they are implemented in the government apparatus. A focus on expenditure cuts is relevant as this affects the functioning of public administration most straightforwardly.

The distinction between the macro, meso and micro levels in the current thesis draws on the taxonomy proposed by Hood (2011). Macro-level actors, “the generals, the top-bananas” refer to members of the cabinet and other politicians involved in the cutback-management process. Meso-level actors, “the meat in the sandwich”, are the top and middle managers at the organisational level. The individual level, or “the infantry”, entails civil servants, with a special focus on public-service providers – street-level bureaucrats, who interact directly with citizens when delivering public services (Lipsky 1980).

The empirical research carried out in the current thesis relies on different sources of information.

- First of all 60 academic studies on cutback management addressing the period from 1970 to 1989 are analysed to create a systematised framework for classifying and categorising the cutback strategies and measures set forth in the academic literature (for more details see I).

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<sup>1</sup> The revenue-generating measures applied most commonly by governments are tax measures (increasing tax rates or broadening tax bases) and one-off measures (e.g. sale of state property, taking out additional dividends from state-owned enterprises). (V; Kattel and Raudla 2013)

- Second, academic country case studies on 14 European countries (Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, the Netherlands, Slovenia, Spain and the United Kingdom) gathered in the framework of the European Union Seventh Framework project *Coordinating for Cohesion in the Public Sector of the Future* (COCOPS)<sup>2</sup>, have been utilised to provide information about European governments' responses to the crisis. Composing the country case studies was coordinated by the author of the thesis. The author was engaged in working out research goals and methodology, a common case-study template and research protocol to be followed by the partners when conducting the country studies.
- Furthermore, a dataset consisting of 6,901 valid responses based on the COCOPS Executive Survey on Public Sector Reform in Europe (for more details see **IV** and **VII**) exploring executives' opinions and experiences with regards to public sector reforms in 17 European countries (Austria, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Lithuania, the Netherlands, Norway, Portugal, Serbia, Spain, Sweden and the United Kingdom) has been used. The part of the COCOPS survey explicitly addressing the impacts of fiscal crisis on public administration was designed in cooperation with the author of the thesis and the supervisors. The implementation of the survey in Estonia was managed by the author of the thesis. The author of the thesis was responsible for developing the sampling and access strategy and translating the survey; adapting the survey to the Estonian administrative structure; piloting, launching and monitoring the survey; harmonising and validating the data; producing the national report on Estonia summarising the answers of 321 respondents from Estonia.
- Lastly, for the Estonian case-study document analysis, covering the memoranda and **explanatory** notes of the Estonian Ministry of Finance and the Cabinet, stenographic records of the parliament sessions and transcripts of legislative committee meetings, official press releases of state institutions and the OECD reports on budgetary retrenchment was undertaken by the author of the thesis. In addition, 33 semi-structured expert interviews with civil servants from ministries and agencies engaged in the cutback management process were conducted. The results from the Europe-wide survey provide an opportunity to comparatively explore and explain the variety of responses to crisis by European governments, whereas information from the country case studies, in particular the Estonian case, allow in-depth investigation.

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<sup>2</sup> COCOPS is a public management research consortium consisting of 11 universities in 10 countries. It is one of the largest comparative public management research projects in Europe and was carried out 2010-2104.

The case of Estonia is central to the current thesis as the Estonian government was among the first in the world to implement immediate and radical expenditure cutbacks right after the outset of the fiscal crisis as early as 2008 (instead of postponing the cuts). To cope with the crisis, the government pursued fiscal consolidation via three negative state budgets within two years (the first in 2008, the second and third ones in 2009). A noteworthy share of the sharp cuts involved the operational expenditures of the governmental organisations, resulting in administrative and maintenance-related expenditure cuts, layoffs, drastic pay and salary cuts of civil servants, abolition of job-related compensations, decreased work time, etc. **(II; III)**. As a result, the macro, meso and micro levels were simultaneously strongly affected by the fiscal crisis, cutback management and the resulting expenditure cuts. Hence, the Estonian case provides an excellent opportunity to explore the cutback management process and the interlinkages between the three levels in depth.

## **LINKING CUTBACK MANAGEMENT AT THE MACRO, MESO AND MICRO LEVELS**

In an environment dominated by the search for savings, governments are tempted to take the cutbacks that are “readily within reach, politically feasible and safe, and easy to implement” (Schick 1988, 528). The following subchapters aim to trace how the cutback decisions of governments evolve and how it is determined what is within reach, politically feasible, safe and easy to implement. For this purpose the main challenges, dilemmas and motives during cutback management at the macro, meso and micro levels are delineated and the interlinkages between different level actors are drawn in the succeeding chapters. First theoretical conjectures are summarised and thereafter empirical findings of the thesis are elaborated on.

### **Cutback management at the macro level – how to cut down on public expenditure?**

During fiscal crisis various policy actors and social partners have heightened expectations towards the governments in terms of alleviating the crisis (Posner and Blöndal 2012). When solving the fiscal crisis governments are faced with an array of complicated questions, the most essential being *how to cut back public expenditure* (Wright 1981). Therefore at the macro level the central government’s search for the general strategies for cutting back the public expenditure emerge (Dunsire and Hood 1989).

The previous cutback eras have taught us that when searching for strategies to cut back the public expenditure, the governments have to take two fundamental decisions. First, which expenditure categories are addressed? In general, the choice has to be made between three expenditure categories: operational measures (i.e. governments’ running costs), programme expenditures (i.e. transfers/entitlements and subsidies) to the citizens and subnational governments<sup>3</sup> and capital investments (see **I**; **V**). Second, whether to apply across-the-board or targeted cutback strategy. Across-the-board cuts are typically small in volume and aim to cut back the public expenditure uniformly, with the central authority fixing the same overall proportion of cuts to be achieved by all target groups (e.g. policy fields, institutions). Targeted cuts refer to (political) choices about cutbacks taken by a central authority and in this case some target groups (e.g. policy fields, institutions) face a larger cut than others while some are left untouched. (**I**; Dunsire and Hood 1989)

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<sup>3</sup> Programmes are typically classified after specific policy areas – health, family, education, (old-age) pensions, labour market, housing, other social security. The reduction in programme measures can be achieved either by reducing transfers or shifting part of the entitlement costs to the private sector or citizens (see **V**).

### *Main dilemmas at the macro level and related implications*

According to the conjectures presented in the cutback management literature, governments are faced with several dilemmas when deciding on central cutback strategies. When choosing between the expenditure categories, cuts in public administration itself are considered to have several advantages from the viewpoint of top executives. First, they will attract less opposition than cutting programmes as they are less visible to the public and do not influence the citizens so directly (Glennersterm 1981; MacManus et al. 1989). In addition, cuts in governments' running costs are considered to be more "controllable" by the macro-level actors and can hence be implemented more swiftly (see e.g. Schick 1980; Wolman and Davis 1980). Also halting and cutting capital investments is seen as a quick way to reach savings (Lewis and Logalbo 1980). Still, though cutting operational and capital expenditure enables governments to reach savings quickly, in the long term they may result in excessive costs (Greenhalgh and McKersie 1980; Lewis and Logalbo 1980). Further, cutting public administration itself may be complicated due to the opposition of bureaucrats who would try to protect operational expenditures and especially their salaries (Downs and Rocke 1984).

Similarly, at least theoretically, both across-the-board cuts and targeted cuts have their pros and cons. When being compared to one another, the strategy of across-the-board cuts is preferable for several reasons: it enables governments to take decisions more quickly (as it does not require extensive ex-ante analysis for identifying the cutback targets), with lower decision-making costs and less conflict (no "victims" are specified, and a sense of equity is created among the target groups) (I), and relies on the "grass-level" expertise of target groups who are considered to be better informed (Pollitt 2010). Then again, targeted cuts allow imposing cuts on a more rational basis, as in this case prioritisations in resource allocations are based on comprehensive and rational analysis and clear decision criteria for making the cuts (for example, performance information) (Straussman 1979). In addition, targeted cuts allow politicians to claim credit by becoming directly responsible for the (hard) cutback decisions and alleviating the situation for subordinate levels (Hood 2011)

On the other side of the coin, both across-the-board and targeted cuts may bring about negative implications for the meso and micro levels. Firstly, though the across-the-board cuts are "equal" in terms of the proportion of cuts, they may turn out to be inequitable due to the diversity of target groups. They are likely to penalise more efficient organisations that have already optimised the use of resources (Levine 1979, 181) and have more straightforward (negative) impact on smaller specialised organisations, which have fewer opportunities to scatter the expenditure cut between different production functions or procedures (Levine 1978, 322). In addition, equal cuts reject the diverging needs and preferences of citizens for different public services. Further, across-the-board cuts may lead to a

decline in service level and quality, because when exceeding a certain threshold a decline in outputs is inevitable to absorb the cuts at the organisational level (Behn 1980; Levine 1985). Targeted cuts on the other hand further strain the meso-level work environment during fiscal stress due to bargaining and “stirring up conflict” (Schick 1988, 528).

Irrespective of the specific cutback strategy, cutback management is likely to stir the conventional patterns of governmental decision-making, established roles of politicians, civil servants, external experts and other stakeholders. In general, increased centralisation of decision-making is conjectured, as it is considered the most feasible mechanism to achieve systematic spending cuts (Levine 1979), as it enables quick legitimisation of decisions (Peters 2011). More centralised decision-making can express itself in various forms. First, it is conjectured that fiscal governance arrangements are likely to shift towards more centralised modes of budgetary decision-making, entailing top-down and rule-based budgetary procedures and increased power of central budget actors (Schick 2009). Second, taking into account that budgeting is inherently political, the bigger role of politicians in decision-making is expected vis-à-vis the civil servants and social partners in order to avoid potential conflicts and resistance to changes (Kickert 2012; Peters et al. 2011).

### *Empirical findings*

The empirical studies of the 1970s and the 1980 and the empirical results of the current thesis reflecting upon the recent crisis clearly show that as a rule, governments make use of different types of cutback strategies, mainly combining across-the-board and targeted cuts (**I**; **IV**; **V**). The real life does not allow comparing whether the across-the-board or targeted cuts are reached more quickly. Still, the gathered empirical information indicates that at the macro level across-the-board cuts are used as the first-hand measure, and there tends to be a shift from across-the-board to targeted cuts (**I**; **IV**; **V**), the latter occurring in the later stages of the crisis due to the need to achieve a growing share of cuts (**V**).

Based on the empirical data from the cross-European study, the governments’ motives on choosing cutback strategies are dependent on several external factors (**IV**; **V**). First, *the scope of the fiscal crisis* (GDP fall, rise of budget deficit, public debt, unemployment etc.) explains the macro-level strategy – the bigger the need to cut back, the higher the likelihood of targeted cuts. In addition, *external supranational influences* play an important role: the conditionality of the Troika (IMF-EU-ECB) forced numerous European governments to apply immediate targeted cuts. Besides that, the pressure from the EU to keep government deficit and debt within the Maastricht criteria was influential in impacting the speed and strategy of cutbacks in several European countries (**IV**; **V**). Estonia serves as a prominent example of a country where the desire to adopt the euro and the related

obligation to meet the Maastricht criteria triggered the government's radical retrenchment strategy (II; Raudla and Kattel 2011).

The evidence from the recent crisis illustrates that a great majority of the European governments had to cut down on policy programmes either by cancelling or postponing new programmes or cutting the existing programmes (IV; V). Cuts in the fields of health care, pensions, welfare and infrastructure in total made up the biggest share of expenditure reductions in the majority of the European countries (see also OECD 2012). Pension-related cuts have been applied in numerous countries (Belgium, Estonia, the Netherlands, Slovenia, Spain, the UK) either by freezing or decreasing the rise in pension payments or by restructuring the pension schemes or increasing the retirement age. In addition, savings have been sought by cutting unemployment and welfare benefits, increasing social-security contributions etc. (V)

The current thesis demonstrates that cutback management impelled a shift towards a higher degree of centralisation in decision-making in all European governments investigated (II; IV; V). Centralisation is, first of all, operationalised through the increase in the power of the Ministries of Finance (MoF) or respective central financial authority (e.g. Central Planning Bureau in the Netherlands). The information obtained from the cross-European study reveals that the central budgetary institutions gained more power as a result of reinforcing top-down budgeting, setting expenditure freezes and limits to overall spending to local governments and public agencies (V). The Estonian case study demonstrates that during the cutbacks MoF became the central mediator between the Cabinet and the line ministries, directly arranging the cutback-related processes in line ministries, a task usually not in their repertoire (II; VII).

In addition, more centralised decision-making occurred due to the increase in the power of politicians (especially the members of cabinet) during the crisis (II; IV; V). Further, the power position of politicians was enhanced by the establishment of ad-hoc working groups and "super-committees" made up of a handful of influential politicians to enable fast and flexible co-ordination between coalition partners in order to reach the cutback decisions (II; Bezes and Le Lidec 2013; MacCarthaigh and Hardiman 2013). The case of Estonia demonstrates that cutback management shook the established roles and power positions of state institutions, politicians and civil servants more broadly when policy decisions were enforced despite clear expressions of discontent from both formal policy actors (Legal Chancellor, opposition parties) and other stakeholders (such as entrepreneurs or unions) (II). As an example, in Estonia the adoption of the negative supplementary budget in the parliament was linked to a vote of confidence to the government in power in order to bypass the lengthy procedure for passing the budget. (II) On the other hand, in Iceland the control function of parliament (over the executive branch) was

increased by re-organising parliamentary committees and enhancing their power of scrutiny (Kristinsson 2013). Rather extremely, in Lithuania previously independent government agencies were reorganised into the agencies under the ministries to increase the authority of ministers and politically control agency expenditure and performance (Nakrošis et al. 2013).

### *Implications of centrally imposed cutback strategies for meso and micro levels*

In order to examine the implications of the central cutback strategies for the meso and micro levels, the current thesis focuses on the impact of centrally imposed across-the-board cuts in operating expenditures of the subordinate levels, as it has a direct influence on the functioning of public administration.

Empirical results on Estonia demonstrate that macro level across-the-board expenditure cuts have diverging implications at the meso and micro levels. Though the across-the-board cuts are perceived controversially by meso-level managers – some see them as an expression of trust towards their professionalism, a fair and democratic measure, others as an “axe method” not considering the organisational differences (II; III; Savi and Cepilovs 2014), most of the empirical data presented in the thesis adds weight to the axe metaphor. The thesis demonstrates that the inequity of across-the-board cuts emerges from two factors – firstly from the different revenue and expenditure structure of government organisations; and secondly from the difference in the real impact of the fiscal crisis to government organisations in terms of increase in the crisis-led external demand for public service provision (in some government organisations the demand for public services did not increase as a result of the crisis, whereas in others it plummeted) (III).

Firstly, the Estonian case shows that across-the-board cuts targeted at operational measures made some organisations worse off: due to the different expenditure structure, some organisations had less room for “manoeuvring” when making the budget cuts and hence fewer opportunities to avoid very painful cuts both for the organisation and its immediate target groups (citizens). For example, in agencies where a large share of operational costs included essential job-related compensations for the civil servants (e.g. compensation for accommodation in the Estonian Tax and Customs Board), the civil servants suffered more from the personnel-related cuts (III). The Latvian case confirms that agencies that “eliminated waste” prior to the crisis suffered more (Savi and Cepilovs 2014). Further, owing to the fact that in individual organisations the share of operational expenditures covering the provision of public services is different, some agencies had to cut down on the provision of services tremendously, while others did not cut at all, thereby a different degree of burdens was set to the citizens (as clients of different policy fields). In some agencies nothing changed for the citizen in the



service delivery, in others services were abolished entirely, for example the free-of-charge home delivery of pensions was abolished in Estonia. (III)

Secondly, the Estonian case study confirms that across-the-board cuts penalise more organisations where the real impact of the fiscal crisis is stronger, where the increase in the crisis-led external demand for public-service provision is bigger. Hence, one could say that during cutback management the agencies do not play in the same league. For example, though in Estonia the Social Insurance Board faced almost no increase in workload but in the Labour Inspectorate the workload of civil servants skyrocketed due to the 40% rise in labour disputes (Estonian Labour Inspectorate 2009), they had to cut down operational expenditures to the same extent.

### **Cutback management at the meso level – what should be cut?**

The fundamental question of cutback management at the meso level is the contents of cutbacks: *what* should be cut (unlike at the macro level, there is not much room for further delegation). When faced with the necessity to choose the cutback measures, the public managers are faced with the question *whether the existing patterns of organisation and service delivery are kept or restructured* to achieve expenditure cutbacks (Dunsire and Hood 1989).

Still, before moving to the challenges connected to the contents of cutbacks at the meso level, it is important to notice that the puzzle of choosing between across-the-board and targeted cutback strategies may continue at the organisational level as cuts need to be distributed between the organisational subunits. The dilemmas faced by decision-makers at the meso level are analogical to those at the macro level described above. Namely, across-the-board cuts minimise information-handling requirements, dampen the conflict potential and may even unify the members of the organisation (Hood and Wright 1981; Levine 1979). Then again, by being insensitive to the needs, production functions and contributions of different units they are likely to have a more negative effect on smaller and specialised units and on units that have recently optimised the use of resources (Levine 1978, 322; 1979). Targeted cuts allow the making of cutback decisions on a more rational basis, as most commonly, low-priority services would be cut more than high-priority services (Levine and Rubin 1980, 15), core services cut less than secondary services (Levine 1985, 692) and more cost-effective units cut less than units that are not cost-effective (Pollitt 2010). Nevertheless, targeted cuts involve conflict and bring along high decision-making costs (Hood and Wright 1981).

For analysing the specific contents of cutbacks at the meso level the current thesis gathers and categorises various cutback instruments presented in the existing academic literature under three main expenditure categories – operational,

programme and capital expenditures, as portrayed in Table 1 below (see also I). When at the macro level general decisions are taken how to divide cuts in-between these categories, at the meso level a search for specific measures within each category emerges.

**Table 1: Main cutback measures**

| Category                            | Measure   |
|-------------------------------------|---|
| <b>Operational expenditures</b>     |   |
| <i>Personnel costs</i>              | Reduced overtime or working time  |
|                                     | Slowing-down of promotion   |
|                                     | Early retirement  |
|                                     | Wage freeze   |
|                                     | Reduction in the rate of salary increase  |
|                                     | Reduction or elimination of fringe benefits and bonuses   |
|                                     | Filling positions with less credentialed, lower-paid staff  |
|                                     | Reducing pay grades of vacated job lots   |
|                                     | Salary cuts   |
|                                     | Reshuffling of staff (e.g. making increased use of temporary staff)   |
|                                     | Furloughs   |
|                                     | Hiring freeze   |
| Layoff                              |   |
| <i>Non-personnel costs</i>          | Spending limits and bans on utilities, supplies, equipment, travel, communications, etc.  |
| <b>Programme expenditures</b>       |   |
| <i>Reduce quantity of services</i>  | Programme termination   |
|                                     | Shorten the reception time, limit service hours   |
|                                     | Reduce the frequency of service provision, reduce the number of service outlets   |
|                                     | Restricting access  |
|                                     | Introduce or increase service fees  |
| <i>Reduce quality of services</i>   | Reduce the quality requirements, reducing the variety of service tasks, fixing the level of quality, and standardising forms and treatments |
| <i>Reorganise service provision</i> | Engage voluntary, part-time and third-party counterparts in service provision   |
| <b>Capital expenditures</b>         |   |
|                                     | Elimination of capital spending   |
|                                     | Capital spending freeze for new capital projects  |
|                                     | Postponement of non-essential capital projects  |

Compiled by the author based on I.

### *Main dilemmas at the meso level and related implications*

The biggest dilemma for meso-level managers during cutting back the organisational budget is the choice between keeping the costs inside the organisation and sharing costs with citizens and the private sector.

Choosing between different measures to cut operational expenditures related to personnel costs is markedly delicate, as during crisis public administration needs to be on a particularly high level (Drechsler 2011), hence weighing the value of today's savings against future costs becomes crucial. In academic literature the rather contradictory measures of hiring freeze and layoffs have received most attention (I). On the one hand, hiring freeze is seen as a convenient short-term strategy (Levine 1978; Wright 1981), a "relatively painless" method that avoids conflicts, appeals and other procedures related to layoffs (Rubin 1980, 169; Dunsire and Hood 1989, 38). On the other hand, hiring freeze can hinder the management from making appropriate cutback decisions and impede intelligent long-term planning (Greenhalgh and McKersie 1980; Levine 1978). The more radical measure of laying off personnel is seen as a useful tool when the speed of reducing the costs is important (Cayer 1986). However, layoffs may have costly side-effects for the organisation: increases in job insecurity and voluntary quitting, disrupted teamwork and lower productivity eventually leading to a system more costly to operate (Greenhalgh and McKersie 1980).

Shifting the expenditure cuts outside of the organisation includes decisions on programme-related expenditures and changes in the public-service provision (Dunsire and Hood 1989; Lewis and Logalbo 1980; Kogan 1981). By and large, meso-level managers have to decide whether to curb the *quantity* of the services, to diminish the *quality* of the services provided or *to reorganise the service provision* by engaging voluntary, part-time and third-party counterparts (I). In the first case, the managers are faced with putting the citizens in a worse situation either by reducing service hours, cutting down on the number of service outlets, introducing or raising the fees for services or even terminating the provision of services. In the second case, reducing the variety of service tasks, lowering the level of quality and standardising forms and treatments is possible (Dunsire and Hood 1989; Lewis and Lobalgo 1980).<sup>4</sup>

In terms of implications for the micro level, it is conjectured that cutbacks in personnel-related measures lead to an unsupportive work environment due to increased job and pay insecurity, loss of confidence and decline in morale (Greenhalgh and McKersie 1980; Greiner 1986). Interestingly, it has been argued that cutting both the quantity and the quality of the public services has a positive

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<sup>4</sup> This methods-oriented search for gains often results in consciously accepting more errors and poorer working conditions at the very agency level (Dunsire and Hood 1989, 37).

effect on the workload and the tasks of street-level bureaucrats either by reducing the level of public services to be provided (Dunsire and Hood 1989; Lewis and Logalbo 1980) or by decreasing the need for individual bureaucrats to make independent decisions. Hood (2011, 93) clarifies that when appropriate behaviour is stipulated by “formulae ... best practice guidelines and other rules” the ad-hoc professional judgement of street-level bureaucrats is not necessary.

### *Empirical findings*

The empirical evidence portrayed in the current thesis demonstrates that various measures have been applied in European governments to achieve personnel-related expenditure cuts at the organisational level. Despite its cons presented in the academic literature both previous eras of retrenchment (I) and the current crisis confirm that hiring freeze has been a prominent measure applied to combat the fiscal crisis in numerous countries (II; III; IV; V). Even more, during the recent crisis it was the most widely used measure in Europe, followed by pay freeze and wage reduction (IV; V). Both previous crises and the recent one provide evidence that applying staff layoffs was rather exceptional (I; IV; V), though applied extensively in Estonia, Lithuania, Iceland and Ireland (IV; V). Interestingly, the meso-level managers reported that personnel-related cuts targeted more back-office than front-line staff directly involved with delivering public services (V). In many European countries numerous personnel-related cutback measures such as hiring freeze, layoffs, pay and salary cuts, unpaid leave or decrease in work time were combined (II; III; V). Besides, in Estonia civil servants faced a cut in their benefits when additional pay funds, training funds and one-time support schemes (e.g. compensation for health-related activities) were abolished (II; III). Even more, in the Baltic countries radical cutbacks including layoffs and pay cuts were applied in several rounds (V).

The current thesis indicates that the dilemmas faced by meso-level managers when cutting personnel expenditure are framed by national civil service systems and respective legislation. In Germany, for example, the civil service legislation prohibits wage reductions and even pay freeze whereas in the Baltic countries the missing tenure in the civil service regulation, combined with relatively underdeveloped civil society and unions, posed no hindrances to the government when looking for possibilities for expenditure cuts (III; IV; V). In addition, as demonstrated in the thesis, an important factor explaining the radical personnel cuts in several European countries is urgency, the need to achieve cuts quickly due to external pressures – to fulfil the requirements of IMF and the EC in return for financial assistance or the Maastricht criteria to comply with the requirements of the Eurozone (II; IV; V).

### *Implications for the micro level*

Based on the case of Estonia layoffs, unpaid leave and related modifications in the provision of services subjected officials to a more intense workload (shorter deadlines, longer working hours) (II; III; Savi and Cepilovs 2014). Due to the shrinking workforce and prevalent urgency, those who had kept their position had to assume new tasks, non-routine duties and also new responsibilities (of those who had left) (II; III), and therefore modifications in task profiles and habitual work practices were encountered. Furthermore, the new tasks and responsibilities were often not related to the profession of the civil servants (e.g. a customs official started to provide daily transportation to colleagues) (III). In Estonia problems in the working environment further intensified due to the increasing job and pay insecurity caused by the several rounds of cuts in salaries and the fear of being laid off. Furthermore, the crisis context itself added burdens to the individual level with extreme time pressure and urgency of decision-making and a sharp increase in the demand for employment and labour services (II; III).

The case of Estonia demonstrates that also cuts in non-personnel expenditures have strong implications to the micro level (though not elaborated in the existing academic literature), as they put further and rather extreme pressures to the work environment. In Estonia and Latvia the cuts in maintenance-related expenditures deprived the civil servants of their habitual amenities, ranging from no free coffee to switching off the heating system in the office during the weekend or optimising lighting in offices whenever possible (II; III; see also Savi and Cepilovs 2014).

When looking at the organisational measures used to cut down on public service provision, increasing the fees and charges of public services is not a popular measure applied in European countries (IV; V). In Estonia it differed from one agency to another – in some agencies nothing changed for the citizen in the service delivery, in others service fees were introduced, personal service was replaced with more general information provision or services provided were abolished entirely (III; see also Savi and Cepilovs 2014).

In general, in Estonia the reorganisation of service provision at the organisational level occurred astonishingly rarely, especially when taking into account the overall centralised setup of cutback management as presented in II; III and VII. In some agencies a shift between the core functions of the agency was officially established to enable more time for services where the increase in external demand was bigger, in others the management set guidelines requiring to focus on certain group of clients. In the Estonian Social Insurance Board (ENSIB) free-of-charge delivery of pensions was ended to keep resources for the front-line service delivery in the agency. Though not established officially, the Unemployment Fund (UEF) team managers agreed on a principle of “service express”, limiting the time per client

from 30 to 10 minutes to manage the increased workload. Still, the Estonian case study illustrates that only limited use was made of possibilities to decrease the quantity or quality of the public services at the organisational level, because as a rule no specific guidelines were given concerning service delivery in the changed work environment (III). Therefore for coping with the crisis “decentralised” solutions had to be found at the individual level and thus sharing the costs with citizens was delegated to the street-level bureaucrats, where consequently also the biggest pressures emerged.

The immediate effects of the cutback management environment at the meso level resemble the dynamics at the macro level. Inside the individual government organisations shifts towards more centralised decision-making took place in most of the European countries (IV; V). Also in Estonia top-down decision-making generally prevailed in ministries and agencies and the civil servants and employees were just informed (on paper) about the retrenchment decisions taken at the top. The general centralisation at the meso level was triggered by the urgent and repetitive need to apply cuts in operational measures (II; III). The Estonian case study thus confirms the theoretical prediction propositions about excluding civil service from cutback decision-making.

A great majority of the European countries also provided evidence of the increasing power of the budgetary units in public sector organisations and the growing use of performance information during fiscal stress (IV; V). The Estonian case demonstrates that the cutback management empowered the budget departments by subjecting various units and specific policy fields to the budget policy, because the lack of time (but also lack of information and expertise) did not allow thorough impact assessments and negotiations and insisted on quick gathering of information. Thereby budget departments became the coordinators of compiling the information inside organisations by defining obligations, appointing duties, setting deadlines and deciding upon the final materials to be sent to the MoF (II). While in most of the European countries the cutback management triggered more intensive use of performance information, the Estonian case provides evidence that during cutback management the role of performance information in budgetary decision-making decreased (IV; V; VI).

## **Dealing with cutbacks at the micro level – how to provide services when being denied the essential resources?**

At the micro level, fiscal-crisis-related budget cuts and increased workload tend to reinforce the notorious “problem of resources” – ever growing demands and restricted resources that especially street-level bureaucrats are faced with daily (Lipsky 1980). Hence, during cutbacks at the micro level individuals face professional and behavioural problems, the most important one being *how to do more with less* – how to provide public services and maintain standards when being denied the essential resources (Dunsire and Hood 1989, 1). Dunsire and Hood (1989, 171) claim that at the individual level “people begin to search for ways to provide services at a lower cost and to think in terms of productivity to put off an evil day.”

The current thesis focuses on the professional problems occurring at the micro level during fiscal stress. Behavioural issues concerning the motivation, organisational commitment and loyalty of individual actors in the midst of fiscal crisis have been investigated by Glassberg (1978), Greiner (1986), Holzer (1986) and Ingraham and Barrilleaux (1983).

In general, it is conjectured that more complicated situations at the individual level bring about changes in the use of discretion over the allocation of public benefits and sanctions. At the very street level, solving unpredicted situations and making ad-hoc decisions when confronted with diverse demands and restricted resources commonly manifests in specific coping mechanisms that enable bureaucrats to manage workloads (Lipsky 1980; Winter 2002). The dilemmas of street-level bureaucrats are embodied in applying the different coping strategies that range from limiting information and access to clients and modifying programme objectives to rationing the services provided by focusing on specific client groups or tasks (Meyers and Vorsanger 2003, 247; Nielsen 2006, 865) (see Table 2). This way the decisions of street-level bureaucrats, the routines they establish and the devices they invent to cope with uncertainties and work pressures effectively become the public policies carried out (Lipsky 2010).

**Table 2: The main coping strategies on the street-level**

| <b>Coping mechanism</b>                      | <b>Description</b>  |
|--|---|
| <b>Posing psychological costs on clients</b> | Limiting information provided to clients  |
|  | Limiting access   |
|  | Letting clients wait  |
|  | Letting the clients choose between options  |
| <b>Dominating clients</b>                    | Modifying programme objectives, developing cynical perceptions of clients   |
| <b>Rationing services</b>                    |   |
| <b>Setting priorities among tasks</b>        | Concentrating on a limited number of selected cases, clients, solutions   |
| <b>Setting priorities among clients</b>      | Standardising and routinising the client groups, stereotyping, e.g. “creaming” – choosing the “easiest” clients, using rules of thumb |

Compiled by the author based on Lipsky 1980; Meyers et al 1998; Nielsen 2006; Winter 2002.

### *Empirical findings*

The previous chapter clearly demonstrated that the individual-level struggles, but also dilemmas during cutback management, are very much dependent on the decisions made at the macro and meso levels, where it is actually determined how much more has to be done with how much less at the individual level. Hence the (difficult) conditions in which the bureaucrats have to work during crisis result from the meso- and macro-level decisions. Still, it is important to bear in mind that also crisis-fuelled increase in demand for services has a crucial role in further straining the work environment at the very street level. In Estonia the sharp increase in the demand for services from the target groups explained the different extent of pressures in the work environment of street-level bureaucrats in different agencies (**III**).

Based on the thesis at hand, the course of events impelled by the fiscal crisis resulted in a situation where at the individual level more had to be done with less – an increasing amount of work had to be done under more intense time pressure, in a more complex working environment and with decreased salary, loss in benefits and lower job security (**II**; **III**).

The current thesis demonstrates that in order to proceed with work in the complicated work environment at the street level, numerous coping strategies are



applied (III). On some occasions (psychological) costs are imposed on clients, most commonly by limiting information provided to citizens; on others priorities are set among client groups and tasks when providing services by concentrating on the most “promising” clients or “most urgent” tasks. Though as a result in some cases street-level bureaucrats developed a more strict and impersonal attitude towards the citizens, the coping strategies were aimed at rationalising the demand and the services provided in order to increase the output (to provide services to as many citizens as possible; to increase the tax accrual) not to decrease the level of demand (cf. Nielsen 2006; III).

It is shown that the reorganisation of service provision by the meso level decreased the need for interpretation and judgement from the street-level bureaucrats. Namely, in Estonian Tax and Customs Board stereotyping the clients was based on clear criteria set by the management (more tax accrual) serving as a point of departure for street-level bureaucrats in their operations. On the other hand, in Estonian Labour Inspectorate (LI) and Estonian Unemployment Fund (UEF) categorising the clients was largely based on the street-level bureaucrats’ personal beliefs as to what is necessary and best for the citizens in the situation of a fiscal crisis (e.g. the priority of securing the unemployment benefits vs. consulting new job opportunities). Similarly, in both LI and UEF deciding upon the clients’ command of computers and the necessity to send clients back due to the overcrowded service hall was based on the gut-feeling of street-level bureaucrats (III). All in all it can be claimed that by sending people home, telling them to look up the information on their own etc. the street-level bureaucrats set straightforward burdens to the citizens.

Similar coping also took place in ministries when civil servants met important decisions concerning the cutback targets based on their “gut feeling” due to lack of time and information. For example, the time constraints for in-depth analysis and the scope of cutback decisions rendered impossible the usual practices related to budget preparation in line ministries and in MoF (VI; VII). When faced with uneven (or even absent) information and urgency to formulate budget evaluations, officials often left areas not well-known to them untouched, whereas the others suffered more in downsizing (II; VII).

The current thesis has demonstrated that the responsibility of individual civil servants in Estonia increased in the decision-making process – civil servants acquired more autonomy and a more important role as the main source of technical expertise and the last link in the chain making the final decisions when delivering public services (II; III). Paradoxically, their empowerment in public policy-making did not result from strategic steering and inclusion from the macro or meso level but from being left “on their own”; it was the crisis context that empowered them.

## THE CUTBACK MANAGEMENT “BLAME GAME”

The thesis at hand demonstrates that compared to times of fiscal normalcy, fiscal crisis and budget retrenchment enormously increase the tensions in the process of public policy-making. Though it is shown in the dissertation that the governmental actors at the macro, meso and micro levels face essentially different dilemmas during cutback management, the central puzzle at all levels boils down to the question of *how to deal with* the pain arising from cutting back the public expenditure. How and to whom lay the increasing burdens? What are ways to avoid conflict, opposition, appeals and other costly side-effects spurred by deciding upon and implementing the cutbacks? These are questions looming all over. Clearly, there is more pain than gain to be distributed, more losers than winners to be determined and eventually more blame than credit to be taken, because attributing the pain inevitably incurs blame. Therefore the cutback management turns into a “blame game”, where the macro, meso and micro level governmental actors receive the role of blame makers and/or blame takers and seek to pass the blame onto those at the other levels.

The thesis indicates that the cutback management blame game can have different scenarios and numerous end results – at all levels the blame can be either avoided, reversed, displaced, shifted, shared or dissolved (Hood 2011). It has been shown that the overall setup of the cutback management blame game is put in place at the macro level. The top executives as the first-order decision-makers determine the main lightning rods – whether the cutbacks target the citizens or public administration itself and whether the cutbacks are shared equally between target groups or not. The current dissertation shows that to shift blame the macro-level actors make use of numerous possibilities at their disposal. *Collective decision-making* in ad-hoc working groups and “super committees” is used to scatter the political responsibility when deciding upon the cutback targets. *Delegating decisions or activities that attract blame* is made use of either to withdraw from setting the details of cuts in public administration or to distance themselves from orchestrating the process of imposing the cuts by empowering the central budgetary authorities. Interestingly, the current thesis indicates that many governments were able to shift blame up – to supranational institutions, most commonly to the European Union, the International Monetary Fund and the European Central Bank. As the thesis portrays, sharing blame with these counterparts facilitated radical cutbacks and structural reforms in the numerous European countries. (V)

It is not unexpected that macro-level actors seek all possible activities to distance themselves from blame. After all, as first-hand decision-makers they are inherently the blame makers, but they need to protect themselves against electoral backlash.

The thesis at hand confirms that this overarching goal did not fade during the recent cutback management as governments in most of the investigated countries postponed the fiscal consolidation and cutback decision-making until the general elections were over (V).

At the meso level the blame game develops further. On the one hand, public managers at the organisational level are blame takers when being forced to cut back. As exemplified by the case of Estonia (see II and III), though being officially authorised to decide upon the details of expenditure cuts, there were no real choices available for the organisational-level managers, as the amount of cuts to be achieved was large, it had to be realised over three rounds in a tight timeline, and it addressed operational costs which entail few flexible expenditure categories to play around with (II; III). On the other hand, the meso level actors become blame makers when imposing further cuts both for the organisation and its immediate target groups. By “just saying no” (cf. Hood 2007; 2011) and *choosing to abandon activities* and *not to provide services* they shift burdens to single bureaucrats and citizens. The case of Estonia demonstrates that blame can be shifted down also with *non-decisions* and *non-action* – when not making use of attributing the blame to the organisation itself (e.g. by formalising guidelines, setting procedural rules and restricting access to public services), but “delegating” the search for further solutions to the individual level.

Indeed, the current thesis demonstrates that blame avoided at the top may spill down the hierarchy and eventually the individual actors can find themselves at the sharp end. Paradoxically, the street-level bureaucrats, who have the fewest resources and options available to shift the blame when compared to the macro- and meso-level players, have to dissolve the pain. In general it is claimed that to deal with situations attracting blame, street-level bureaucrats can abandon foreseen activities and the provision of services (Hood 2011). The Estonian case study demonstrates that street-level service providers can also react differently – they can continue the service provision in the complicated situation, but with the price of putting the citizens in worse conditions when compared to the times of fiscal normalcy. This means that they are the ones to take a bulk of the responsibility and also blame when implementing public policies. Indeed, by not questioning the necessity of cutbacks and accepting the decrease in pay, complex work environment and unconventional task profiles street-level bureaucrats in Estonia received an important role in helping to achieve the crisis-time policy goals set by the Cabinet. As Drechsler (2011, 23) has put it, “it is in the end the civil servant, even the little civil servant in the cubicle, ..., who is a bulwark against the chaos and against a life that is nasty, brutish and short ...”

The current thesis shows that how the cutback management blame game that is played out between the three levels depends strongly on the country-specific

institutional features and the nature of polity. As Douglas (1990) has claimed, who you blame for what is a central marker of culture and attitudes. Hence, what kinds of cuts are within reach, politically feasible, safe and easy to implement for the government hinges on several country-specific features. The current thesis confirms that the macro-, meso- and micro-level strategies were affected by the national civil service systems, respective legislation and the “voice” of unions, social partners and constitutional veto players.

In Estonia the social acceptability of cutback decisions was not critical for the ruling coalition due to the “simple polity” – underdeveloped civil society and weak unions unable to mobilise major protests (Raudla and Kattel 2011; **II**; **III**); at the same time in Iceland, Ireland and Spain the fierce public protests and social unrest made governments postpone fiscal consolidation for months and months. Further, in Germany and Italy and other countries with strong civil service tenure, cuts in personnel expenditure were practically impossible, hence the existing legislation protected the civil servants. All in all, a fact speaking for the differences of the *blame culture* is that in all of the European countries investigated, except Estonia, the governments that had planned or undertaken cuts lost in the subsequent general elections. (**V**)

## **AVENUES FOR FURTHER RESEARCH**

Academics have doubted the meaningfulness of cutback management and decline studies in public administration (e.g. Bozeman 2012; Pandey 2010), questioning whether it is possible to provide causal explanations (Rosenthal 2003), whether there are any challenges left in the cutback management studies and whether the stream of literature has not been exhausted. The current thesis has proven that these doubts have no solid ground. Still, the proposition of Bozeman (2012) to renew this literature through “intellectual transformation” is without doubt relevant. A more integrated and evolutionary approach is a possibility for this transformation.

Though Hood (2011) links the blame game with three levels of actors within government or public service delivery organisations – the generals or top bananas, those on the front line (the street-level bureaucrats or case-handling professionals) and meat in the middle (comprising all those who are to be found somewhere between the generals and the infantry in government or public service organisation) (Hood 2011, 24-25), the current thesis has shown that also the supranational institutions and citizens have a relevant role in the cutback management game and should not be abandoned when analysing the game.

Further, a more evolutionary dimension of cutback management could be explored by applying the policy process models. The current thesis provides evidence that cutback management is a process where actors from different levels of government in concert, not only the top executives, determine how the cutback decisions are taken, implemented and how eventually the crisis-time policy goals set by the cabinet are achieved during the era of retrenchment. It is demonstrated that during cutback management (similarly to general crisis management) the conventional policy process model loses its explanatory power as the conventional roles of policy actors in policy-making are altered and the weight of the different stages is changed (e.g. increased role of the decision-making and implementation stage compared to analysis and agenda setting).

Lastly, taking into account that we have entered the era of “perpetual” fiscal crisis (see also Scorsone and Plerhoples 2010) a relevant step in transforming the cutback management research toward a more evolutionary mode would entail studying cutback management and related dynamics not only during cutbacks but also in times of economic boom.

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## SUMMARY IN ESTONIAN

### Fiskaalkriisi mõju avalikule haldusele – kärbeta juhtimine ja muutused otsustusprotsessides

Majanduslangused ja nende leevendamine riigi poolt ei ole tänapäeva ühiskonnas midagi uut. Seetõttu on üsna üllatav, et fiskaalkriisi mõju avalikule haldusele on teaduskirjanduses süsteemselt üsna vähe analüüsitud. Ei saa väita, et akadeemilisi uuringuid selles valdkonnas üldse ei ole, kuid senised uuringud on järginud majandustsüklit – huvi majanduslangusest põhjustatud fiskaalfriisi ja sellega seonduvate eelarvekärbete mõju vastu on akadeemilises kirjanduses tekkinud koos majanduslangusega ja kadunud koos majandustõusuga. Bozeman (2012) on väitnud, et eelarvekärpeid käsitlev kirjandus soikus pärast 1970ndate aastate kriisi, kuna kirjandus keskendus liigselt kärpestrateegiate kaardistamisele ning ei käsitlenud piisavalt eelarvekärbete rolli laiemas organisatsioonilises ja institutsionaalses kontekstis. Senine kärpealane kirjandus keskendub eelkõige kärpestrateegiatele ja -instrumentidele valitsuse ning üksikute asutuste tasemel (vt I; Di Mascio ja Natalini 2013; Kickert 2012; Peters, Pierre ja Randma-Liiv 2011; Kattel ja Raudla 2013), jättes tähelepanu alt välja ametniku rolli kärbeta juhtimise protsessis. Samas on ametnikel oluline osa poliitikakujundamise protsessis poliitikate elluvijana läbi avalike teenuste osutamise (vt Lipsky 1980) ning poliitikat kujunevad just nimetatud kolme osapoole koostoimes. Seetõttu on ülimalt oluline kaasata eelarvekärbete alasesse diskussiooni ka indiviidi taseme otsused ja tegevused, mille abil lahendatakse kärpeprotsessis keerulisi olukordi ning uurida valitsuse, asutuste ja ametnike rolle ja omavahelisi suhteid kasinuspoliitikate kujundamisel.

Käesoleva väitekirja eesmärk on panustada rahvusvahelisse diskussiooni, uurides nii teoreetilisel kui ka empiirilisel (17 Euroopa riiki) tasemel fiskaalkriisi mõju avalikule haldusele. Väitekirja keskendub kärbeta juhtimisele ja sellega seotud muudatustele valitsusasutuste otsustusprotsessides, analüüsides vastavat dünaamikat korraka kolmel tasandil: valitsuskabineti, asutuse ja ametniku tasandil. Väitekirjas otsitakse vastust kolmele omavahel seotud uurimisküsimusele:

1. Millised on peamised *kärpestrateegiad* ning kärpeotsuste vastuvõtmisega seotud dilemmad, väljakutsed ja motiivid valitsuskabineti tasemel? Mis on erinevate strateegiate järelm organisatsiooni ja ametniku tasemel?
2. Millised on peamised *kärpeinstrumentid* ning instrumentide rakendamise seotud dilemmad, väljakutsed ja motiivid organisatsiooni tasemel? Mis on erinevate kärpeinstrumentide järelm organisatsiooni ja ametniku tasemel?

3. Millised on peamised kriisiolukorraga *kohandumise strateegiad* ja nendega seotud dilemmad, väljakutsed ja motiivid ametniku tasemel? Kuidas mõjutavad erinevad kohandumisstrateegiad avalike teenuste osutamist?

Väitekirja koosneb seitsmest teaduspublikatsioonist (**I; II; III; IV; V; VI; VII**)<sup>5</sup> ja sissejuhatuses. Sissejuhatus avab töö teemat, selle aktuaalsust ning asetab töö laiemasse akadeemilisse konteksti ja võtab kokku erinevate artiklite teoreetilise panuse ning 17 Euroopa riigi juhtumianalüüsi tulemused. Väitekirja panus valdkonna teoreetilisse kirjandusse seisneb senise fragmenteeritud eelarvekärbete alase kirjanduse kaardistamises ja süstematiseerimises koherentseks analüütiliseks raamistikuks. Töö praktiline panus on kärpeprotsessi käsitlemine läbi kolme tasandi – valitsuskabineti, organisatsiooni ja indiviidi – ning nimetatud kolme tasandi omavaheliste seoste uurimine. Senised uurimused on eelkõige keskendunud kahe esimese tasandi toimijate analüüsimisele eraldiseisvalt. Indiviidi rolli fiskaalkriisi kontekstis on puudutatud senises kirjanduses väga põgusalt.

Uurimistöö jaguneb kolmeks teemaks. Esmalt kaardistatakse ja süstematiseeritakse rahvusvaheline eelarvekärbete alane kirjandus 1970ndatest ja 1980datest aastatest (60 teaduspublikatsiooni) koherentseks analüütiliseks raamistikuks, tuues välja peamised eelarvekärpe strateegiad ja instrumendid valitsuse ja asutuse tasandil nii teoreetilisel kui empiirilisel tasemel (**I**). Teiseks viiakse läbi võrdlev analüüs hiljutise fiskaalkriisi mõjust avalikule haldusele 17 Euroopa riigis<sup>6</sup>, põhinedes nende riikide ametnike seas läbi viidud küsitlusel, ametlikul statistikal ja erinevatel raportitel, mis koguti Euroopa Liidu 7. raamprogrammi projekti „Koordineerimine ja ühtsus riigivalitsemisel: reformid ja tuleviku väljakutsed“ (COCOPS) ja selle alamprojekti „Finantskriis - tärkav väljakutse koordineerimisele avalikus sektoris“ raames, mille täitja käesoleva väitekirja autor oli. Euroopa riikide võrdleva analüüsi raames uuritakse kärbete juhtimist, otsusetegemise mustreid ning muudatusi otsustusprotsessides valitsuskabineti ja organisatsiooni tasemel (**IV; V; VII**), tuues eraldi välja ka kärpestrateegiad ja -instrumendid organisatsiooni tasemel (**IV;V**). Analüüs seletab peamisi sarnasusi ja erisusi erinevate Euroopa riikide reaktsioonides hiljutisele fiskaalkriisile (**V**) ning uurib otsustusprotsesside tsentraliseerimise põhjuseid ning mustreid (**VII**). Kolmandaks viiakse läbi Eesti juhtumiuuring kaardistamiseks ja seletamiseks detailselt kärpeprotsessiga seonduvaid väljakutseid ja dilemmasid nii valitsuskabineti, organisatsiooni kui ametniku tasemel, analüüsides kolme tasandi omavahelist suhestumist. Esimese aspektina uuritakse otsustusprotsesside dünaamikat kärbete juhtimise ajal Eesti valitsuses (**II**), vaadeldakse tulemusinformatsiooni kasutamist fiskaalkriisi aegses

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<sup>5</sup> Väitekirja autor on panustanud võrdselt kaasautoritega publikatsioonidesse I, IV ja V, artiklis II on väitekirja autor juhtautor ning artiklis VI ja VII seisnes autori roll andmete kogumises ja analüüsimises.

<sup>6</sup> Valimisse kuuluvad Austria, Eesti, Hispaania, Holland, Iirimaa, Itaalia, Leedu, Norra, Portugal, Prantsusmaa, Rootsi, Saksamaa, Serbia, Soome, Suurbritannia, Taani ja Ungari.

eelarvestamisprotsessis (VII) ning uuritakse kärbeta mõju organisatsiooni ja indiviidi tasandil, keskenduses tänavataseme bürokraatide rollile fiskaalkriisiaegses poliitikakujundamise protsessis (III). Eesti juhtum on antud väitekirja keskmeks, kuna Eesti valitsus oli maailmas üks esimesi, kes vastusena fiskaalkriisile viis ellu radikaalsed kärped riigieelarves kohe pärast kriisi ilmnemist juba 2008. aastal (samal ajal kui teiste Euroopa riikide valitsused lükkasid kärpeid edasi). Suur osa eelarvekärbetest puudutas valitsusasutuste administratiiv- ja personalikulusid, mis realiseerusid suuremahulistes palgakärbetes, koondamistes ja vähendatud tööajast (II; III). Seega fiskaalkriis ja sellega seotud kärped mõjutasid Eestis tugevalt nii valitsuskabinetti, valitsusorganisatsiooni kui ka ametnikke, pakkudes suurepärase võimaluse sügavuti uurida kärpeprotsessi erinevatel tasemetel ja keskenduda seoste analüüsimisele erinevate tasemete vahel.

Käesoleva väitekirja teoreetiline raamistik põhineb eelarvekärbeta alasel kirjandusel (nt. Dunsire ja Hood 1989; Levine 1978, 1979; jt) kombineerides seda avaliku halduse ja halduspoliitikaalase ning tänavataseme bürokraatia kirjandusega (nt. Adolino ja Blake 2001; Andreson 2000; Lipsky 1980; Meyers ja Vorsanger 2003; Peters ja Pierre 2004; jt). Eeltoodud kolme teoreetilise suuna ühendamine võimaldab analüüsida kärpeprotsessi ning erinevate tasemete toimijate rolli ja nende vahelisi suhteid eelarvekärbeta kontekstis.

### **Kärbeta juhtimise väljakutsed ja valikud valitsuskabineti, organisatsiooni ja indiviidi tasemel**

Käesolev väitekirj näitab, et fiskaalkriis ja sellega seotud eelarvekärped toovad valitsuskabineti, organisatsiooni ja ametniku tasemel kaasa põhimõtteliselt erinevad väljakutsed ja valikud. Valitsuskabineti tasemel on peamiseks väljakutseks üldiste kärpe- strateegiate valimine, mistõttu on vaja leida vastused kahele küsimusele. Esiteks, milliseid riigieelarve kulukategooriaid kärpida – valitsuse tegevuskuludid (sh personali ja majapidamiskulud), programmilisi kuludid (sotsiaaltoetused, eraldised, otsetoetused kodanikele ja kohalikele omavalitsustele) või investeringuid (I; V). Teiseks, kas seada kõikidele kärbeta sihtgruppidele (nt erinevad poliitika valdkonnad või valitsusorganisatsioonid) võrdne kärbeta määr või otsustada selektiivsete kärbeta kasuks, kärpides mõne sihtgrupiga seotud kulud rohkem kui teisi ning jättes mõned sihtgrupid kärbeta üldse puutumata (I; Dunsire and Hood 1989).

Organisatsiooni tasemel on fundamentaalseks küsimuseks kärbeta sisu spetsiifiliselt: millist kulurida organisatsiooni eelarvest kärpida ning kas selle käigus säilitada või muuta olemasolevaid teenuseosutamise mustreid (Dunsire and Hood 1989). Seega saab siinkohal suurimaks dilemmaks, kas jätta fiskaalkriisiga seotud kulud organisatsiooni enese kanda või jagada neid ka kodanike ja erasektoriga.

Peamiseks küsimuseks ametniku tasemel on, kuidas eelarvekärbete ajal keerulises töökeskkonnas ning vähenenud ressurssidega tagada avalike teenuste pakkumine. Pingeline olukord suunab tavapäraselt tänavataseme bürokraate otsima erinevaid kohanemis-mehhanisme (*coping strategies*), mis aitavad tööga toime tulla ja teenuse pakkumist optimeerida (Lipsky 1980; Winter 2002). Siinkohal saab oluliseks dilemmaks, millist toimetulekumehhanismi rakendada, kuna need varieeruvad kodanikule edastatava informatsiooni piiramisest, programmi eesmärkide modifitseerimisest kuni teatud tegevuste ja kliendigruppide eelistamiseni (III; Meyers ja Vorsanger 2003, 247; Nielsen 2006, 865).

### **Eelarvekärbete protsess kui süü veeretamine**

Väitekirjas käsitletud juhtumianalüüside põhjal võib väita, et kuigi valitsuskabineti, organisatsiooni ja ametniku tasemel tõusetuvad kärpeprotsessi ajal põhimõtteliselt erinevad väljakutsed ja valikud, on kõigil kolmel tasandil kesksks küsimuseks, kuidas saada hakkama koormaga, mis tuleneb riigieelarve kärpimisest: kuidas ja kellele jätta kanda kärbetega seonduv koorem, kuidas vältida konflikte, vastuseisu ja muid kaasnevaid tehingukuluseid, mis tekivad kärpeotsuste tegemisel ja elluviimisel? Just need küsimused vajavad vastust kõigil kolmel tasemel. Kuna kriisi ajal on vaja ümber jagada pigem kahju kui kasu, on rohkem kaotajaid kui võitjaid ja lõpuks ka rohkem süüd kui kiitust (sest kärbete määramine paratamatult tekitab süüdlasi), saab kärbete juhtimisest süü veeretamise mäng (*blame game*), kus kolme erineva taseme toimijad on paratamatult kas süü tekitajad või süü võtjad, kes otsivad võimalusi süü veeretamiseks teistele osapooltele (vt Hood 2011).

Käesolev väitekirj näitab, et kärpeprotsess kui süüveeretamise mäng võib järgida erinevaid stsenaariume ja kulmineeruda erinevatel viisidel: kõikidel tasemetel on võimalus süüd kas vältida, pöörata oma kasuks, nihutada või jagada (Hood 2011). Käesolev uurimus kinnitab, et kärpeprotsessi üldine stsenaarium otsustatakse valitsuskabineti tasemel, kus poliitikud kui kõrgeima taseme otsusetegijad määravad, mida ja kuidas kärbitakse ja kellest saavad peamised piksevardad eelarve vähendamisel. Euroopa riikide juhtumiuuringud kinnitavad, et oma süü vähendamiseks kärpeotsuste tegemisel kasutati valitsuskabinettide tasemel mitmeid võimalusi – näiteks kollektiivset otsuste tegemist ajutiselt kokkukutsutud töögruppides ja superkomiteedes (II; IV; V), mis aitasid hajutada poliitilist vastutust. Samuti kasutati otsustusõiguse delegeerimist, andes õigus kärbete sisu määramisel alumistele otsusetegemise tasemetele, et ennast vabastada eelarvekärpe detailide seadmisest. Lisaks võimustati kärpeprotsessis riigi keskseid eelarvekujundamisega seotud institutsioone, et distantseerida valitsuskabinetti kärpeprotsessi otsesest juhtimisest. (I-V) Muuhulgas kasutasid paljude riikide keskvalitsuse toimijad võimalust suunata süü üles poole rahvusvahelistele organisatsioonidele, nagu näiteks Euroopa Liit, Rahvusvaheline Valuutafond ja Euroopa Keskpank, sest mitmes riigis juhtisid just nimetatud institutsioonide poolt seatud tingimused kärpeotsuseid ja kärbete elluviimist (V). Valitsuskabinettide

otsinguid süüst vabaneda, ükskõik kas seda siis üles- või allapoole suunates, seletab fakt, et kõrgeima taseme otsustajana on valitsuskabinet juba loomupoolest süü tekitaja, teisalt on valitsusliikmete peamiseks huviks valijate poolehoid ja tagasisvalimine. Seda peegeldavad ka käesoleva väitekirja juhtumiuuringute tulemused, mille kohaselt lükkasid enamus Euroopa valitsusi eelarvekärped edasi üldvalimiste järgsesse perioodi (V).

Organisatsiooni tasemel kulgeb süü veeretamise mäng edasi: ühelt poolt on selle taseme otsustajad süü võtjad, kuna nad peavad valitsuskabineti otsuste alusel kärpeid ellu viima. Eesti juhtum näitlikustab, kuidas mitmekordsed tsentraalselt ettenähtud eelarvekärped panid organisatsioonide juhid väga keerulisse olukorda (I; III). Hoolimata sellest, et neile justkui anti võimalus teha iseseisvaid kärpeotsuseid organisatsiooni tasandil, ei andnud ajasurve ja kärpete suur maht, nende korduv iseloom ja fakt, et valitsusorganisatsioonide tegevuskulud sisaldavad väga vähe paindlikke kuluridasid, erilist otsustusvabadust. Teisalt, koormates kärpete elluviimisel organisatsiooni liikmeid ja sihtgrupe, on organisatsioonitaseme toimijad ise ka süü tekitajad. Eesti juhtumiuuring kinnitab, et lisaks konkreetsetele otsustele saab süüd edasi veeretada ka mitteotsustega, kui ei kasutata ära võimalust absorbeerida süüd organisatsiooni tasemel (kehtestades ametlikud reeglid teenuseosutamise muutmiseks, teenusekvaliteedi vähendamiseks või teenustele liigipääsu piiramiseks), vaid see delegeeritakse edasi ametniku tasemele. (II; III)

Väitekirja näitab, et süü, mida püütakse vältida valitsuskabineti ja organisatsiooni tasemel, valgub institutsionaalset hierarhiat pidi allapoole, mistõttu lõpuks on just ametnikud need, kes on nurka surutud ja peavad leidma lahendusi keerulistele olukordadele. Paradoksaalselt on just indiviidi tasemel kõige vähem ressursse ja võimalusi süü edasi lükkamiseks. Tavapäraselt keelduvad tänavataseme bürokraadid väga keerulistes olukorras üldse teenust osutamast või survestavad kodanikke endid teatud valikuid tegema (Hood 2011, 103). Eesti juhtum näitlikustab, et tänavataseme bürokraadid võivad keerulises olukorras küll koormata kodanikke (vähendades teenuse osutamiseks ettenähtud aega, suunates neid iseseisvalt infot otsima), kuid selle eesmärgiks on võimaldada avalike teenuste osutamist ja poliitikate elluviimist kriisi kontekstis. Seeläbi on just tänavataseme ametnikud need, kes võtavad kriisiaegses poliitikakujundamises suure hulga vastutuskoormast ja seeläbi ka süüst. Eesti juhtum näitlikustab, et aktsepteerides valitsuskabineti otsuseid, palgakärpeid ja kriisiaegset keerulist töökeskkonda ning ebatavalisi ülesandeid, aitasid tänavataseme bürokraadid kaasa kriisiaegsete poliitikaeesmärkide saavutamisele. (III) See kinnitab ka Drechsleri (2011, 23) poolt öeldut, et päeva lõpuks on just üksik ametnik oma väikeses kabinetis see, kes kaitseb meid keerulistes olukordades.

Käesolev väitekiri demonstreerib, et see, kuidas kärpeprotsessis süü erinevate tasemetel toimijate vahel jaguneb, sõltub paljuski riigispetsiifilisest institutsionaalsest süsteemist ja ühiskonnakorraldusest laiemalt. Nagu Douglas (1990) on öelnud, keda ja mille eest süüdistatakse, on kultuuri ja selles levinud hoiakute keskne tunnus. Seega, millised kärped on saavutatavad, teostatavad ja rakendatavad, sõltub mitmetest riigispetsiifilistest tunnustest. Käesolev väitekiri kinnitab, et väga suurt rolli mängis kolme erineva taseme toimijate otsustes riigi avaliku teenistuse süsteem, sellega seotud õiguslik raamistik ning ametiühingute, sotsiaalsete partnerite ja põhiseaduslike institutsioonide roll ja “hää” halduspoliitika kujundamise protsessis. Tulenevalt nõrgast kodanikuühiskonnast ja ametiühinguliikumisest ei olnud Eestis sotsiaalsete partnerite heakskiit valitsevale koalitsioonile kriitiliselt oluline (Raudla and Kattel 2011; II; III), mistõttu sai valitsuskabinet hõlpsasti kärpida kõiki võimalikke riigieelarve kuluridasid, pannes suuri koormaid nii kodanikele kui ka avalikule haldusele enesele. Samal ajal Iirimaa, Itaalias, Islandil ja Hispaanias sundisid avalikud protestid ja meeleavaldused valitsusi kärpeotsuseid kuude kaupa edasi lükkama. Samuti, Saksamaal, Itaalias ja teistes riikides, kus on karjäärisüsteemi põhine avalik teenistus, ei andnud seadusandlus võimalust avaliku teenistuse personalikulude kärpimiseks. Fakt, mis ilmestab kõige paremini erinevusi riikide „süü kultuuris“ on see, et enamuse Euroopa riikides, mida käesolevas väitekirjas uuriti, välja arvatud Eesti, ei osutunud kärpeid planeerinud või elluviinud koalitsioonierakonnad tagasivalituks (V).

Väitekirjast ilmnevad ka mitmed võimalused edasiseks uurimistööks (I-VII). Esiteks pakub jätkuvat uurimispotentsiaali kärpeprotsess kui erinevate osapoolte võimu ja süü veeretamise mäng. Käesolev väitekiri näitab, et lisaks valitsuskabinetile, organisatsiooni ja indiviidi taseme toimijatele on eelarvekärpe protsessis oluline roll ka rahvusvahelistel organisatsioonidel ning kodanikel, keda ei tohiks edaspidises uurimistöös tähelepanuta jätta. Lisaks kinnitavad käsitletud juhtumiuuringud, et eelarvekärbete juhtimine on protsess, kus toimijad erinevatel valitsuse tasemetel üheskoos (mitte ainult valitsuskabineti tasandil) määravad, kuidas lõppkokkuvõttes kriisiaegsed poliitikaeesmärgid saavutatakse. Samas, eelarvekärbete ajal muutuvad erinevate tasemetel toimijate rollid ja poliitikakujundamise protsess tervikuna (tõusetub eelkõige otsusetegemise ja elluviimise osatähtsus võrreldes agenda seadmise või poliitikaanalüüsi etappidega) (II; III; VII), mistõttu klassikaline poliitika protsessi mudel kaotab kriisi kontekstis oluliselt seletusjõudu. Seega pakub fiskaalkriisi ja eelarvekärbete protsess huvitava uurimisfookuse poliitika protsessi mudeli seisukohast. Viimaseks, oluline edasine samm uurimaks fiskaalkriisi mõju avalikule haldusele on kriisi ja sellega seotud eelarvekärbete mõjude analüüsimine pikemas perspektiivis, uurides mõjude püsijäämist ka kärpeperioodi järgsel ajal.

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## **PUBLICATIONS (Articles I-VII)**

### **Article I**

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## Cutback management literature in the 1970s and 1980s: taking stock

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### Abstract

The main purpose of this article is to take stock of the literature on public sector cutback management in the 1970s and the 1980s, with a specific focus on cutback strategies and the contents of cutbacks. Both theoretical and empirical studies, focusing either on the central or local government level or different policy fields, have been reviewed. The study shows that when governments face cutbacks, they need to address the fundamental choice between across-the-board and targeted cutback strategies. Cutbacks do not occur as one-off single actions but are usually carried out in a number of cutback rounds. The longer-lasting and the more severe is fiscal stress, the more likely it is that the governments will start imposing targeted cuts rather than implementing across-the-board strategies. Looking at the patterns of cutback management in the past is expected to provide useful insights for systematizing the approaches to cutback management and for researching the current crisis.

### Points for practitioners

This article provides an overview of cutback management practices in the 1970s and the 1980s with the expectation that it will contribute to addressing the current fiscal crisis. The pros and cons of targeted versus across-the-board cutback strategies are discussed. The article also looks at various cutback measures including operational cuts (hiring freeze, pay freeze, lay-offs), programme and capital cuts. The study shows that the longer-lasting and the more severe the fiscal stress, the more likely it is that the governments will begin to impose targeted rather than across-the-board cuts. It is found that personnel costs are cut rather reluctantly, and hiring freeze is a dominant measure compared to salary cuts or lay-offs.

### Keywords

budgeting, crisis decision-making, cutback management, fiscal crisis, retrenchment

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## Introduction

In light of the large-scale impact that a fiscal crisis can have on government and society, it is somewhat surprising how little *systematic* analysis one can find in the scholarly literature of public administration on the topic of cutback management. As Dunsire and Hood (1989: 1) put it: ‘a great deal of academic thought has been given to explaining the problem of government growth, but there has been no comparable attention to explaining how the difficulties of cutting back government might best be approached. . .’. Still, despite the relative lack of systematic research on the topic, there is by now a sufficient body of studies dealing with cutback management to provide input for some stock-taking.

All in all, the existing public administration literature on cutback management falls into three categories – studies on cutback management of the late 1970s and 1980s, contemporary public administration literature on managing austerity, and generic management research on organizational decline (Bozeman, 2010; Cepiku and Savignon, 2012). The cutback management literature in *public administration* began with the seminal article by Levine (1978), followed by a surge of publications dealing with the topic. The public administration scholarship on cutbacks ‘reached its zenith in the early 1980s’ but then vanished (Bozeman, 2010: 558) to rise again with the recession of the early 2000s, followed by a major spurt of cutback management research in the post-2008 fiscal environment. The contemporary public administration literature on managing austerity is diverse, being especially rich in studies labelled ‘preliminary’ and ‘paving the way for more elaborate theorizing’ (e.g. Lodge and Hood, 2012; Peters et al., 2011; Pollitt, 2010). The academic studies on the current crisis show that up to now, government responses to the crisis have been divergent (see Bideleux, 2011; Kickert, 2012; Lodge and Hood, 2012; Peters, 2011; Peters et al., 2011; Pollitt, 2010).

The main purpose of this article is to take stock of the literature on public sector cutback management in the 1970s and the 1980s. A few prominent authors (Bozeman, 2010; Pandey, 2010) have already found it useful to look back at that era; however, their focus has been different from this study. While Pandey (2010) focused on the paradox of publicness in cutback management, and Bozeman studied the (ir)relevance of generic decline literature, in this article the focus is on *managing expenditure cuts*. In fact, in the cutback management literature of the 1970s and 1980s, various approaches for coping with fiscal crisis have been put forth. The most general taxonomy points to the choice between revenue increases, productivity enhancements and expenditure cuts (see, e.g. Higgins, 1984; Levine et al., 1982; Morgan and Pammer, 1988; Pammer, 1990; Weinberg, 1984). This particular article will focus on the decisions that are made *after* the decision has been made to consolidate and to use expenditure cuts for that purpose. We narrow our focus to an in-depth study of cutbacks because these have the clearest bearing on ‘cutback management’ (which, by definition, entails ‘cuts’), and space limitations would not allow us to thoroughly explore all possible consolidation options. More specifically, the review at hand focuses on *cutback strategies* and *contents of*

*cutbacks* because these pertain to the *most basic choices* public organizations have to face when cutting expenditure. The delineation used in this article of the various cutback strategies and measures can contribute to the systematization of existing approaches to cutback management.

In addition, this article is distinguished from similar work because it draws a line between normative discussions and empirical studies. Whereas previous articles on the cutbacks in the 1970s and 1980s have only referred to occasional empirical evidence, this study aims to provide a thorough overview and systematization of the empirical findings from the previous era of fiscal stress. Looking back at almost two decades of cutbacks also allows us to explore the *dynamics* of specific cutback strategies over a longer time period than studying the contemporary crisis would allow.

To compile the review, the search words ‘cutback management’, ‘managing cutbacks’ and related terms (e.g. fiscal crisis, fiscal stress management, retrenchment) were used to identify the relevant studies. In addition, all the reference lists of the studies found were examined to ensure that all relevant academic studies examining cutbacks would be included in the review. The focus was primarily on the academic literature in the scholarly field of *public administration* and on those studies that dealt with *cutback strategies* and *contents of cutbacks*. In order to keep the overview of the literature sufficiently focused, the studies on cutback management, undertaken in the related fields of social work, higher education and health care management and in the more generally oriented organizational decline literature, were not included in this article. Also, the studies from the literatures of political economy and welfare state retrenchment were left out for three reasons. First, literature reviews on the political economy of welfare state retrenchment have already been undertaken (e.g. Starke, 2006) and the politics of austerity has been extensively discussed, for example, by Posner and Sommerfeld (2013). Second, many studies in these fields do not deal with issues directly connected with managing cutbacks. And third, including studies from these streams of literature would have made the scope of the literature review too broad.

Both theoretical and empirical studies addressing either the national, state, and local government level were made use of. In total, 60 studies are covered in this review (43 of which are empirical articles). The cut-off year for including the studies was 1990, although a few studies that specifically analyse the cutbacks in the 1970s and 1980s were included (e.g. Berne and Stiefel, 1993; Braun et al., 1993). The review is not restricted to any particular country or group of countries. However, it should be noted that most of the empirical studies on cutback management have been written about the US (especially about US local governments) and the UK. Substantially fewer studies of the 1970s and the 1980s address the other OECD countries. The Appendix provides a summary of the *empirical* studies that are covered in this article.

The literature review proceeds as follows. First, the general cutback strategies are outlined and the main characteristics of the two main strategies – across-the-board and targeted cuts – discussed. Thereafter, the contents of cutbacks are

addressed more specifically. Throughout the article, theoretical conjectures and empirical findings are presented hand in hand.

## **Cutback strategies**

### *Across-the-board versus targeted cuts*

In the literature on cutback budgeting and cutback management, a number of categorizations of cutback strategies have been put forth. However, the most basic distinction that emerges from this literature is the distinction between across-the-board 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.

This dichotomy has been labelled in various ways. The across-the-board tactic has also been called 'decrementalism' (e.g. Levine, 1985; Levine et al., 1981a), 'equal misery' approach (Hood and Wright, 1981), 'cheese-slicing' (Tarschys, 1985), 'lawn-mowing' (Banner, 1985) and 'pro rata cuts' (Wolman, 1983). The 'targeted' or 'selective' cuts approach has been conceived of as involving an array of possible tactics, ranging from 'strategic prioritization' and 'managerial' to 'ad hoc' or even 'random' (or garbage can) cuts (see, e.g. Behn, 1980; Hendrick, 1989; Levine, 1978, 1979).

It is important to keep in mind that these two cutback strategies can be applied at either *macro* (or *national policy*) level (e.g. when the cutback decisions are made by the cabinet of ministers) or at the *organizational* level (i.e. within the individual ministries or agencies). Selective cuts at the national policy level imply political prioritization between different institutions and/or policy fields, while targeted cuts at the *organizational* level entail decisions concerning the distribution of cuts between the subunits and the services provided by the organization. At the organizational level, one can distinguish between strategic and managerial approaches when applying the targeted cuts. Strategic response to fiscal stress could mean, for example, that, keeping in mind the organization's mission, low-priority programmes would be cut more than high-priority programmes (Levine, 1985: 691; Levine and Rubin, 1980: 15). In the *managerial* approach, the cuts are also selective, but instead of using comprehensive and rational analysis for making the cuts, the officials use 'programmatic criteria related to mandatory and non-mandatory expenditures to determine requests and appropriations' (Hendrick, 1989: 30).

### *Normative discussion: Advantages and disadvantages of across-the-board versus targeted cuts*

In normative discussions about how to proceed the cutbacks, two lines of argument can be found. Most call for more *rational* approaches (see, e.g. Levine, 1985; McTighe, 1979) implying the making of cutbacks on the basis of comprehensive analysis and strategic prioritization, while some – out of pragmatic considerations



– argue that ‘rational’ approaches may not necessarily be the most feasible option in the midst of a fiscal crisis and hence decremental approaches could be more advisable. Indeed, as Hood and Wright (1981: 203) put it, ‘The equal misery approach may have a very strong element of rationality about it.’ In the following we give a brief overview of the advantages and disadvantages of the decremental or across-the-board approach to making cutbacks. The mirror images of these arguments can be viewed as cons and pros of targeted cuts.

The main advantages of decrementalism (entailing across-the-board cuts) are the following: (1) it reduces decision-making costs; (2) it minimizes conflict and (3) it is perceived as being equitable (Banner 1985; Biller, 1980; Dunsire and Hood, 1989; Hood and Wright, 1981; Levine, 1978, 1979; Schick, 1983; Tarschys, 1985). First, across-the-board cuts do not require extensive *ex ante* analysis for identifying the expenditure categories that will be cut (Hood and Wright, 1981: 204; Levine, 1978: 320). Thus, such cuts can be imposed quickly and relatively ‘easily’ (Banner, 1985; Hood and Wright, 1981; Schick, 1988). Further, because of the nature of the public sector, comprehensive analysis for identifying the objects of cuts can be complicated. As Levine (1978: 320) notes, targeted cuts ‘involve costly triage analysis because the distribution of pain and inconvenience requires that the value of people and subunits to the organization have to be weighed in terms of their expected future contributions’. This is all the more difficult because ‘in government there is substantial complexity, uncertainty, and differences of opinion about means and ends that convert into disagreements about priorities’ (Levine, 1984: 252). Second, the decremental approach minimizes conflicts (at both the macro and micro levels) since it avoids ‘specifying the victims’ or ‘stigmatization’ of specific programmes (Hanushek, 1986; Hood and Wright, 1981: 206; Schick, 1983; Tarschys, 1985: 40). As Schick (1988: 528) explains, selective cuts based on strategic prioritization assume systematic evaluation of the existing programmes but ‘evaluations stir up conflict at the time that government officials desperately need support for the tough choices they face. Budget targets and ceilings mask the programmatic impacts of cuts; review and evaluation highlight these consequences.’ Third, the ‘equal misery’ entailed in decremental cuts makes them seem equitable – at both the macro and micro levels – and enables the ‘cutters’ to appeal to ‘common sense ideals of justice’ (Levine, 1978: 320) and hence increase the perceived fairness and legitimacy of the cuts (Banner, 1985; Biller, 1980; Hanushek, 1986; Schick, 1983; Tarschys, 1985). Further, ‘sharing the pain’ implied by across-the-board cuts may even ‘integrate’ (Biller, 1980: 607) and ‘help to maintain morale’, ‘build a good team spirit’ (Levine, 1979: 182) and unify the members of the organizations (Hood and Wright, 1981: 206).

Despite its apparent advantages, the decremental approach has also been extensively criticized in the literature on cutback budgeting and cutback management. Specifically, the main drawbacks of across-the-board cuts are considered to be the following: (1) such cuts may not reflect the public needs and preferences; and (2) may penalize efficient organizations; further, they (3) may ignore varying needs of different units and (4) lead to a decline in service levels and quality. First, as Levine

(1985: 692) puts it, 'decrementalism at the margins of units and programs does not reflect a realistic assessment of public needs and preferences for services', Banner (1985: 55) also notes that across-the-board cuts do not take into account 'differences in the importance and urgency of tasks of the various administrative areas'. In other words, across-the-board cuts would be a reasonable response only if 'the present budget reflects perfectly the community's desired mix of government services' (Lewis and Logalbo, 1980: 186) and the initial allocation of spending is 'optimal' (Hanushek, 1986: 9) which may not always be the case (Tarschys, 1985). Second, a serious shortcoming of across-the-board cuts is that they are likely to penalize more efficient organizations, units and individuals, because 'they will be forced to make much tougher decisions about who, what, and how cuts will be distributed' (Levine, 1979: 181). Third, across-the-board cuts can be 'insensitive to the needs, production functions, and contributions of different units'. Indeed, such cuts may have differential impacts on units with different sizes and different levels of specialization. As Levine (1978: 322) argues, across-the-board cuts may not be 'felt' by large unspecialized units, but for small specialized units, across-the-board cuts may prove 'immobilizing'. Finally, Levine (1985: 692, 697) points out that the problems caused by decrementalism may accumulate and lead to declining service levels and service quality or even to 'general service default'. Indeed, beyond a certain threshold, across-the-board cuts may lead to effects or unforeseen impacts on organizational performance. Behn (1980: 615) argues that when 'across-the-board cuts exceed a certain threshold (i.e. the point where organizational slack can be used to absorb the cuts without reducing output significantly), a budgetary cutback of Y percent will reduce production by more than Y percent'. Put more generally, as Levine (1978: 317) argues, 'organizations cannot be cut back by merely reversing the sequence of activity and resource allocation by which their parts were originally assembled. . . . Therefore, to attempt to disaggregate and cut back on one element of such an intricate and delicate political and organization arrangement may jeopardize the functioning and equilibrium of an entire organization.'

In light of these drawbacks, Behn (1980: 617) puts it rather strongly when he states, 'During retrenchment, ad hoc decision making, which is responsive only to crises and pressures, not any overall plan, is dangerous.' Most other authors are somewhat more pragmatic and argue that decrementalism may be appropriate for dealing with small cuts, whereas achieving deeper cuts necessitates selective cutbacks (Levine, 1984; Schick, 1983: 21). As Schick (1983: 19) observes, small across-the-board cuts usually allow organizations to continue 'business as usual'. Levine (1984: 252) puts it in more specific terms, when he notes that decrementalism would be 'probably appropriate when a downturn is in fact cyclical and cuts are not very deep (e.g. 7% or less of the budget in any one year or 15% over a three-year period)'. Beyond this level, however, problems arise and the decremental approaches may take 'a heavy toll in the effectiveness of organizations.' (1984: 252)

### *Which approaches dominate in reality? Theoretical predictions and empirical evidence*

Based on the cutback management literature in the 1970s and 1980s, it is possible to point to four theoretical lines of reasoning, each making somewhat different predictions about the choice by the budget actors between across-the-board and targeted strategies. Theories proceeding from the assumption of *rational choice* by the budget actors predict the making of targeted cuts on the basis of strategic priorities and the performance of the various organizations (in the case of macro-level cuts) and on the basis of the performance of organizational subunits and the programmes they deliver (in the case of cuts within organizations) (Jick and Murray, 1982; Lewis, 1984; Straussman, 1979; Tarschys, 1981). Theories focusing on *political behaviour* and *party politics* – dealing with the macro-level cutbacks – predict that cuts would be selective since decision-makers would want to minimize the opposition of the public and interest groups to the cuts and hence focus the cuts on those expenditure areas that hurt them the least (and hence ‘cost’ the least amount of votes) (Downs and Rocke, 1984; Hood et al., 1988; Jick and Murray, 1982; Lewis, 1984; Pammer, 1990; Rubin, 1985; Wolman and Davis, 1980). According to the *incrementalist* theory of budgeting (see, e.g. Davis et al., 1966; Wildavsky, 1964), which focuses on bureaucratic processes in the context of bounded rationality, the cutbacks would be decremental, essentially taking the form of ‘incrementalism’ in reverse, with cuts amounting to ‘decrements’ from the base. Thus, the incrementalist framework would predict that among cutback strategies, the use of across-the-board cuts would prevail (Downs and Rocke, 1984; Lewis, 1984; Schick, 1983). Theoretical approaches focusing on *managerial* behaviour (at the organizational level) argue that across-the-board cuts would be difficult because significant portions of the budget entail mandatory expenditures; thus, decision-makers would make cuts to those areas where expenditures are controllable (Downs and Rocke, 1984; Pammer, 1990). More specific predictions have been made by authors who discuss the systematic links between environmental factors (like the severity and duration of fiscal stress) and cutback tactics chosen; these will be reviewed in the following section.

With regard to the question of which of these two general cutback tactics – across-the-board or targeted approaches – dominate *in reality*, the existing empirical studies of the 1970s and the 1980s offer rather mixed evidence. Table 1 provides an overview of the empirical studies that have examined this question. As can be seen from the table, there are a number of studies that point to the dominance of across-the-board cuts (at different levels of government). The predominance of targeted cuts has only been observed by three studies (and all of them deal with local governments). The majority of the empirical studies find that a mix of the two strategies has been used in cutback management. The prevalence of the ‘mixed’ strategy can reflect a number of different issues. First, as will be discussed below, different ‘rounds’ of cutbacks can be characterized by different strategies. Second, the cuts to different expenditure categories can follow different strategies: for

**Table 1.** Prevalence of across-the-board vs targeted cutbacks: findings of empirical studies

|   | Predominantly<br>across-the-board<br>cuts      | Predominantly<br>targeted cuts                            | Mix of<br>across-the-board<br>and targeted cuts   |
|---|--|---|---|
| Local government                          | Banner (1985)<br>Levine (1985)<br>Lewis (1984) | Downs and<br>Rocke (1984)<br>Lewis (1988)<br>Koven (1985) | Hendrick (1989)<br>Higgins (1984)<br>Glassberg (1978)<br>Levine et al. (1981a)<br>Levine et al. (1981b)<br>Levine et al. (1982)<br>MacManus and<br>Pammer (1990)<br>Morgan and<br>Pammer (1988)<br>Pammer (1990)<br>Rickards (1984)<br>Wolman and Davis (1980)<br>Wolman (1983) |
| Sub-national<br>state-level<br>government | Braun et al. (1993)                            |   | Caiden and Chapman (1982)<br>Duncombe and<br>Kinney (1984)  |
| National-level<br>government              | Schick (1983)<br>Schick (1988)                 |   | Hartley (1981)<br>Dunsire and Hood (1989)<br>Tarschys (1986)  |

example, across-the-board cuts are more likely to be used in the case of operational expenditures, whereas transfers would be subjected to more selective cuts. Third, while cuts can be undertaken as 'across-the-board' at the most general level (e.g. for ministries, departments or agencies), the effects of translating them into actual cuts within organizations may be more targeted and selective.

### *Factors influencing cutback strategies*

A number of studies in the cutback management literature also discuss the factors that are likely to influence the general cutback strategy (i.e. across-the-board vs targeted) chosen by the decision-makers.

Two factors that have received extensive attention are: the *duration* and *severity* of fiscal stress on the cutback decisions taken by decision-makers (at both the macro and micro levels). It is conjectured that the longer-lasting and the more severe the fiscal stress is, the more likely it is that the authorities will begin to impose targeted cuts (rather than implementing the across-the-board approach) (Banner, 1985; Hood and Pammer, 1990; Levine, 1979, 1985; Levine et al.,

1981a, 1981b, 1982; Wright, 1981). Levine (1979: 182) argues that at the beginning of the austerity, across-the-board cuts are more likely (as the 'sharing the pain' option is likely to be perceived as more equitable and hence to generate less conflict and resistance), but if these measures are not sufficient, more targeted cuts on the basis of prioritization will be adopted (see also Hood and Wright, 1981; Pammer, 1990). Similarly, in their 'administrative response model' of cutback budgeting, Levine et al. (1981a, 1981b) predict that governments would respond to fiscal stress in a systematic way, depending on the duration and severity of the fiscal stress. They conjecture that in the initial phases of revenue decline, the cutbacks would be decremental, but the *larger* and *longer-lasting* the revenue declines are, the more likely the adoption of targeted cuts becomes.

The existing *empirical* studies point to mixed evidence with regard to the systematic relations between factors such as the duration and severity of the fiscal stress and the specific cutback tactics chosen. Several studies (e.g. Glassberg, 1978; Hartley, 1981; Higgins, 1984; Levine, 1985; Levine et al., 1981a, 1981b, 1982; Tarschys, 1986; Wolman, 1983; Wolman and Davis, 1980) do find evidence of the shift from across-the-board to targeted measures as the fiscal stress deepens. Some studies, however, have found no evidence on the *systematic* impact of the length and severity of the fiscal stress on the cutback measures chosen (e.g. Downs and Roche, 1984; Pammer, 1990).

In addition to the fiscal factors that are likely to influence the choice between decremental or selective cutback strategies, there are also a number of organizational features that may influence this choice at the micro level. Glassberg (1978), for example, argues that in organizations with more fixed tasks, decremental strategies are likely to dominate, whereas those with more flexible tasks would be able to opt for more targeted cuts. As he explains, the cutback strategy chosen in an organization would depend on the leadership style that emerges in the organization during fiscal stress. He conjectures that 'cut the fat tough guy'-type leadership (focused on cutting overhead costs and constraining labour costs) is more likely to emerge in organizations with fixed functions, whereas 'revitalizing entrepreneur'-type leadership (which seeks to 'redirect the organization into a narrower scope of activity, hoping to create a new equilibrium between resources and costs') is more likely to emerge in organizations with flexible functions. Levine (1985: 695) argues that the ability of the departments and agencies to undertake more strategic approaches depends on their strategic capacities, including, for example, financial forecasting, cost accounting and planning capacity. Levine et al. (1981a, 1981b, 1982) note that authorities with more centralized and less politicized decision-making are better able to impose targeted cuts. Pammer (1990) has also pointed to the 'administrative sophistication' as an explanatory variable behind the choice of cutback strategies. McTighe (1979: 89) argues that 'rational' approaches to cutback budgeting and management would be hampered by the following factors: decentralization of an organization, an unclear mission, contentious politics and a strong clientele.

## Contents of cutbacks

The fundamental question of cutback management is the contents of cutbacks: *what* should be cut. This issue is addressed in the following section by looking at different *cutback measures*, their corresponding advantages and disadvantages and surveying the prevalence of these cuts in different *expenditure categories* (and within personnel costs in more detail) as portrayed in the cutback management literature. Because of space limitations, the review below is confined to the 'functional' categorization of cutback measures (and does not thus include 'sectoral' categorization).

### *Main cutback measures*

The cutback management literature is rich in depicting different measures for dealing with reduced public sector resources and cutting public expenditures. For a systematic overview we classify the different measures in three categories as follows: (1) measures for cutting operational expenditure (running costs); (2) measures for cutting programmes (i.e. cuts to transfers and public services) and (3) measures for cutting capital expenditure (investment) (see Table 2).

Reductions in *operational expenditure* are commonly categorized by the object of expenditure, distinguishing between personnel and non-personnel expenditure (Wolman and Davis, 1980: 232). The measures for cutting *personnel* costs can be geared at reducing the number of workers, working time or remuneration. In the literature the measures referred to for cutting personnel expenditure are the following: reduced (over)time; furloughs; wage freeze or reduction in the rate of salary increase; elimination of (merit) bonuses; slowdown or freeze of promotion; salary cuts; filling positions with less qualified, lower-paid staff; reducing pay grades of vacated job lots; early retirement; reshuffling of staff; hiring freeze and lay-offs (Downs and Rocke, 1984; Levine, 1978, 1985; MacManus et al., 1989; Rubin, 1985; Wolman and Davis, 1980).

In the *normative* discussions on specific cutback measures, the strengths and weaknesses of a hiring freeze and lay-offs have attracted most attention. On the one hand, using hiring freezes to achieve cutbacks has been criticized on several counts. For example, it has been seen as 'a convenient short-run strategy to buy time and preserve options' that is neither an efficient nor an equitable cutback measure in the longer run (Levine, 1978: 321; Wright, 1981). Further, it is argued that it hinders the management from making appropriate decisions on where to cut and impedes intelligent long-term planning (Greenhalgh and McKersie, 1980; Levine, 1978: 322). During a hiring freeze, organizations may fall short of critically needed skills and yet be unable to hire people with the necessary skills, because attrition most probably occurs at different rates in various specialties and resignations are most likely among employees with the best opportunities for employment elsewhere (Cayer, 1986). In addition, attrition may punish managers who have already reduced waste compared to managers who have not

**Table 2.** Main cutback measures

| Category                        | Measure  |
|---------------------------------|--|
| Operational expenditure         |  |
| Personnel costs                 | Reduced overtime or working time   |
| Non-personnel costs             | Slowing-down of promotion  |
|                                 | Early retirement   |
|                                 | Wage freeze  |
|                                 | Reduction in the rate of salary increase   |
|                                 | Reduction or elimination of fringe benefits and bonuses                                  |
|                                 | Filling positions with less qualified, lower-paid staff                                  |
|                                 | Reducing pay grades of vacated job lots  |
|                                 | Salary cuts  |
|                                 | Reshuffling of staff (e.g. making increased use of temporary staff)                      |
|                                 | Furloughs  |
|                                 | Hiring freeze  |
|                                 | Lay-offs   |
|                                 | Spending limits and bans on utilities, supplies, equipment, travel, communications, etc. |
| Programme expenditure           |  |
|                                 | Cut service provision  |
|                                 | Shorten the reception time, limit service hours  |
|                                 | Reduce the frequency of service provision, reduce the number of service outlets          |
|                                 | Reduce the quality requirements for service provision                                    |
|                                 | Programme termination  |
|                                 | Engage voluntary, part-time and third-party counterparts in service provision            |
|                                 | Reduce transfers   |
|                                 | Change indexation rules for entitlement programmes                                       |
|                                 | Shift part of the entitlement costs to the private sector or citizens                    |
| Investments/capital expenditure |  |
|                                 | Elimination of capital spending  |
|                                 | Capital spending freeze for new capital projects   |
|                                 | Postponement of non-essential capital projects   |
|                                 | Deferral of maintenance, cuts to maintenance spending                                    |

(Cayer, 1986). On the other hand, Rubin (1980: 169) argues that the advantage of attrition lies in its conflict-mitigating nature that ‘does not stir up too much antipathy between departments and too much resentment against administrators’. Also Dunsire and Hood (1989: 38) see non-replacement as a ‘relatively painless’ method because it avoids redundancies, dismissals, appeals and other attendant procedures.

Diverging assessments have also been made of lay-offs. On the one hand, laying off personnel is seen as a useful tool when the speed of reducing costs is important to the manager (Cayer, 1986). On the other hand, however, Greenhalgh and McKersie (1980: 582) warn that lay-offs have costly side-effects: increase in job insecurity and voluntary quitting, disrupted teamwork, poorer work morale and lower productivity that could lead to a system more costly to operate. Levine (1978) also argues that with lay-offs the state loses substantial investment in human capital (since recruiting and training replacement is costly). Hood and Wright (1981: 211) claim that dismissals cause the loss of youthful talent (vs 'the old wood'), as low-paid, short-service and younger workers (who are the cheapest to fire) are dismissed first of all. All in all, lay-offs may weaken the organization by damaging the reputation of the public sector and leading to lower-quality job applicants (Greenhalgh and McKersie, 1980). Thus, lay-offs have been viewed 'only as a last resort measure' that managers should try to avoid when adjusting the workload (Greenhalgh and McKersie, 1980).

When looking at the *non-personnel* expenditure and related measures for making cuts to operational expenditure, restricting or banning spending on utilities, supplies, equipment, travel and communication are listed by several authors as possible options for achieving cutbacks (see, e.g. Lewis and Logalbo, 1980; Wolman and Davis, 1980).

*Programme measures* for achieving cuts include decreases in transfers to the citizens and firms (e.g. entitlements and subsidies), but also changes in expenditure that lead to reduced levels of public services provided (Dunsire and Hood, 1989; Kogan, 1981; Lewis and Logalbo, 1980; Tarschys, 1985). Among the cutback measures that deal with *transfers*, the options involve straightforward cutbacks in the coverage or size of the entitlement payments, changes to the indexation rules, restrictions to qualification rules, and shifting part of the entitlement costs to the private sector (e.g. making the employers pay part of the sickness fund payments; see, e.g. Dunsire and Hood, 1989; Hood and Wright, 1981: 188, 211; Tarschys, 1985). Cuts to *public services* can also be achieved via different pathways. On the one hand, the *quantity* of public services offered can be curbed (and hence the associated costs cut) through ceasing to provide a specific service but also by reducing service hours, decreasing the number of service outlets, diminishing the frequency of service provision, imposing quotas, and restricting access (Dunsire and Hood, 1989; Lewis and Logalbo, 1980: 187). On the other hand, the *quality* of the services offered can be diminished (with corresponding reductions in costs) by reducing the variety of service tasks, fixing the level of quality, and standardizing forms and treatments (Dunsire and Hood, 1989; Lewis and Lobalگو, 1980). In addition, changing the nature of service providers (using part-time, third-party or volunteer counterparts) could be used to achieve cutbacks (Dunsire and Hood, 1989). Lee (1981: 47) also mentions transforming the services required to be provided by law into discretionary services.

*Capital expenditure* can take drastic forms like elimination of capital spending from the budget, but also softer measures like a spending freeze on new projects,



'postponing' nonessential capital projects and cutting or deferring maintenance (Lewis and Logalbo, 1980). In normative discussions, several authors warn against cutting and postponing maintenance as the related future costs might be far in excess of today's savings and may lead to subsequent and more costly capital acquisition in the long term (Lewis and Logalbo, 1980; McTighe, 1979; Tarschys, 1981).

### *The main expenditure categories cut: Theoretical predictions and empirical evidence*

In the cutback management literature of the 1970s and 1980s, one can find a number of competing and contradictory theoretical predictions about which expenditure categories would be cut *more* and/or *first* in line during retrenchment.

Some studies, focusing on *party politics* and *political* decision-making, conjecture that politicians would generally prefer cuts to operational expenditure over cuts to transfers and services, because cuts to administrative costs are less visible to the public and have fewer vocal opponents (Banner, 1985; Downs and Rocke, 1984; Glennerster, 1981; Lewis and Logalbo, 1980; MacManus et al., 1989). Hood et al. (1988) take a more differentiated stance and hypothesize that left-leaning parties would be less likely to focus cuts on operational expenditure, given that an important share of their voters work in the public sector, whereas right-leaning parties would be more predisposed to cutting operational expenditure (especially wages).

Theories focusing on *bureaucratic politics* and *bureaucratic processes* make somewhat contradictory predictions about the prevalence of cuts in different expenditure categories. On the one hand, if bureaucracies are assumed to act in a self-interested way (as assumed by public choice, for example), it can be conjectured that officials would try to protect operational expenditure, especially at the expense of capital spending, and, among operational expenditure, spending on salaries would be cut less than other operational expenditure (Crecine, 1970; Downs and Rocke, 1984; Hood et al., 1988). On the other hand, theories focusing on bureaucratic processes and managerial aspects would predict that cuts would focus on those expenditure categories that are 'controllable' and 'cuttable' (see, e.g. Downs and Rocke 1984; Dunsire and Hood, 1989; Schick, 1980, 1983; Wolman and Davis, 1980). Further, Dunsire and Hood (1989: 93) argue that officials would first apply whatever *quick-acting* levers of control they could before deploying controls that are slower to take effect. According to these perspectives, the first target of cuts would be capital expenditure and operational expenditure as opposed to spending on transfers, given that these are the types of expenditure that officials have most direct control over and can be implemented most swiftly. Also, these perspectives would predict that measures such as a hiring freeze, reducing pay grades of vacated slots and cuts to capital expenditure and maintenance would be preferred to more drastic measures such as lay-offs (see, e.g. Downs and Rocke, 1984; Wolman 1983). If cuts to programmes are to be made, the

focus would be on discretionary programmes, whereas mandatory programmes would be spared (Downs and Rocke, 1984; Schick, 1980; Wolman and Davis, 1980).

The *empirical* results of different studies looking at the distribution of cuts among expenditure categories and the sequence of cuts point to diverging results (see Table 3).

There are many studies which demonstrate that capital spending and expenditure on maintenance are the *first* and/or the *predominant* target of cuts both at the central government and the state/local level – hence providing evidence for those theoretical arguments that emphasize the ‘controllability’ of expenditure in making the cutbacks (e.g. Berne and Stiefel, 1993; Caiden and Chapman 1982; Dunsire and Hood, 1989; Glassberg, 1978; Hood and Wright, 1981; Levine et al., 1981a, 1981b, 1982; Lewis, 1984; MacManus and Pammer, 1990; Marando, 1990; Midwinter and Page, 1981; Wolman, 1983).

With regard to operational expenditure, some studies show that maintaining employment and maintaining salary levels is preferred to maintaining the status quo of public services (Glassberg 1978; Levine, 1985; MacManus and Pammer, 1990; Wolman and Davis, 1980). There are, however, more studies which demonstrate that when cutbacks are made, operational expenditure (including salaries) do bear a significant burden – thus providing evidence against the ‘bureaucratic self-interest’ hypotheses (Banner, 1985; Duncombe and Kinney, 1984; Dunsire and Hood, 1989; Hood et al., 1988; Hood and Wright, 1981; Levine et al., 1981a, 1981b, 1982; Marando, 1990; Morgan and Pammer, 1988; MacManus et al., 1989; Weinberg, 1984, Wolman, 1983).

When looking at the cuts *within* the category of personnel costs, the reviewed literature demonstrates that a hiring freeze has been a very prominent measure for cutting personnel expenditure, and has also been commonly applied as the first remedy during a crisis to achieve cutbacks (Banner, 1985; Dunsire and Hood, 1989; Higgins, 1984; Lee, 1981; Levine et al., 1981a, 1981b, 1985; MacManus et al., 1989; May and Meltsner 1981; Morgan and Pammer, 1988; Pammer, 1990; Schick, 1988; Tarschys, 1985; Wolman, 1983; Wolman and Davis, 1980). With regard to salary reductions and lay-offs, the studies point to diverging results, however. A number of studies have found that salary reductions have been enacted only when hiring freeze and lay-offs have not provided sufficient savings (e.g. Berne and Stiefel, 1993; Wolman and Davis, 1980). Lewis (1988), however, observes that in making cutbacks to personnel, lay-offs were more widely used than salary decreases. Hood et al. (1988) find that in the UK context, Labour governments tended to increase staffing levels (but cut wages), whereas the Conservatives focused on cutting staff numbers (but increased wages). Some authors note that lay-offs have been avoided or only been applied as a last resort (Banner, 1985; Hood and Wright 1981; Marando, 1990; Wolman and Davis, 1980), whereas others claim that it has been one of the most prominent methods for budget cutbacks (Lewis, 1988).

**Table 3.** The main cutback measures applied: findings of empirical studies

| Author  | Dominant cutback measures   |
|---|---|
| Berne and Stiefel (1993)                                  | Capital and maintenance expenditure was cut more than operating costs.  |
| Glassberg (1978)  | Cuts to capital expenditures and maintenance, cuts to the quality and quantity of services.   |
| Duncombe and Kinney (1984)                                | Pay cut, elimination of vacant positions, deferral of capital and maintenance expenditure.  |
| Higgins (1984)  | Hiring freeze, lay-offs, small reductions in service delivery and some terminations of programmes.  |
| Levine (1985)   | Programme termination used more extensively than lay-offs and decreased overtime use.   |
| Levine et al. (1981a, 1981b)                              | Deferral of capital expenditure and maintenance, reduced overtime, wage freeze, cuts to personnel, use of volunteers in service provision.      |
| MacManus et al. (1989)                                    | Pay cuts, hiring freeze, lay-offs; use of volunteers in service provision.  |
| Marando (1990)  | Cuts in operating expenditures, capital expenditures, service levels.   |
| May and Meltsner (1981)                                   | Hiring freeze, attrition, wage freeze, cuts to less visible aspects of service delivery.  |
| MacManus and Pammer (1990)                                | Cuts to capital expenditure used more frequently than personnel reductions and service reductions.  |
| Morgan and Pammer (1988)                                  | Attrition, reduced expenditures on supply/travel, reduced capital expenditures, hiring freeze, reduced overtime.                                |
| Pammer (1990)   | Attrition, hiring freeze, reduced overtime.   |
| Schick (1988)   | Hiring freeze, attrition, small cuts to transfers.  |
| Weinberg (1984)   | Cuts to capital expenditure, cuts to positions, attrition.  |
| Wolman (1983)   | Cuts to maintenance spending, attrition, reduced overtime; cuts to operational expenditure preferred to cuts in services                        |
| Wolman and Davis (1980)                                   | Cuts in capital and maintenance expenditure; maintainin-employment preferred to making cuts to public services.<br>Sequence of cutback measures |
| Caiden and Chapman (1982)                                 | Cuts to capital spending preceded cuts to operational spending and transfers.   |
| Dunsire and Hood (1989: 90–93);<br>Hood and Wright (1981) | Cuts in capital spending were carried out before cuts in current spending.  |
| Dunsire and Hood (1989: 93)                               | Purchases (of goods and services) were cut before transfers (pensions, grants, benefit payments).   |
| Hood and Wright (1981: 186)                               | Administrative costs cut first.   |

(continued)

**Table 3.** Continued

| Author                  | Dominant cutback measures  |
|-------------------------|--|
| Levine et al. (1981a,b) | Deferring maintenance and capital expenditure, wage freeze, hiring freeze were followed by cutbacks in personnel, reduced hours of service provision and termination of some programmes. |
| Levine et al. (1982)    | Attrition, delaying maintenance followed by lay-offs and reductions in service levels.   |
| Wolman and Davis (1980) | Workforce was usually reduced in two phases, first hiring freeze and then lay-offs.  |

### Concluding remarks

The review of the studies on cutback management in the 1970s and 1980s shows that although there are no easily discernible rules of thumb, some patterns do emerge, which can contribute to the systematization of the existing knowledge on cutbacks. First, when governments face cutbacks, they need to address the choice between across-the-board and targeted cutback strategies. Second, cutbacks do not occur as one-off single actions, but are usually carried out in a number of cutback rounds. Both cutback strategies and the contents of cutbacks may vary from one round to another. Third, the longer-lasting and the more severe the fiscal stress is, the more likely it is that governments will begin to impose targeted cuts rather than implementing across-the-board strategies. Fourth, during fiscal stress, capital spending tends to be cut first (i.e. before operating costs or transfers). Fifth, personnel costs are more likely to be cut than transfers. Sixth, in cutting operational expenditure, a hiring freeze seems to be the first (and often dominant) measure utilized (rather than salary cuts or lay-offs). Still, it is worth emphasizing that not all empirical studies confirm the above-mentioned patterns and hence one should be cautious when attempting to generalize these findings across space and time.

While systematic comparison of the cutback management literature from the 1970s–80s and the emerging literature on the post-2008 environment is beyond the scope of the current review, we can conjecture that the challenges faced by cutback management nowadays are even more complex than those faced in the 1970s and 1980s – and these challenges should be kept in mind when future studies on cutback management are undertaken. First, 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 regulating the global financial market must be considered more than ever before when managing cutbacks. Second, the nature of contemporary cutback management is more challenging because of ‘cyclical volatility’, characterized by rapid reoccurrence of

cycles of decline (vs the ‘normal’ cyclical fluctuations) (Pandey, 2010). Therefore, both the crisis itself and cutback management to deal with it are getting more complex. Third, when compared to the economic recessions in previous decades, many governments have acquired vast new assets in the form of major investments in banks and other financial institutions, implying the need of governments to acquire new capacities to administer these (Lodge and Hood, 2012; Pollitt, 2010). Hence, besides the need to cut back, the contemporary public organizations are saddled with additional tasks when addressing the new responsibilities of government (see, e.g. Dabrowski, 2009; Gieve and Provost, 2012). Finally, numerous authors (Boin et al., 2008; Pollitt, 2010) also draw attention to the fact that the democratic context has dramatically changed over the last few decades. For example, the citizens’ trust in governments has declined (Van de Walle and Jilke, 2012), the role and influence of the mass media has significantly increased, citizens have become more demanding, have ‘little patience for imperfections’ (Boin et al., 2008: 8), and ask for quick and easy solutions (Pandey, 2010: 566).

Another set of questions stems from the dimension of *space* and concerns the comparability of cutback management between different countries. As the overview of the existing empirical research shows, most of the studies reviewed are single-country cases addressing the US or the UK, which makes it hard to draw broader generalizations. Pollitt (2010: 20) claims that although today all countries face the same storm of fiscal crisis ‘... we are travelling in different kinds of vessels’. This means that the contextual factors that define the depth of the crisis and hence shape the cutback environment are vastly different due to country-specific features. Confirmation for this is also provided by several provisional academic studies demonstrating that up to now the governments’ responses to the crisis have been divergent (see Bideleux, 2011; Kickert, 2012; Peters, 2011; Peters et al., 2011; Pollitt, 2010, 2012). Consequently, when analysing cutback strategies, the specific country context has to be elaborated when undertaking comparative research.

Despite the differences in cutback management across space and time, the literature of the 1970–80s points to some useful insights that deserve particular attention when analysing the current management of cutbacks. In addition to the taxonomies and theoretical propositions outlined above – which can be used as a starting point for undertaking case studies or comparative studies – ongoing and future research on cutback management should keep in mind the main paradoxes brought out by the literature of the 1970s and 1980s. Analyses of how governments address these paradoxes could be especially useful for reaching a deeper understanding of cutback management and also for generating normative recommendations for practice. First, short-term savings during the crisis may lead to long-term costs. As the experience of the 1970s and 1980s cutback literature shows, a number of measures that generate quick short-term savings may bring about significant costs in the future. This is most clearly the case with cuts made to capital spending that may necessitate higher maintenance costs in the future. Consequently, cutback management is likely to require difficult trade-offs between short-term and long-term goals, and between organizational present and future capacity. It is crucial not

to limit cutback management to short-term budget cuts but to approach it as the management of the organizational resources for the long term (also including the post-crisis period), as the short-sighted approach may lead to solving the wrong problem or making the current problem even worse (see also Pandey, 2010).

Second, 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 not be available. During retrenchment, organizations often fall short on critically needed (new) 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. Hence, the paradox is that when public organizations need the analytical capacity the most, they may not be able to afford it. Thus, although normatively speaking, it would be rational to impose cuts in a systematic and targeted fashion, this tension may lead to pressures to take the simpler route of across-the-board cuts.

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## Appendix: Empirical studies on cutback management included in the literature review

| Author                        | Time period covered                        | Cases covered  |
|-------------------------------|--|--|
| Banner (1985)                 | 1981–85                                    | 30 German cities   |
| Behn (1985)                   | Early 1980s                                | The US Federal Government  |
| Berne and Stiefel (1993)      | 1970s–80s                                  | New York City (educational services)   |
| Braun, Johnson and Ley (1993) | 1979–85                                    | States in the US   |
| Caiden and Chapman (1982)     | 1981–83                                    | California   |
| Downs and Rocke (1984)        | Pittsburgh: 1943–76;<br>San Diego: 1949–78 | 2 cities in the US: Pittsburgh (24 departments) and San Diego (25 departments) |

(continued)

Continued

| Author                               | Time period covered | Cases covered  |
|--------------------------------------|---------------------|--|
| Duncombe and Kinney (1984)           | 1982–83             | The state of Idaho, the US   |
| Dunsire and Hood (1989)              | 1975–85             | The UK, Whitehall  |
| Glassberg (1978)                     | 1970s               | New York City, the US  |
| Glennester (1981)                    | 1970s               | The UK, social sector  |
| Greenhalgh and McKersie (1980)       | 1970s               | The State of New York  |
| Hartley (1981)                       | 1957–77             | The UK, defence sector   |
| Hendrick (1989)                      | 1969–87             | 1 city (Lansing, Michigan), the US   |
| Higgins (1984)                       |                     | 2 cities in the US: Charlotte, NC; Syracuse, NY                                      |
| Hood (1981)                          | 1970s               | The UK, Whitehall, non-departmental organizations                                    |
| Hood et al. (1988)                   | 1975–85             | UK Central Government Departments  |
| Kogan (1981)                         | 1960s–70s           | The UK, education sector   |
| Koven (1985)                         | 1975–81             | 2 cities in the US: New York and Cleveland   |
| Lee (1981)                           | 1970s               | The UK, Whitehall  |
| Levine (1985)                        | 1976–81             | Police departments in 92 US cities (with population over 50,000)                     |
| Levine, Rubin and Wolohojian (1981a) | 1970s               | 2 cities in the US: Cincinnati and Oakland   |
| Levine, Rubin and Wolohojian (1981b) | 1970s               | 3 cities, 1 county in the US: Cincinnati, Oakland, Baltimore, Prince George's county |
| Levine, Rubin and Wolohojian (1982)  | 1970s               | New York City  |
| Lewis (1984)                         | 1964–79             | 12 major cities in the US  |
| Lewis (1988)                         | Early 1980s         | 154 large cities in the US   |
| MacManus et al. (1989)               | 1978–87             | 3 cities, 3 counties in the US   |
| MacManus and Pammer (1990)           | 1985                | 523 local governments in Ohio  |
| Marando (1990)                       | 1980s               | 153 cities in the US   |
| May and Meltsner (1981)              | 1978–79             | 10 public service organizations in California  |
| Midwinter and Page (1981)            | 1976–80             | The UK, Scotland   |
| Morgan and Pammer (1988)             | 1980–83             | 408 cities in the US   |
| Pammer (1990)                        | 1983                | 120 cities (large metropolitan cities) in the US                                     |
| Poister and McGowan (1984)           | 1982–83             | 456 cities in the US   |

(continued)

Continued

| Author                  | Time period covered | Cases covered                                       |
|-------------------------|---------------------|---|
| Rickards (1984)         | 1963–75             | 105 German cities                                   |
| Rubin (1980)            | 1970s               | 5 universities and one city in the US               |
| Rubin (1985)            | Early 1980s         | The US, 5 federal agencies                          |
| Schick (1983)           | 1970s/early 1980s   | US Federal Government                               |
| Schick (1988)           | 1970s–80s           | OECD countries                                      |
| Tarschys (1985)         | 1975–85             | OECD countries                                      |
| Tarchys (1986)          | 1970s–mid-1980s     | OECD countries                                      |
| Weinberg (1984)         | 1970s/early 1980s   | 2 small cities (Wooster and Athens, Ohio) in the US |
| Wolman (1983)           | 1970s/early 1980s   | 4 local governments in the UK, 8 cities in the US   |
| Wolman and Davis (1980) | 1976–79             | 23 cities, 3 counties in the US                     |

## Article II

**Savi, Riin** and Tiina Randma-Liiv. 2015. "Decision-Making in Time of Crisis: Cutback Management in Estonia". *International Review of Administrative Sciences*, xxx-xxx (forthcoming).



# **Decision-making in time of crisis: cutback management in Estonia**

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## **Abstract**

The paper investigates the Estonian government's response to the fiscal crisis by looking at the dynamics of the decision-making processes during cutback management from 2008 to 2013 from the dichotomy of centralisation-decentralisation. The study explores the cutback decision-making by pinpointing the main actors and contextual variables shedding light to the management of fiscal crisis. It is demonstrated that in general, the fiscal crisis contributed to the increasing levels of centralisation in governmental decision-making. The crisis decision-making was dominated by centralised political decisions and non-inclusion of the opposition and interest groups. Still, achieving the urgent solutions was facilitated by decentralised decisions at the ministerial level, empowerment of budgetary institutions and intensive engagement of the civil servants. It has been shown that the initially short-term procedures to enable cuts and resultant changes in decision-making processes are mostly in effect still in 2014 and thereby influence public administration practices in the long run.

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### **Points for practitioners**

The study shows that cutback management may lead to urgency of governmental decision-making, where centralisation facilitates quick decisions. It has been demonstrated that also a minority government is able to achieve fiscal adjustment, even in a context of high political conflict. The crisis context sets new requirements to the competencies of public servants, as cutback management requests them to cope with new and very complicated tasks. The paper indicates that short-term cuts and changes in decision-making processes intended to alleviate the acute phase of crisis may remain in effect considerably longer than initially planned and thereby influence public administration practices in the long run.

**Keywords:** central government, cutbacks, decision-making, Estonia, retrenchment

### **Introduction**

The recent global financial and economic crisis, followed by the fiscal crisis, have lifted the topic of cutback management and decision-making on the research agenda, as many governments in Europe and elsewhere are faced with implementing austerity measures in order to cope with scarcity. It can be expected that the cutbacks undertaken drive changes in public administration and governmental decision-making practices. In the academic literature two competing streams of argumentation exist about the dynamics of decision-making during cutback management, one of them arguing for bigger centralisation (e.g. Behn, 1980; Bozeman, 2010; Heffron, 1989; Levine, 1979) and the other for bigger decentralisation during cutbacks (e.g. Boin et al, 2008; Massey, 2011; McTighe, 1979; Pollitt, 2010 ). According to the first, cutback management triggers movement towards centralisation and top-down procedures in order to quickly legitimise systematic spending cuts not conceivable on a voluntary basis. Alternatively, decentralisation is seen as a facilitator for fast and informed cutback decisions as it enables quick engagement of expert knowledge and provides flexibility. However, the existing scholarly research offering rivalry theoretical propositions on the dynamics of governmental cutback decision-making patterns has not been backed up by systematic and in-depth empirical studies so far. The paper at hand aims to contribute to filling this gap in the existing research.



This study investigates the dynamics of decision-making at the central government level during cutback management in Estonia that was among the first countries in the world to implement immediate and radical cutbacks after the outset of the fiscal crisis as early as 2008 instead of denying and postponing cuts. Also, in Estonia the fiscal tightening was an impendent decision, motivated by the government's political priority to join the Eurozone (see Kattel and Raudla, 2013). Estonia as an early-stage cutter provides an opportunity to investigate the dynamics of changes that emerged during retrenchment in decision-making patterns at the central government level during a period of five years. The main research question of the current study is what were the main patterns of decision-making during retrenchment, and is it possible to detect any shifts in the decision-making process?

The paper proceeds as follows, firstly an analytical framework built around cutback management research brings out two prevalent lines of argumentation about the decision-making dynamics during retrenchment arguing for and against bigger centralisation. Thereafter the empirical part aims to test these conflicting standpoints. Before turning to explore the process of decision-making at central governmental level the empirical part provides background information on Estonia and on the consolidation measures undertaken by the Estonian government during cutback management. The two last chapters discuss and sum up the main results of the study.

### **Analytical framework**

The governments' response to the fiscal crisis is likely to distort the conventional patterns of decision-making and the established roles and functions of politicians, civil servants, external experts and other stakeholders. The existing research shows that one of the central challenges of cutback decision-making is related to the centralisation-decentralisation dilemma (Boin et al., 2008; Kickert, 2012; Peters et al., 2011; Schick, 2009). In the academic literature two main streams of theorizing can be found that address the dynamics of decision-making, one of them arguing for increased centralisation, the other for

increased decentralisation of decision-making during cutback management. The following part of the paper outlines the main arguments of both streams.

### *Arguments for centralisation*

Moving substantial powers and control to the centre of the government has been seen as inherent to any sort of crisis management (Boin et al., 2008). How governments respond to crisis is mainly a function of solving complex issues in urgency, in a situation when “the time to think, consult and gain acceptance is highly restricted” (Boin et al., 2008: 11). Therefore, when faced with crisis, governments tend to centralise decision-making, primarily because it enables quick legitimisation of decisions (Peters, 2011). Moreover, the centralisation of decision-making can be seen as a necessary pre-condition for undertaking retrenchment. When scarce resources and expenditure cuts are on the agenda, centralisation is the only feasible mechanism to achieve systematic spending cuts and prioritisations in organisational resource allocations (Levine, 1979) as no organisation (unit) volunteers for cuts (Heffron, 1989: 34). The need to cut back budgets reinforces top-down and rule-based budgetary procedures and increases the power of budgetary institutions (Schick, 2009: 10), because during fiscal stress the focus turns to the control (vs management or planning) function of budgeting. In addition, as any prioritisation assumes a certain degree of centralisation (Wildavsky, 2001), the government’s decision to carry out (selective) cuts based on strategic prioritisations (contrary to across-the-board cuts) automatically leads to centralised budgeting and decision-making.

In fact, centralisation while managing the cutbacks goes beyond budgetary decision-making. Centralisation and stronger control over decision-making is further imposed by general priority-setting by the government, standardisation of procedures, empowering the central (budgetary) departments, or setting limits to organisational spending and activities (Pollitt, 2010; Wildavsky, 2001). A common strategy for strengthening central control is changing the venues of decision-making, typically by appointing the management boards to public agencies or other bodies that governments can control (Peters and Pierre, 2004: 4–5). In addition, several authors (Kickert, 2012; Peters, 2011: 77–78; Peters et al., 2011) point

out that a typical feature related to managing the fiscal crisis is the centralisation of decision-making around the political elite, and distancing “the career civil service” from the key actors. Public service is cast aside because it is treated as part of the problem resistant to changes, but not part of the solution (Peters and Pierre, 2004). That is why even technocratic and operational decisions commonly in the responsibility of officials might move to the political arena during cutback management (Peters, 2011) – tasks entailing a greater share of responsibility, accountability and blame are expected to be carried out by public leaders (Boin et al., 2008: 150).

A further sign of centralisation is the acknowledgement that public involvement in the decision-making process is likely to become more restricted during retrenchment (Boin et al., 2008: 11). The urgency and the extent of the problems requiring government intervention has a tendency to paralyse social dialogue. Paradoxically, the social partners can be easily excluded from the policy-making and decision-making process, although the social actors themselves are likely to become more active in keeping the governments under pressure (Peters et al., 2011).

#### *Arguments for decentralisation*

Although many authors relate efficient cutback management to the government’s ability to centralise and take control, there are also opposing views. Decentralisation can be seen as an enabling factor for faster (and more competent) decision-making. Boin and his co-authors (2008: 53–54) caution that centralisation hampers flexibility and quick engagement of expert knowledge of the “ground staff” that is essential in fast decision-making. In times of crisis, the intense engagement of competent public officials becomes especially critical due to the intensified role of high-quality policy analysis (e.g. Kickert, 2012; Pollitt, 2010). Several authors emphasise the importance of power sharing and more bottom-up approaches during governmental crisis management to clarify the cutback process, demystify the decisions to be taken and diffuse rumours and resulting tensions (Levine 1985; McTighe 1979). For example, McTighe (1979: 89) argues that at the organisational level, the employees should be given opportunities to actively participate in the process of

“organisational cutback”. Also involving the target groups of services and population at large in decision-making over the cutbacks for soliciting and informing public opinion has been put forth (Lewis and Logalbo, 1980).

A common practice applied in budgetary decision-making speaking for decentralisation is across-the-board cuts. When targeted cuts are fundamentally about central decisions on which institutions face larger cuts than others, across-the-board-cuts imply cuts in the same amount for all institutions, and government may delegate the decisions on *what* and *when* to cut (within the set limits) to institutions or even street-level bureaucrats whose choices are viewed as better informed (Dunsire and Hood, 1989: 36; Pollitt, 2010). Relying strongly on the expertise of bureaucracy or other sources of expert advice and empowering experts in the process of decision-making can also serve the aim to obscure or shift blame (Boin et al., 2008: 151; Peters et al., 2011). Posner and Blöndal (2012: 29) call the delegation of hard choices to agencies the “time honoured strategy” of scattering political responsibility.

Although various authors tend to argue for either centralisation or decentralisation, and for either targeted or across-the-board cuts, real life is more complex. For example, an important factor explaining decision-making and its dynamics in terms of (de)centralisation is the time locus. Governmental cutback strategies may differ in various stages of crisis, because (de)centralisation is dependent on the phase and acuteness of the crisis. It is conjectured that the longer-lasting and the more severe fiscal stress is, the more probable it is for the authorities to start imposing centralisation-led targeted cuts (rather than implementing across-the-board measures) (Levine, 1979). More precisely, Levine (1979: 182) argues that at the beginning of the austerity, decentralised across-the-board cuts are more likely (it is perceived as more equitable and hence as generating less conflict and resistance), but if these measures are not sufficient, more targeted cuts on the basis of prioritisation will be adopted (see Pollitt, 2010).

The following case study on Estonia will help to shed light to the centralisation-decentralisation dilemma. As the Estonian government skipped the stages of crisis denial and postponement of cuts (see Kickert et.al. in this issue), and instead opted for immediate and radical cutback measures at the outset of the crisis, we assume the centralisation of decision-making process.

## **Methodology**

The study aims to explore and explain the process of cutback time decision-making at the central government level from 2008 to 2013 in Estonia. Estonia is in focus of interest as an early-stage cutter where the government was one of the first in the world to undertake fiscal retrenchment and where related dynamics in decision-making can be detected already in 2008, hence the country case provides the longest possible time period for looking back. A single case study design is selected to allow in-depth investigation and thick description when exploring governmental decision-making dynamics during cutback management across different policy actors.

The study treats fiscal crisis as an independent variable and hence looks how the crisis affected the process of governmental decision-making, the latter being the dependent variable. We operationalise central level governmental decision-making through the relationships and role of the main policy actors involved in the cutback management decision-making process – the Cabinet and the Parliament, the Ministry of Finance and the line ministers. The empirical study is based on extensive document analysis – memoranda and explanatory notes of the Estonian Ministry of Finance and the Cabinet, stenographic records of the parliament sessions and transcripts of its committees' meetings, official press releases of state institutions and OECD reports on budgetary retrenchment have been scrutinised. In addition, in-depth semi-structured interviews with budget department heads from line ministries and with officials from the Ministry of Finance engaged in the cutback decision-making were carried out in 2012. Lastly, the study integrates the main results on Estonia from a large-scale Europe-wide survey of 6701 senior public sector executives

(hereafter COCOPS survey) on public administration reforms in Europe that explicitly addressed the impact of the fiscal crisis on public administration.

### **The response of the Estonian government to the crisis**

Estonia is a small country with a population of 1.29 million and an area of 45,227 km<sup>2</sup>. It is a parliamentary democracy (unicameral parliament), where the executive branch of the state is accountable to *Riigikogu* (Parliament). Since regaining independence in 1991, both majority and minority governments have been in power. The Cabinet of Ministers, headed by the Prime Minister, represents the political leadership of the country making decisions on behalf of the whole executive power. Typical features of the Estonian administrative system include its reliance on ministerial responsibility, resulting in a highly fragmented administration (Sarapuu, 2011), and the executive branch's adherence to the prevalent political ideologies (Kattel and Raudla, 2013). Over two decades, the neo-liberal worldview has dominated Estonian political, economic and social development (Drechsler, 2000). The two main parties carrying that worldview – the Reform Party and Pro Patria and Res Publica Union – have been firmly institutionalised in the political landscape and have a long record of being in power.

Prior to the crisis, Estonia enjoyed one of the highest economic growth rates among the OECD member states. After years of remarkable economic growth (2000–2007 yearly average of ca 8%), in 2008 and 2009, the GDP growth turned negative, reaching -3.7% and -14.3% respectively which made Estonia one of the hardest hit countries in Europe. GDP growth has picked up gradually since 2010 reaching 8.3% in 2012 and 0.8% in 2013. (see Appendix 1)

#### *Major consolidation measures in 2008–2012*

The Estonian government started fiscal tightening earlier (in 2008) than most OECD governments (OECD, 2011: 99) but it did not face the typical phase of banking crisis that triggered numerous EU member states to save national banks already in 2007 (Kickert,

2012). The banking crisis is not detectable, because the Estonian banking sector is dominated and operated by Nordic banks that held 92% of the market in 2007 (European Bank for Reconstruction and Development). Estonia also glossed over the economic crisis as the government did not engage in borrowing or applying any other measures for recovering the economy. Instead, to cope with the fiscal stress, it decided for fiscal consolidation. The fiscal tightening was an impendent decision, mainly explained by the Estonian government's political priority to join the Eurozone. This goal tied the government with a target to keep the public deficit below 3% of GDP and government debt under 60% of GDP, as set in the Maastricht treaty. This way the adoption of the euro turned into a focal point orchestrating the government's action during the crisis management and retrenchment (OECD, 2011: 99; Raudla, 2013).

As a response to the crisis, the Estonian government imposed fiscal discipline by applying several consolidation measures across three negative supplementary budgets (the first in 2008, two more in 2009), and several one-off measures, thus improving the budgetary position by ca 9% of GDP in 2009, ca 6% of GDP in 2010, ca 3% of GDP in both 2011 and 2012 (OECD, 2012: 112). In 2008 and 2009, the consolidation measures concentrated on reducing the expenditures through operational and programme cuts, whereas the consequent measures increasingly focused on strengthening the revenues (see Appendix 2).

All three negative supplementary budgets applied extensive cuts in operational measures at the central government level that were decreased by equal 7% cuts across all policy areas in June 2008, February 2009 and 8% in June 2009. Operational cuts were predominantly achieved by curtailing personnel expenditures through hiring freeze, layoffs, pay and salary cuts, the latter often complemented by unpaid leave or decreased work time. For example, the Government Office, the Ministry of Finance and the Ministry of Environmental Affairs laid off ca 16%, 11% and 17% of their respective workforce (Peters et al., 2011: 22), and the two ministries abolished ca 25% and 10% respectively of their positions. Also expenditure freeze and limits to overall spending at the central government level were set (see Raudla, 2013). The negative supplementary budgets also introduced important cuts to programme

measures touching upon social security, old-age pensions, transfers and restricted lending to local governments (see Appendix 2).

Principal changes on the revenue side of the budget were established with the third negative supplementary budget in June 2009 by numerous tax increases and environmental fees. In addition, a sharp increase was imposed to social security contributions (see Appendix 2). The government also relied strongly on non-tax revenues (compared to other countries) by selling state-owned real estate and land and taking out additional dividends (OECD, 2012: 112). From 2010 onwards the overall size of the consolidation measures driven by the revenue side reflected mainly the effects of tax rate increases decided upon in 2009. In addition, to improve the budget position, the fixed burdens to the state budget established in legal acts or strategies were abolished (e.g. abolishment of fixed proportions of revenue to local governments from the accrual of the fuel excise) to achieve greater budgetary flexibility.

#### *Cutback decision-making: actors and decision-making venues*

The following section aims to provide a detailed overview of the crisis management *process* in Estonia. The empirical study is presented through the main venues of decision-making and policy actors involved to allow drawing conclusions for the centralisation-decentralisation dilemma in cutback management.

#### The Cabinet of Ministers and the Parliament

Following the launch of the spring 2008 economic forecast of the Ministry of Finance (MoF) the Cabinet officially acknowledged the need for a negative supplementary budget. Firstly, an *ad-hoc* working group (named *Crocodile Commission* by the media), comprised of the members of parliament and ministers of the three political parties in the governing coalition, was appointed by the Cabinet to work out the cutback targets and elaborate on cutback measures and additional revenues. One month later, the *Crocodile Commission* was dismissed, as it was not able to propose solutions, and the Cabinet was obliged to set the measures for balancing the budget (Jõgiste et al., 2012).



The Cabinet decided for a top-down mode of decision-making by deciding upon the cutback items and targets as well as revenue enhancing measures. In the case of reducing the government operational expenditure, the Cabinet opted for across-the-board cuts by insisting on an equal share of cuts from most policy fields and occupational groups. This way the Cabinet assumed the role of a central forum for negotiations among the coalition partners. However, after the adoption of the 2008 negative supplementary budget, it was realised that the Cabinet level, with all ministries representing their individual interests, was not appropriate for meeting quick consensus in further consolidation strategies. To speed up consensus-finding at the political level, another informal working group was established in 2008 (comprising two representatives – one from parliament and one from the Cabinet – from each of the three coalition parties) as a venue for political agreements to be forwarded to the Cabinet for final decisions. This informal working group turned critically important for finding a quick consensus among the coalition partners by “breaking ministerial boundaries in the political decision-making process” (Jõgiste et al., 2012: 192).

In addition, before deciding upon the second negative supplementary budget, the Cabinet called into being an expert committee made up of three Economics professors and the deputy governor of the Bank of Estonia. The expert committee presented its proposals in a Cabinet session in February 2009 during a five minutes presentation. Still, eventually principal propositions of the committee were overlooked.

After compromising on the second negative supplementary budget in early 2009, the Cabinet needed to legitimise it in the parliament. This evoked intense political conflict in *Riigikogu*, because the vote for the negative supplementary budget was tied to a vote of confidence in the government to bypass the regular lengthy proceeding of the budget bill in *Riigikogu*. Consequently, the negative supplementary budget was approved with supersonic speed after two days of submission, and on the same day when it was first presented to the legislator. The stenograph of *Riigikogu* shows that opposition parties expressed their astonishment and disapproval to the process by calling it “enforced”, “disaster”, “ridiculous” and “marginalising parliamentarism”.

The political tension reached its peak during the preparation of the third negative supplementary budget. Unable to agree on further cutback measures, the coalition government made up by Reform Party, Pro Patria and Res Publica Union and Social Democrats split up in May 2009, when the Social Democrats left the coalition. Hence a two-party minority government was formed (holding 50 seats out of 101 in *Riigikogu*) for passing the negative supplementary budget bill. This time the bargaining process in the parliament was significantly longer and more confrontational than with the previous negative budget bill, but it was eventually approved by the parliament (55 votes in favour and 31 against). This was facilitated by a political bargain with the Green Party – in exchange for the Greens’ support, the minority government enhanced environmental fees and taxes (although initially the Greens were the most furious critics of retrenchment).

The third negative supplementary budget confronted the societal actors more broadly (see also Appendix 2). It introduced increase in the VAT rate (from 18% to 20%) basically overnight – leaving only a few days between the publishing of the Act and its enforcement. The associations representing Estonian traders, taxpayers, entrepreneurs and also opinion leaders announced strong disapproval with regard to the amendment. Even though they were backed up by the Chancellor of Justice, who announced the changes in VAT to be unconstitutional due to insufficiently short notice, *Riigikogu* left the modifications unchanged.

#### The Ministry of Finance

During the preparation and implementation of negative supplementary budgets, MoF became the central mediator between the Cabinet and the line ministries, which added remarkable power to the MoF *vis-à-vis* the line ministries. The increased power of the MoF is illustrated by the following. First, the MoF was accountable for providing the Cabinet, but also the *ad-hoc* workgroups with background materials and estimates about the influence of alternative cutback measures on the budgetary position. As a rule these estimates were based on information gathered, systemised and summarised by the civil servants of the MoF. In many cases the information remained technical and numerical in

form, treating ministries and agencies in a standardised form as “budget holders”. Second, the MoF directly orchestrated the cutback related processes in line ministries by appointing duties and setting deadlines. Namely, working out the saving proposals was not left to the hands of line ministries (except cuts in operational measures) but the MoF, which requested line ministries to forward all possible (financial) data to MoF to provide information on the cutback proposals (Jõgiste et al., 2012: 193). Third, the Cabinet decided to apply complementary measures for strengthening fiscal control by appointing the representatives of the MoF to the management boards of the state foundations and state-owned enterprises which did not yet have representatives from the MoF (e.g. North Estonia Medical Centre; Welfare Services Ltd.). The aim was to improve control over budgetary decisions, especially loan taking of these bodies – to achieve that, a clause requiring the consensus of the management board in the case of loan taking was imposed. Fourth, the local governments’ borrowing procedures were restricted by the central government through binding the loan taking to permission from the MoF. The escalating power of the MoF is confirmed also by the results of the COCOPS survey – 75% of the public sector executives in Estonia perceived an increase in the power of the MoF during the cutback management.

By carrying out these new tasks the officials of the MoF clearly gained more power but also more responsibility. The bigger autonomy was often linked to handling non-routine and difficult duties which involved no extra resources. For example, a civil servant of the MoF witnessed that when faced with uneven (or even absent) information and urgency to formulate budget evaluations, officials of the MoF often left areas not well-known to them untouched whereas the others suffered more in downsizing (Jõgiste et al., 2012: 191, 198). This way the individual civil servants of the MoF acquired a decisive role in setting the cutback targets.

#### Line ministries

In line ministries the top managements were faced with a challenging task – to curb the operational budget according to the targets set by the Cabinet under extreme time constraint. Across-the-board operational expenditure cuts were impelled in three rounds –

7% in June 2008, 7% in February 2009 and 8% in June 2009. This brought along very different processes and methods of cutbacks, as the ministries were delegated the power to decide how to achieve the set level of cuts. When downsizing the operational measures the top management took the principal decisions concerning the cutbacks. The degree of employee inclusion and participation in decision-making differed – in some ministries, the decisions met at the top management level were simply forwarded to the department heads, who obtained the role of the messenger; in others, the department heads were consulted in several rounds and in some cases the whole staff could participate in open informative meetings led by the secretary general. Still, in rare occasions the detailed cutback propositions were left to the department heads and programme specialists, as the budgetary offices in line ministries tried to avoid further across-the-board cuts. The pattern towards centralisation of decision-making in line ministries was affirmed by 69% of the Estonian public sector executives in the framework of the COCOPS survey. Despite the scant inclusion, there was no systematic resistance to cutbacks by the civil servants throughout the retrenchment period.

As pointed to above, during cutback management the line ministries were responsible for forwarding a huge amount of (financial) information requested by the MoF within a small time frame. The latter strongly empowered budgetary departments of line ministries, which became the coordinators of compiling the information inside the house by appointing duties and setting deadlines and deciding upon the final materials to be sent out. As a rule, there was no time to engage in detailed analysis besides general estimations on the possible budgetary impact of cutback measures.

The governmental cheese-slicing strategy was controversial among the interviewed department heads in the ministries. Some of them saw it as an expression of trust towards their professionalism, a fair and democratic measure based on solidarity, allowing transparency, flexibility and taking into account the peculiarities of each policy area. A reverse reaction saw it as an “axe method” considering neither the structure of expenditures, revenue base, cost efficiency, nor previous cutbacks in particular

organisations. However, the several rounds of cuts were regarded as positive. The officials believed that phasing the cuts provided them the necessary time to adjust to the new situation and work out additional cutback solutions (see also Raudla, 2013).

Most of the interviewees stressed that the existing structures and venues of decision-making within ministries remained in place during retrenchment. As a rule, no *ad-hoc* working groups were established, but habitual organisational structures and measures were exploited more intensely. Hence the officials were subject to a more intense workload (shorter deadlines, longer working hours), impelled mainly by the constant and urgent need for information concerning the possible cutbacks. Some degree of deviation from the habitual processes was brought about by the time constraint, because as a rule, there was not enough time to provide detailed explanations, evaluations and analyses.

Whether changes brought about by the cutback era consolidation measures and related cutback decision-making practices in the Estonian government will pertain over a longer period is to be seen.

## **Discussion**

Information collected in this study opens several avenues for further discussion on the dynamics of cutback decision-making. It has been shown that the general context of the crisis shifted traditional patterns of decision-making by changing venues of decision-making and the roles of the policy actors.

The study has demonstrated that the cutback era contributed substantially to the centralisation of decision-making after the Cabinet realised the need for retrenchment and decided in favour of immediate radical cuts through negative supplementary budgets instead of postponing cuts. This, in turn, led to reinforcement of top-down budgeting, setting expenditure freezes, limits to overall spending and restricting the fiscal autonomy of the local governments and state agencies and amendments in regular decision-making practices. Changing the existing decision-making processes was explicitly detectable at the

political level, and less on the level of a single public organisation. At the political level urgency insisted for instruments enabling fast and flexible co-ordination between coalition partners, which materialised in *ad-hoc* working groups, thereby centralising power to a few politicians instead of broad-based discussions among the social partners, common political actors and even in *Riigikogu*. Additionally, urgency led to an exceptional practice of handling a bill in *Riigikogu*, where instead of the routine procedure the adoption of the negative supplementary budget was linked to a confidence vote to the government. Thus, decision-making under severe time pressure became dominated by political elements and centralisation often overriding the habitual practices of legitimisation. The supremacy of political elements is also confirmed by the fact that the minority government was able to push through the cutback measures. This strongly contradicts the theoretical arguments that minority governments are unable to undertake fiscal adjustments due to the large number of possible veto players (e.g. Mierau et al., 2007). The previous confirms the central arguments proposed in the academic literature (Boin et al 2008; Peters 2011; Peters et al 2011) that urgency and need for quick legitimisation of decisions increase central control over spending decisions and shift the venues of decision-making by empowering the political actors.

A further evidence of centralisation is the increase of the power of budgetary units in relation to their horizontal counterparts both at macro and micro level, as also set forth by Schick (2009) and Wildavsky (2001). On the macro level the MoF fulfilled a role superior to other ministries and on many occasions, served as an extension of the Cabinet in its relations with line ministries, but also the state agencies and local governments when fulfilling the control function. On the micro level, a shift of power between line and budget departments was detected in line ministries – cutback management empowered the budget units and often subjected various policy fields to the budget policy, because the lack of time (and information and expertise) did not allow thorough impact assessments and negotiations and insisted quick gathering of information. In addition, centralisation at the micro level was triggered due to the need to quickly and repeatedly apply cuts in

operational measures by the top management who as a rule did not engage the officials in the process.

The previous occurrences confirming the general pattern of centralisation is further bolstered by the reduced role of social actors in decision-making during cutback management as proposed by Peters et al (2011). Already when resources for coalition-building, consultation and analysis were abundant, the Estonian leaders were loath to consult stakeholders (Randma-Liiv et al., 2008). The current study shows that instead of forcing a change, the crisis and its urgency was used by the political elites to further legitimise non-inclusive decision-making. As demonstrated beforehand, cutback management provided several examples where policy decisions were enforced despite clear discontent from both formal policy actors (Legal Chancellor, opposition parties) and other stakeholders (such as entrepreneurs or unions). Independent assessments of external experts (even if commissioned by the government) were symbolic, not so much aimed at advising the government, but legitimising the decisions to be taken. Hence the social acceptability of cutback decisions was not critical for the ruling coalition. It can be explained by the supportive public opinion to fiscal discipline, and by the simple polity with a marginal role for unions, social partnerships, constitutional veto players and corporatist structures in the policy process (Kattel and Raudla, 2013). Perhaps most importantly, the behaviour of the governing coalition was facilitated by the unique context of Estonia, where the predominant political aim during the retrenchment was joining the Eurozone (which enjoyed substantive support of the citizens). Hence the struggle towards fiscal discipline and sequent austerity measures were foremost driven by the government's goal to qualify for the adoption of the euro. This was a clear and straightforward sign for everyone, and by being accepted to the Eurozone the government assured the necessity of its decisions.

Despite the unquestionable signs towards centralisation, the analysis also offers evidence for decentralisation. The government opted for a cheese-slicing strategy on the macro level by making only minor exceptions to the across-the-board cuts of government's operational expenses. Such a decision delegated the power and right to find the targets of cuts to the

level of individual organisation that is in line with the highly decentralised nature of the Estonian executive branch. This can be seen as a straightforward empowerment of individual ministries to help the government find fast and competent decisions confirming the claims of Dunsire and Hood (1989) and Pollitt (2010). One can also argue that this was a “comfort strategy” on the part of the governing coalition that aimed to keep the coalition together, aided by the shortage of expertise on the political level. In the context of limited information and expertise, across-the-board cuts may prove to be a safer strategy than prioritising. The Estonian evidence of large-scale across-the-board cuts applied in the beginning of the retrenchment, followed by targeted decisions on programme cuts and revenue-enhancing measures, by and large confirm the general theoretical conjectures by Levin (1979) about the sequence of these strategies and the dominance of “equal” cuts in the initial phase of crisis. Still, it has to be taken into consideration that the time gap between across-the-board and targeted cuts was very short in Estonia and after the first round of cuts were applied concurrently.

Further supporting the decentralised approach to cutbacks is the fact that the responsibility of individual civil servants increased in the decision-making process. Though the cutback management literature regards the empowerment of civil servants as potential “blame shifting” (Hood, 2010; Peters et al., 2011) the current study does not confirm it. On the contrary, civil servants acquired a more important role for pragmatic reasons as the main source of technical expertise, not as a result of conscious decision at the Cabinet or ministry top management level. The time constraints for in-depth analysis and the scope of cutback decisions rendered the usual practices related to budget preparation in line ministries impossible. Officials did not have the time to engage in detailed analysis but were stuck with compiling data focusing on the budgetary impact of cutback measures. Still, this does not diminish the importance of officials, as the crisis-time decision-making also empowered them as often quick decisions in the condition of lacking information based on their “gut feeling” became decisive. The contribution of civil servants is particularly visible at the MoF when looking at their role *vis-à-vis* politicians. This strongly confirms the claim of Lodge and Hood (2012) that crisis sets new requirements to the skills and competencies of



public servants, but paradoxically during crisis these competencies may not be available. The strong reliance on civil service expertise in Estonia can be explained by two factors. Firstly, as a new democracy, its political parties have not yet developed full-fledged expertise to steer the executive. Secondly, as a small country, its limited human and financial resources do not afford developing “overlapping capacities” on political and administrative levels (Randma-Liiv 2002).

Though the current case study clearly supports the existing theoretical arguments towards bigger centralisation of decision-making during the cutback management, the case also vividly demonstrates the complexity of the centralisation-decentralisation dilemma. In the current case this complexity has been mostly a function of the concurrent decentralised across-the-board cuts and prioritised cuts in a generally centralised decision-making environment and the crisis-led empowerment of civil servants in the decision-making process.

Finally, one of the basic questions about responses to the crisis is whether the governments maintain their existing paths of governing or the crisis initiates a *persisting* change in public policy-making. Although a variety of economic and financial indicators started to imply that in Estonia the recovery from crisis began already in 2010, the impact of the crisis on the patterns of public management is prolonged, as several changes initiated during the peak of cutbacks seem to have persisted over time. The public sector wages are still on hold (increase is foreseen in 2014), hiring new people is still strongly deliberated, the old-age pensions have not yet witnessed the growth rate pledged before the crisis (14%). Also, the officials from the MoF still belong to the management boards of the state agencies, local governments still face restrictions in borrowing and have to consult with the MoF in terms of taking loans, and the budgeting negotiations between line ministries and MoF are still strongly based on top-down budgeting principles (vs the bottom-up budgeting negotiations prevalent before the crisis) in 2014. Further more, several new administrative practices brought about by the crisis e.g. the public launch of monthly reports on the dynamics of macroeconomic indicators and fulfilment of the state budget by MoF on its

homepage are rooted today. In general, the crisis time budget formulation contributed to bigger transparency of the budgetary process, especially when considering the visibility of the process to the wider public. This brief reflection refers to the fact that the crisis opened a window for deeper changes, and though cutbacks in public administration are either explicitly or implicitly determined for a certain time period, and the pre-crisis situation is expected to gradually return, this process might not turn out straightforward.

### **Conclusion**

This paper investigated the response of the Estonian government to the recent economic crisis from the angle of dynamics in decision-making processes. It has been demonstrated that after the outburst of the crisis, the government undertook radical and straightforward cutback measures enabled concurrently by the centralisation and the decentralisation of decision-making processes. Despite the relevance of this duality, the urgency of events predominantly contributed to the increasing centralisation of governmental decision-making. It has been demonstrated that besides empowering a small circle of political actors the general centralisation tendencies also increased the power of budgetary institutions. Most importantly, the Ministry of Finance and budgetary units in the line ministries perceived a crucial role in the cutback management decision-making by compiling information on the cutback decisions for the political actors. Thus achieving the urgent solutions was also facilitated by the engagement of a certain group of civil servants, though in general the crisis decision-making was dominated by the non-inclusion of the relevant policy and societal actors.

This study also detected new avenues for further crisis research. Firstly, short-term versus long-term changes triggered by cutbacks require more attention by the researchers in the future in order to investigate the durability and persistence of the crisis-imposed changes in governmental decision-making processes. Though in general the pre-crisis situation is expected to return after the economic growth is restored, the current study proposes that although the changes initially rely on specific short-term conditions, they may provide a long-term change. On one hand, the changes in decision-making processes triggered by

cutback environment can be *ad hoc*, not get formalised and cease to exist once the immediate fiscal stress is over. Alternatively, the crisis context can also impel formal (legislative) changes which may persist and provide a longer-term (if not permanent) effect of the crisis.

In addition, it would be interesting to study cutback management in terms of ministry-agency relations. This study focused on ministries with only minor attention to government agencies. However, it is likely that such radical cutback processes may have affected the autonomy and control of agencies. Lastly, the study showed that top management of the ministries had considerable power over cutback decisions. We did not look at the politico-administrative relations on the ministry level, although it is worth studying whether and how crisis management would affect politico-administrative power games on the ministry level.

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Appendix 1. Main macroeconomic indicators of Estonia 2007–2012

|                   | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP growth        | 7.5         | -3.7        | -14.3       | 2.3         | 7.6         | 8.3         | 0.8         |
| Budget balance    | 2.4         | -2.9        | -2          | 0.2         | 1.2         | -0.3        | -0,2        |
| State debt        | 3.7         | 4.5         | 7.2         | 6.7         | 6.2         | 10.1        | 10          |
| Inflation         | 6.7         | 10.6        | 0.2         | 2.7         | 5.1         | 4.2         | 3.2         |
| Unemployment rate | 4.7         | 5.5         | 13.8        | 16.9        | 12.5        | 9.8         | 8.6         |

Source: Eurostat

Appendix 2. Major consolidation measures in Estonia 2009–2012 (in millions of Euro)

| Measure                               | Description  | Budgetary impact<br>(% of GDP) |                              |                              |              |
|---------------------------------------|--|--------------------------------|------------------------------|------------------------------|--------------|
|                                       |  | 2009                           | 2010                         | 2011                         | 2012         |
| <b>1. Expenditure measures</b>        |  | <b>854.5</b><br><b>(6.2)</b>   | <b>331.1</b><br><b>(2.3)</b> | <b>111.1</b><br><b>(0.7)</b> | <b>0.0</b>   |
| 1.1. Operational measures             | Operational budget cuts, including personnel expenditures  | 100.7                          | 57.8                         | -                            | -            |
| 1.2. Programme measures               |  | 454.5                          | 113.5                        | 111.1                        | -            |
| 1.2.1. Pension                        | Suspending the second-pillar-funded pension scheme   | 85.4                           | 71.4                         | 79.1                         | -            |
|                                       | Decreasing the raise in pensions (5% instead of 14%)   | 78.2                           | -                            | -                            | -            |
| 1.2.2. Social security                | Reducing health-insurance costs  | 39.1                           | -                            | -                            | -            |
|                                       | Changes in employment act  | 49.1                           | -                            | -                            | -            |
|                                       | Reform of sick-note compensation scheme  | 19.9                           | -                            | -                            | -            |
|                                       | Decreasing the liabilities of health-insurance fund  | 7.0                            | -                            | -                            | -            |
| 1.2.3. Defence                        | Defence expenditures   | 30.9                           | 10.1                         | -                            | -            |
| 1.2.4. Construction                   | Road maintenance   | 52.1                           | -                            | -                            | -            |
| 1.2.5. Transfers to local governments | Decreasing the share of income tax transferred   | 38.3                           | -                            | -                            | -            |
| 1.2.6. Lending to local governments   | Limiting lending to local governments  | 32.0                           | 32.0                         | 32.0                         | -            |
| 1.2.7. Investments                    | Environmental investments  | 22.4                           | -                            | -                            | -            |
| 1.3. Other initiatives                | Numerous measures (e.g. overall spending limits, expenditure freeze at central government level) | 299.3                          | 159.8                        | -                            | -            |
| <b>2. Revenue measures</b>            |  | <b>417.3</b>                   | <b>578.3</b>                 | <b>484.4</b>                 | <b>523.6</b> |



|                                    |  | <b>(3.0)</b>  | <b>(4.0)</b> | <b>(3.0)</b> | <b>(3.1)</b> |
|------------------------------------|--|---------------|--------------|--------------|--------------|
| 2.1. VAT                           | Increasing VAT rate from 18% to 20%  | 51.1          | 111.8        | 119.9        | 128.4        |
|                                    | Increasing the lowered VAT rate  | 21.1          | 21.9         | 23.5         | 25.1         |
| 2.2. Personal income taxes         | Abolishing additional basic allowance for the first child                  | -             | 46.1         | 45.3         | 45.3         |
|                                    | Excluding labour union fees and study loan interest from income deductions | -             | -            | 3.0          | 3.0          |
|                                    | Creation of the investment account   | -             | -            | -            | -4.2         |
|                                    | Excluding educational costs from the list of fringe benefits               | -             | -            | -            | -2.1         |
| 2.3. Social security contributions | Raising unemployment insurance tax from 0.9% to 4.2%                       | 50.2          | 112.7        | 124.7        | 133.7        |
|                                    | Increasing the social tax obligatory minimum to 100% of the minimum wage   | 21.0          | 23.0         | 23.0         | 23.0         |
| 2.4. Excise duties                 | Increasing excise on alcohol, tobacco, fuel, gas and electricity           | 33.2          | 103.9        | 111.1        | 149.1        |
| 2.5. Dividends                     | Additional dividends from state-owned enterprises                          | 108.6         | 82           | 32           | -            |
| 2.6. Property                      | Sale of real estate and land   | 75.9          | 64.9         | -            | -            |
| 2.7. Other                         | Other revenues   | 56.1          | 2.0          | 2.0          | 22.1         |
| <b>TOTAL</b>                       |  | <b>1271.8</b> | <b>909.4</b> | <b>595.5</b> | <b>523.6</b> |

Source: adopted from OECD (2012)



### Article III

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## Public Policy-Making in a Time of Cutbacks: The Role of the Street-Level Bureaucrats in Estonia

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### ABSTRACT

This paper addresses the impact of crisis on individual-level policy actors by studying the role of street-level bureaucrats in public policy-making during cutbacks in Estonia. To do so, the article makes use of two rivalling streams of theorizing, arguing for and against the increased role and importance of bureaucrats during retrenchment. The Estonian case confirms neither of these extremes, but refers to their complementarity by showing that in Estonia centralized cutback decisions were coupled with "decentralized" solutions to crisis at the very service-delivery level. It is demonstrated that the role and tasks of street-level bureaucrats were in flux and different individual-level coping strategies emerged during the retrenchment period in order to secure the delivery of public services in a situation where more had to be done with less. Still, it is concluded that in the end the scarifications of street-level bureaucrats, both at the professional and the personal levels, facilitated achieving the crisis-time policy goals set by the government, and therefore they were the key actors in crisis-time policy-making.

**Key words:** fiscal crisis; cutback management; street-level bureaucracy; coping strategies

### 1. Introduction

After the outburst of the recent economic crisis Estonia witnessed severe recession – following years of remarkable economic growth, in 2008 and 2009 its GDP turned negative, reaching -3.7% and -14.3% respectively. To cope with the crisis the Estonian government pursued fiscal discipline and applied immediate and radical consolidation measures three years in a row. As a result Estonia demonstrated the third lowest crisis-time budget deficit in the European Union (EU) and a low government debt rate; also it became a new member of the Eurozone despite the crisis. (OECD 2012) For this achievement the Estonian government and politicians were admired all over the world – their courage and decisiveness to take "quick, hard and right decisions" and fight the crisis without turning to foreign lenders was set as an example worldwide (see Raudla and Kattel 2011).

A noteworthy share of the “quick, hard and right decisions” taken at the central government level and related cuts addressed government agencies – the positions, salaries and privileges of the street-level bureaucrats (see Jõgiste et al. 2012; OECD 2011). Therefore at the service-delivery level the crisis context confronted the street-level workers with diminished resources, increased job and pay insecurity, often coupled with crisis-led increase in demand for the provision of services. Up to now little is known about how the crisis was absorbed at the agency level and what role the street-level bureaucrats played in the crisis-time policy-making that made Estonia the object of international marvel. In the academic literature two competing streams of argumentation exist about the role of bureaucrats during retrenchment – one of them arguing for their increased importance in public policy-making, the other claiming the opposite. Though Lodge and Hood (2012) and Pollitt (2012) have theorized on the shifting competencies and requirements of civil servants in crisis-time policy-making and Kogan (1981) has touched upon the implications of cutback environment for the discretion of the street-level workers, no systematic empirical research on street-level bureaucrats exists so far. Very often the role of street-level bureaucrats is overlooked in the public policy context due to the difficulty of examining and explaining their daily work (Meyers and Vorsanger 2003). Hereby the fiscal crisis provides a unique opportunity for comparing the before- and after-crisis dynamics at the service-delivery level. Finding out the crisis-impelled shifts in the role, tasks and service-delivery patterns of the street-level bureaucrats in Estonia is exactly the aim of this paper. Special attention is paid to coping mechanisms (cf. Lipsky 1980) applied at the street level to shed light on these dynamics.

The study applies a multiple-case-study approach to explore the process of crisis-time public service delivery at the agency level in Estonia from 2008 to 2010. The first part provides an analytical framework built around cutback management research (e.g. Dunsire and Hood 1989; Levine 1978; Peters et al. 2011) and street-level bureaucracy literature (e.g. Lipsky 1980; Nielsen 2006) and brings out two prevalent rivalling lines of argumentation about the role of bureaucrats in retrenchment. The empirical part aims to test these conflicting standpoints by looking at the main cutback measures undertaken and exploring the street-level service delivery in four Estonian agencies during the crisis – three government agencies under the Ministry of Social Affairs and one agency under the Ministry of Finance. The chosen agencies represent both regulatory and fund-transferring agencies that were strongly affected by the crisis context and expectedly demonstrate different patterns in the provision of public services during the crisis. The study makes use of twelve semi-structured expert interviews with relevant civil servants from the four agencies, policy documents and official press releases of the investigated institutions. The focus of the study is on the changes compared to the pre-crisis period.

## **2. Analytical framework**

Typically, public policy-making is explained through the engagement of different policy actors in the policy process (Anderson 2000). During the crisis “the time to think, consult and gain public acceptance is highly restricted” (Boin et al. 2008, 11); therefore, decision-making, legitimation and implementation in the hands of official

policy actors becomes crucial. Moreover, the official policy actors are in the spotlight, because citizens look up to them with accelerated expectations and wait for them to terminate the crisis (Posner and Blöndal 2012).

Street-level bureaucrats as official policy actors are involved in public policy-making via the implementation of policies – they play a decisive role by being responsible for delivering public goods and services when interacting directly with citizens (Meyers and Vorsanger 2003; Winter 2002). Their daily work and behavior and consequently the outcomes of public policies are shaped by numerous factors, ranging from the complexity of the organizational and task environment and the level of political control to the ideology and professional norms of the street-level workers (Meyers and Vorsanger 2003, 247-249). During crisis the structural and systemic factors of public organizations are likely to be distorted, and power shifts in the (perceived) role of politicians and bureaucrats are likely to occur (see Kickert 2012; Peters and Pierre 2001; Peters et al. 2011). Hence, also the conventional tasks and established responsibilities of politicians and civil servants are expected to be in flux (Peters et al. 2011). Moreover, fiscal-crisis-related budget cuts tend to reinforce the notorious “problem of resources” – ever growing client demands and restricted resources (Lipsky 1980) that street-level bureaucrats are daily faced with. As a result it can be expected that fiscal crisis directly impacts the regular tasks and service-delivery patterns of the street-level actors and eventually has implications for their (commonplace) role in policy-making.

In the academic literature two main streams of theorizing can be found that address the dynamics in the role of bureaucrats in policy making during the retrenchment. Mostly the literature touches upon the inclusion and empowerment of the bureaucrats in decision- and policy-making more generally and discusses whether it is increased or restricted (e.g. Dunsire and Hood 1989; Kogan 1981; Pollitt 2010). The prevailing lines of argumentation are conflicting – on the one hand centralization and a diminished role of street-level workers can be predicted, on the other hand, decentralization and a stronger empowerment of the street-level bureaucrats can be conjectured as outlined in the following paragraphs.

Kogan (1981) claims that during retrenchment the action and discretion of the agency-level bureaucrats is most probably reduced due to the general centralization tendencies. Indeed, cutback management is predominantly about difficult political choices on priorities and strategies of the central government machinery (Wilks 2010, 105), hence financial decline triggers movement towards more mechanistic and hierarchy-based processes and procedures in organizations (Bozeman 2010; Peters 2011, 77; Stern and Sundelius 1997). Centralization tends to restrict the street-level action, as it is most commonly achieved either through general priority-setting and top-down processes from the top management, such as automatization, routinization or standardization of procedures, or by setting limits and ceilings to organizational spending and activities (Pollitt 2010; Wildavsky 2001).

More specifically, Dunsire and Hood (1989) and Lewis and Logalbo (1980, 187) demonstrate how centrally imposed principles and restrictions for delivering public services aimed at cutbacks directly “ease” the tasks and reduce the work load of street-level bureaucrats. They claim that central instruments, such as formalized access by clients, standardized forms and treatments for service delivery, increased service prices, reduced variety of service tasks, fixed quality of treatment, reduced

frequency of service provision, service hours or the number of service outlets, directly reduce the level of public services provided by the bureaucrats to the citizens (Ibid.; Dunsire and Hood 1989).

In addition, increased politicization, which is a likely response of governments in situations of rapid and extreme changes (see Rouban 2007; Peters and Pierre 2004; Schick 2009), is believed to cast bureaucrats aside from policy-making during retrenchment. Namely, during the crisis typically operational and political tasks are distinguished, the latter pointing to a greater share of responsibility, accountability and blame (Boin et al. 2008, 150). It is conventional that government leaders such as prime ministers and presidents take the political tasks and make strategic choices to alleviate crisis, but often even technocratic and operational decisions commonly in the responsibility of officials might move into the political arena during the crisis (Peters 2011). Furthermore, it is common that in the course of retrenchment “the career civil service” is distanced from the key actors, because as a rule cutback decisions are made in a small group of political leaders (Kickert 2012; Peters 2011; Peters et al. 2011). This is so because often public service is treated as part of the problem due to its resistance to changes (Peters and Pierre 2001). Street-level bureaucrats have been traditionally viewed as a troublesome counterpart in the policy process, whose discretionary decisions result from their personal interests and may lead to dysfunctional behavior, insufficient service delivery and divergent policy outcomes (Meyers and Vorsanger 2003; Nielsen 2006, 861).

From a different perspective, several authors (e.g. Ingraham and Barrilleaux 1983, 400; Levine 1978) claim that a bigger inclusion of the civil servants in cutback processes is relevant for achieving successful policy outcomes. More specifically, intensified engagement of expert knowledge from the “ground staff” is seen as an enabling factor for fast and more competent policy responses in unpredicted situations (Boin et al. 2008, 53-54). For example, a common practice applied during retrenchment speaking for empowering the bureaucrats is across-the-board cuts that delegate decisions on budget cuts to operational managers or even service providers (Pollitt 2010). Some authors have pointed to the fact that cutback management gives more power to civil servants, as it sets novel requirements to their skills and competences (e.g. bigger managerial responsibility, long-term view and professionalism) and their role in performing these tasks is of utmost importance in mitigating the crisis (Lodge and Hood 2012; Moulton and Wise 2010). Also Meyers and Vorsanger (2003, 247) argue for the empowerment of the street-level bureaucrats in cutback policy-making, claiming that the more unpropitious and complicated the task environment is, the more does coping with the changes of external environment depend on their discretionary judgment.

Meyers and Vorsanger (2003) further explain that a “crisis situation” inherently empowers the street-level bureaucrats, because adhering to the conventional standards and routines can prove difficult in crisis, and hence more room is left for their own interpretation. This is especially true during cutbacks, when service providers are facing a situation of trying to maintain standards when being denied the essential resources (Dunsire and Hood 1989, 1). A common manifestation of the street-level bureaucrats’ discretionary power are specific coping mechanisms that enable them to manage workloads, solve unpredicted situations and make ad-hoc decisions when being confronted with diverse demands and restricted resources (Lipsky 1980;



Winter 2002). These mechanisms range from limiting information and access to clients and modifying program objectives to rationing the services provided by focusing on specific client groups or tasks (Meyers and Vorsanger 2003, 247; Nielsen 2006, 865) (see Table 1). Most commonly, the coping mechanisms are aimed at reducing the demand for service provision<sup>1</sup>, and the use of these mechanisms would intensify under increased pressure (Meyers and Vorsanger 2003).

Table 1: **The main coping strategies on the street level**

| Coping mechanism                      | Description   |
|---------------------------------------|---|
| Posing psychological costs on clients | Limiting information provided to clients  |
|                                       | Limiting access   |
|                                       | Letting clients wait  |
| Dominating clients                    | Modifying program objectives, developing cynical perceptions of clients   |
| <b>Rationing services</b>             |   |
| Setting priorities among tasks        | Concentrating on limited number of selected cases, clients, solutions   |
| Setting priorities among clients      | Standardizing and routinizing the client groups, stereotyping, e.g. “creaming” – choosing the “easiest” clients, using rules of thumb |

Source: based on Lipsky 1980; Meyers et al. 1998; Nielsen 2006; Winter 2002

Still, a fact that deserves caution in relation to the empowerment of civil servants in cutback policy-making (*vis-à-vis* other official actors) is that it can serve the aim to obscure or shift blame (Boin et al. 2008, 151; Peters et al. 2011). Posner and Blöndal (2012, 29) claim that the delegation of hard choices to the agency level is a “time honored strategy” of scattering political responsibility. It is often driven by the governments’ search for cheap, easy and handy solutions attractive in the context of difficult and complex problems (Adolino and Blake 2001; Pandey 2010).

### 3. Estonian case study

As a response to the fiscal crisis, the Estonian government imposed strict fiscal discipline by applying several consolidation measures across three negative state budgets within two years (first in 2008, two additional ones in 2009) and several one-off measures improving the state budgetary position by ca. 9% and ca. 6% of GDP in 2009 and 2010 respectively (OECD 2011, 99; see Appendix1). All three negative supplementary budgets applied extensive cuts in the operational expendi-

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<sup>1</sup> Ironically, efforts to cope with limited resources may lead to either an inconsistent and particularistic treatment of similar clients or a routinized treatment of very dissimilar clients (Meyers and Vorsanger 2003, 247).

tures<sup>2</sup> of ministries together with agencies under their jurisdiction. To achieve these cuts the Cabinet set a fixed proportion across all ministries and their agencies that were in turn responsible for finding the specific “cutback items” to achieve the set cutback ceilings (Raudla and Kattel 2011). These across-the-board cuts were forced three times in a row — 7-9%<sup>3</sup> in June 2008, 7% in February 2009 and 7% in June 2009 (Estonian Ministry of Finance 2008, 2009). Thus the retrenchment reached the government agencies in 2008 with the first round of across-the-board budget cuts.

The agencies investigated in the current study belong to the area of governance of the Ministry of Finance – Estonian Tax and Customs Board (TCB) – and the Ministry of Social Affairs – Labour Inspectorate (LI), Estonian National Social Insurance Board (ENSIB) and the Unemployment Fund (UEF).<sup>4</sup> The agencies were chosen as a basis for the current empirical study, as these specific regulatory and social policy areas are considered to be directly and strongly affected by the crisis (e.g. higher unemployment, lower receipt of state-budget revenue) in terms of increased demand for services at the agency level (e.g. provision of unemployment services, solving labor disputes, requesting social benefits, tax collection and enforcement). Hence, there is ground to hypothesize about a large-scale change in the tasks and role of the street-level bureaucrats in these agencies. Furthermore, taking into account that ENSIB and UEF are agencies engaged with the transfer of funds, whereas LI and TCB are regulative agencies (Bouckaert and Peters 2004), differences in the dynamics of tasks, roles and coping strategies of street-level bureaucrats in these two groups of agencies are expected. The variation is assumed due to the stronger position of client groups materializing in lower demand for services (e.g. being inspected) in case of regulatory agencies (Winter 2002).

### 3.1 Responses at the agency and street level

The following part of the paper gives a brief overview of the cutbacks at the agency level in Estonia to illustrate what the problem of diminished resources actually meant and presents the patterns of service delivery during cutback policy-making in the four agencies. All the information presented is based on twelve semi-structured expert interviews conducted with heads of units and senior service-delivery officials engaged in cutback management and crisis-time service provision in the four agencies (for the list of interviewees see references) if not cited otherwise.

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<sup>2</sup> Currently the cutback measures in operational expenditures are categorized after Raudla, Savi and Randma-Liiv (submitted) including personnel-related cutback measures (layoffs, cuts in wages, additional pay, training funds etc.) and administrative expenditure (spending limits or bans on maintenance, travel, supplies, utilities, equipment etc.).

<sup>3</sup> 7% applied to the Ministries of Education and Research, Ministry of Justice, Ministry of Economics and Communication, Ministry of Finance, Ministry of Internal Affairs and Ministry of Social Affairs. 9% was set as a compulsory target for the Ministry of Defence, Ministry of Environmental Affairs, Ministry of Cultural Affairs, Ministry of Agriculture and Ministry of Foreign Affairs (Estonian Ministry of Finance 2008).

<sup>4</sup> TCB, LI and ENSIB are government agencies without legal independence and under direct supervision of ministries. They implement policies by mainly fulfilling regulatory tasks and are covered by civil service legislation (Sarapuu 2011). UEF is a state agency (legal person in public law) and does not exercise public authority but is engaged in policy implementation and employs officials under general labor law applied also in the private sector. It reports directly to the ministry, but has independent managerial authority and budget (Sarapuu 2011).

### 3.1.1 Estonian Tax and Customs Board

To cope with the decreased budget different cutback measures addressing operational costs in turn directly influencing street-level bureaucrats were applied in TCB in 2008 and 2009. To achieve cuts in personnel costs the agency top management opted for layoffs, hiring freeze (hiring a new employee was only allowed with the permission of the head of the agency) and pay cuts (3-5% to non-managerial positions and 15% to the managerial position). In addition, cuts in administrative and maintenance-related expenditures occurred, ranging from cutting the number of official cars, requiring two-sided printing, to switching off the heating system in the office during the weekend or optimizing lighting in offices whenever possible. Furthermore, work-related accommodation and transportation compensations for employees (living far away from the boarder point or regional bureau) were abolished. Therefore employees had to take care of the rent payments themselves. Though alternative transportation schemes were offered by the agency's management to compensate the financial burden, immense inconveniences resulted in the daily lives of street-level workers.<sup>5</sup>

As commented by the interviewees, the cutback decisions in TCB were taken by the agency's top management and during the crisis decision-making was centralized (e.g. before the crisis heads of departments were free to decide upon hiring new employees). However, a regional unit head claimed that though it was centrally decided that personnel costs had to be reduced, it was the unit manager who had to decide upon exactly which employees had to be laid off.

According to the interviewees, the general workload in TCB during the retrenchment period rose in both its core activities – the implementation of national tax and customs policies. Still, as a rule, these modifications did not require the officials of TCB to work after office hours. The interviewees claimed that in relation to customs policies crisis-led increase in unemployment enhanced the mobility of workforce that in turn slightly affected the workload of the border guards. In addition, increased work load was impelled by layoffs and related modifications in the provision of services due to the shrinking workforce. Those who had kept their position had to assume new tasks and responsibilities (of those who had left) and therefore needed (more) time to adjust to the new tasks. For example, in two counties (Raplamaa and Läänemaa) the provision of customs services was cut down by half and added to the responsibility of officials previously dealing with tax claims. In addition, bureaucrats had to take on new tasks and responsibilities that were very remote from their profession (e.g. a tax-enforcement lawyer had to take up driving and take care of parking, refueling etc. when going to court; even more extremely, a customs official started to provide daily transportation to colleagues).

Besides bringing along entirely new tasks to the street-level bureaucrats of TCB,

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<sup>5</sup> Instead of the accommodation or travel compensation, the workers now were offered a car for common use by the employer. One of the colleagues driving from the most distant location thus used the car provided to pick up others on the way to work/home. This meant that one person became responsible for the transportation of the others, and all the workers were very strongly interdependent in terms of arriving at and leaving the post. Even more, in some cases the colleagues that had to be picked up lived off the main route; hence the one who was driving had to start the day very early to be at the post in time.

the crisis-time work environment triggered a shift amongst the existing core tasks of tax enforcement lawyers. Namely, in terms of the tax policy implementation, during the crisis the TCB top management gave priority to the functions that helped ensure the receipt of state-budget revenue and maximize the tax accrual (e.g. tax control and enforcement). This priority was legitimized through quotas for tax enforcement lawyers setting a yearly number of enforced cases or “successful” cases (still no direct punishments or rewards were attached to the quotas). As a result, the officials became more engaged in *ex-ante* analysis and risk analysis to be able to focus on solvent clients and avoid dealing with unsuccessful cases. According to a tax-enforcement lawyer the strategy to maximize tax accruals as quickly as possible changed the former more personal approach to clients often based on compliance<sup>6</sup> and insisted on a more “standardized” service provision that forced them to adhere to rules and regulations more closely.

### 3.1.2 Estonian National Social Insurance Board

In ENSIB the crisis-related retrenchment curbed the salaries of all workers by 4% in 2009. In addition all staff was obliged to take 20 days of unpaid leave during 2010. Furthermore, the additional pay fund was sharply cut, one-time support schemes abolished, and costs on work-related training and transportation compensation were significantly reduced. Though in ENSIB the heads of bureaus were given an opportunity to choose between an additional cut in salaries or unpaid leave in 2010, the general engagement of the agency officials in the cutback decision-making was weak, thus suggesting that it was a rather top-down process. The head of the financial unit in ENSIB stated: “All the officials were informed that as of now we have to get by with fewer resources”, the head of a bureau in ENSIB assured: “no one was consulted, we just received a directive from the agency’s director general announcing the budget cut”. Still, the cuts were accepted rather peacefully by the officials; according to a unit head everyone understood that the situation has to be solved.

The fiscal crisis increased the number of clients who registered as disabled in ENSIB to be eligible for social benefits. In addition, as the tasks of those on the obligatory unpaid leave were distributed among other street-level bureaucrats, fewer people had to manage the increased workload during the crisis. However, working overtime was not frequent, and no extreme situations occurred according to the interviewees.

### 3.1.3 Labor Inspectorate

In LI the crisis-related budget cuts induced pay cuts, cuts in additional pay funds and training funds, the abolition of several one-time support schemes (e.g. compensation for health-related activities, financial support for wedding) and also cuts in admin-

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<sup>6</sup> A tax enforcement lawyer explained that as a rule she tried to set the pay schedule and period for paying back the debt as flexibly as possible, taking into account the needs of the client as much as possible. After the management announced increased tax accrual as essential (and set the quotas for tax enforcement lawyers) the priorities of service delivery changed, and a much more strict attitude towards the clients was taken.

istrative expenditures. Still, the pay cuts remained under 5%, because part of the personnel expenditures in LI were covered by allocations from the EU Structural Funds that, according to the priority set by the government, were not targeted during the crisis period (Estonian Ministry of Finance 2008, 2009). In addition, numerous cosmetic cuts were introduced, such as less color printing, no free coffee, etc. Though in general the budget cutbacks in LI materialized in a rather centralized setting, the heads of Inspectorates were invited to participate in a general discussion concerning the possible cutbacks.

The crisis context increased the number of labor disputes in Estonia by ca. 40% (Estonian Labor Inspectorate 2009) and hence straightforwardly increased the workload of street-level bureaucrats in LI, whose ordinary daily working hours were often extended by more than two hours and who occasionally had to work on weekends. Even though during the crisis all the tasks that could be postponed to after service hours (not requiring direct contact with clients) were deferred by the officials to provide services to a maximum number of citizens, the average time of processing the labor disputes grew by the factor of four – instead of the usual one month it took four months from submitting the application until the first court session (Estonian Labor Inspection 2009).

The sharp rise of work disputes insisted a shift between the two main functions of the LI (workplace health and safety and labor relations and disputes) as the top management decided to cut down on the number of site visits of the work inspectors (related to workplace health and safety) by adjusting their official work plan in order to direct more resources to dealing with work disputes. At the individual level, the legal advisors dealing with labor disputes encountered a shift in their tasks as they became more engaged in (phone) counseling than ever before (a legal advisor estimated a shift from 1/3 to 2/3 of the work time) and, as pointed to above, fulfilled technical tasks only after opening hours. The legal advisors claimed that as the aim was to counsel as many citizens as possible, they started to look for opportunities to optimize the consultation time. Hence citizens “with better command of using the computer and the Internet” were advised less, as they were believed to be able to look up the relevant information (e.g. concerning the submission of application for dispute) themselves. At the same time, the legal advisors claimed they were rather aligned to the existing regulations and instructions, because their counseling had to do with explaining highly technical details concerning layoffs and the legal rights of employers and employees.

#### *3.1.4 Unemployment Fund*

No substantial crisis-related budget cuts could be detected in UEF, because in May 2009 UEF and the Labor Market Agency were merged. Hence the reorganization of organizational structure, resources and budget was carried out earlier during the process. In addition, the merger with a state agency (previously a government organization) brought along independent managerial and budgetary authority for UEF, and therefore the across-the-board operational cuts by central government did not address the agency straightforwardly. Still, during the crisis a general mentality of increased efficiency and economy prevailed also in UEF, and thereby the expenditures on train-

ing, selected support schemas (e.g. one-time financial support for workers with school-aged children) and some maintenance costs were optimized by the management.

The crisis impelled a sharp rise in unemployment in Estonia from 5.5% in 2008 to 13.8% in 2009 (Eurostat 2011), thus significantly increasing the number of first-time clients to be registered as unemployed in UEF. As suggested by the interviewees, the magnitude of the crisis-led changes was best illustrated by the fact that on some days there was a queue of clients on the street. Consequently, the workload in UEF increased severely, and the ordinary eight-hour working days of the bureaucrats extended regularly to eleven hours and also to the weekends. According to a senior official in UEF the street-level workers were subject to extreme time pressure, and they had to establish a “service express” to manage the increased workload – during the crisis the officials spent on average 10 minutes on each client (instead of the usual 25-30 minutes). In spite of that, citizens were faced with longer waiting hours – in UEF the average waiting time for reception grew from the ordinary 20 minutes to up to four hours on some days. Often, clients were sent back on their arrival due to the overcrowded service hall.

Being faced with an ever growing number of clients in UEF all the officials (also the head of the office, information-desk official etc.) started to enroll the first-time clients, unless any strict deadlines concerning their main job had to be met. No official regulations, no new task profiles or rules were established for the new work arrangement, hence the formal job descriptions were ignored when basically all the officials started to fulfill the functions of a desk officer. A senior official from UEF claimed: “There was only one rule – you have to provide service to the customer.” The officials claimed they acted on “common sense” but also relied on their “gut feeling” when dealing with the new situation. The information-desk official at the UEF “regulated” the action of front-line workers, as she decided upon which clients each bureaucrat had to receive by establishing a principle that “the less experienced officials” (those who officially were not engaged with registration of the unemployed) work with “easier” clients.<sup>7</sup> Even more, she straightforwardly influenced the duration of individual receptions by shouting when the waiting line had grown too long or people in line were getting nervous or just by sending a citizen to a bureaucrat who was “taking a breath”.

Concerning the changed task profile more specifically, street-level bureaucrats faced with intense time pressure to register the new unemployed spent less time on counseling in UEF (the main tasks when registering a new unemployed are technical registration and consultation on possible training and job opportunities). According to the interviewees, the time dedicated to clarification and explanation during the consultation decreased vastly, thus consultations were often superficial because the main aim was to quickly register the unemployed to secure their financial benefits. Very often, instead of spending time on consulting the citizens, they were provided with the necessary information booklets or references to relevant webpages. The officials in UEF stated that the citizens with better computer skills were counseled less, as they were considered capable of searching job vacancies by themselves.

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<sup>7</sup> The criteria for estimating whether a client is “easy” or not were based on the interpretation of the information-desk officer.

Table 2: The main cutback measures applied during the crisis at agency level

|  | ENSIB               | LI   | UEF | TCB   |
|--|---------------------|--|-----|---|
| <b>Cuts in operational expenditures</b>            |                     |  |     |   |
| Dismissals   | +                   | +  | -   | +   |
| Hiring freeze                                      | +                   | +  | -   | + hiring new personnel only with the permission of DG, allowed only if sb. left |
| Salary cuts  | 4% in 2009          | less than 5% due to the financing from EU structural funds | -   | 3-5% non-managerial positions<br>15% managerial positions                       |
| Cuts in additional pay fund                        | +                   | +  | -   | +   |
| Cuts in training fund                              | +                   | +  | +   | +   |
| Compulsory unpaid leave                            | 20 days during 2010 | -  | -   | -   |
| Cuts in one-time support schemas                   | +                   | +  | +   | + living and travel compensation of boarder workers abolished                   |
| Cuts in administrative and maintenance expenditure | +                   | +  | +   | +   |

Legend: + Applied; - Not applied

#### 4. Discussion

The case descriptions provided above demonstrated that the retrenchment strategy chosen by the Estonian government as a response to the fiscal crisis forced the investigated agencies to carry out large-scale cuts in their operational expenditures (with the exception of UEF, where only marginal cuts occurred). The study confirms the theoretical propositions about excluding civil service from cutback decision-making. It was shown that the cutback measures at the agency level were applied in a rather centralized manner, as the street-level workers were neither engaged nor consulted by the top management but were set aside when deciding on specific cutbacks concerning their salary and work-related benefits. Though in LI unit heads had a possibility to participate in an informative meeting on cutbacks, in general top-down processes prevailed in all agencies, and the workers were just informed (on paper) about the retrenchment decisions taken at the top. Thus, for the street-level workers the crisis materialized in the atmosphere of centrally imposed cutbacks and crisis-driven complexity in the work environment. As a result the street-level officials in the agencies investigated faced a situation where more had to be done with less. Though the depth of “more” and “less” varied strongly among agen-

cies, in all more public services had to be delivered at a more rapid pace, in a more complicated task environment with decreased salary and/or loss in benefits and lower job security.

Despite the overall centralized and exclusive cutback mentality, the degree of “centralization” in terms of formal instructions given from the agency top management for doing more with less in the unconventional situation did not prevail in the four agencies investigated. Only in TCB the management laid down a rather clear target and setup for the tax-enforcement lawyers that required to deal with a specific group of clients in a radical way. Though in LI a shift between the two core functions was officially established at the organizational level, neither in ENSIB, in LI, TCB (customs service) nor in UEF any formal guidelines whatsoever were given concerning street-level service delivery in the changed work environment. A further aspect speaking for a rather decentralized setting at the service-delivery level is the fact that the current study found no proof of either the central government or the agency-level top management making use of the possibility to “smooth out the inputs or level down the outputs” of public services (cf. Dunsire and Hood 1989) that would have relieved the situation of the street-level officials as described in the analytical framework. Hence, it could be said that for coping with the crisis “decentralized” solutions had to be found at the very service-delivery level by the street-level bureaucrats, where, therefore, also the biggest pressures emerged. This is in line with the arguments of the authors who claim that the crisis context per se empowers the bureaucrats and presents rather opposite dynamics to the patterns proposed in the existing literature, according to which “harder” tasks are lifted from the shoulders of the bureaucrats and borne by the political elite during cutback policy-making. This, in turn, shows that the centralization/decentralization tendencies are rather concurrent and complementary, depending on the type of decision to be taken, not so much conflicting as put forth by the prevailing lines of argumentation in the existing literature.

As pointed to above, the real impact of the crisis and pressures that emerged at the street level differed considerably among the agencies investigated. In some agencies the front-line workers reported no significant variation in their daily work practices (ENSIB), in others rather extensive modifications in task profile and habitual work practices (LI, TCB, UEF) was encountered, ranging from a changed task profile to fulfilling duties and delivering services not provided before and not even related to the profession. What is more, differences occurred in different units inside individual agencies (TCB). The exceptionality of ENSIB seems to be explained by the fact that for this agency the demand for services increased only slightly when compared to the other agencies, and the (minor) modifications in work practices were mainly the function of implemented cutback measures (compulsory leave). Then again, in TCB, where large-scale changes occurred, the increased demand for providing services was comparable to neither LI nor UEF. Furthermore, in TCB the biggest changes in service provision that were triggered by intensified demand for service (tax enforcement) were induced not by external, but internal factors (contrary to LI and UEF), as increased tax accrual was a priority set by the agency management. In addition, in TCB the internal retrenchment decisions (layoffs, reduced staff, abolished support schemes) triggered the reorganization of functions and tasks, and



the modifications were more extreme in areas where cuts were more extensive (e.g. the abolishment of compensation for accommodation). The latter thus implies the explanatory power of the severity of the cutback measures. The cases of LI and UEF in turn do not confirm this, first of all, because in UEF no radical cuts occurred, and, secondly, in LI internal cutback decisions did not change the task profile of employees in any significant way. Rather, the sharp (external) increase in the demand for services from the target groups clearly impelled the changes in task profile and habitual practices of the street-level bureaucrats in LI and UEF. All in all, it seems that the combination of the severity of internal cutbacks and the severity in the increase of the external demand for services seems to shed light on the changed work profile of the street-level bureaucrats.

The agency case studies revealed that in agencies where crisis-led pressures occurred more explicitly (LI, TCB, UEF), the work environment during crisis forced street-level bureaucrats to use a range of coping strategies not applied on an everyday basis (at least not straightforwardly) to manage the workloads and novel situation, hence confirming the theoretical proposition about increased use of these mechanisms under pressure. This clearly also speaks for the empowerment of the street-level workers. The strategies ranged from posing (psychological) costs on clients, to setting priorities with regard to services, tasks and clients. As was demonstrated earlier street-level bureaucrats developed a more strict and impersonal attitude towards the clients (TCB); they also consciously limited information provided to the clients and expected the clients to look up the information themselves (LI and UEF). This practice was based on stereotyping the clients (LI and UEF) and setting priorities among target groups by addressing the most “promising” clients in order to achieve the policy outputs (TCB). Based on the information obtained from the interviewees, the coping strategies were aimed rather at rationalizing the demand and the services provided in order to increase the output (to provide services to as many citizens as possible; to increase the tax accrual) rather than decrease the level of demand (cf. Nielsen 2006). The rationing of services clearly brought out priorities in the crisis-time tasks – *ex-ante* analysis had precedence over straightforward enforcement activities (TCB), technical tasks were considered less important than the core services (LI, UEF), and securing the immediate financial benefits of the citizens was considered a first-rank priority (UEF). When rationing services was common in all three agencies, posing costs on clients occurred in LI and UEF, but not in TCB. This can probably be explained by the excessive demand for services faced by the street-level bureaucrats in LI and UEF. Interestingly, the changed task profiles that emerged in current case studies show that most of the “shifting” took place at the very agency level – among the existing tasks of individual bureaucrats and among tasks of colleagues in the same units and agencies. Besides UEF, where also the head of a unit started to enroll the unemployed, no other occasions occurred where bureaucrats from a higher hierarchical level or politicians took over tasks from the agency-level bureaucrats.

The current study exemplifies that in some cases dealing with the complicated environment and applying the coping strategies led to adhering to the set regulations more strictly (LI, TCB). In others, both the formal and informal regulations (job descriptions, principles on the duration and contents of consultation) were side-

stepped (LI and UEF), and hence significantly more discretion was exercised when compared to the pre-crisis period. Hence the prevailing understanding in the academic literature that coping strategies assume more discretion is not confirmed by the current study. It can be argued that the existence of the central guidelines for crisis-time service delivery from the management impacted the need for interpretation and discretion from the street-level bureaucrats' side. Namely, in TCB stereotyping the clients derived from clear criteria determined by the management (more tax accrual). On the other hand, in UEF categorizing the clients was largely based on the street-level bureaucrats' personal beliefs as to what is necessary and is best for the citizens (e.g. the priority of securing the unemployment benefits). Similarly, in both LI and UEF deciding upon the clients' command of computers was based on the interpretation of bureaucrats.

## 5. Concluding remarks

The retrenchment strategy opted for by the Estonian government during the recent fiscal crisis brought along proportional cuts in operational expenditures at the agency level. By applying these across-the-board cuts the government freed itself from political priority-setting, minimized unpopular cuts directly targeting the citizens and pushed the hard choices to the agency level. The current study confirmed similar patterns at the agency level where for the street-level workers the crisis materialized in the atmosphere of centrally imposed cutbacks and crisis-driven change in the work environment. Nevertheless, the study showed that centralization and decentralization tendencies were complementary, because in the situation where more work had to be done with less resources and in a more complicated and insecure environment prevalently "decentralized" solutions had to be found by street-level bureaucrats to manage the emerging uncertainties.

The case study at hand demonstrated that the real impact of the crisis and related pressures at the agency and street levels differed noticeably among the agencies, but also in different units inside agencies. These differences are best explained by the severity of internal cutbacks and the severity of the increase of external demand for services at the agency level, rather than by the function of the agency (regulatory vs. fund-transferring) as proposed initially in the paper. In agencies where the crisis-related pressures strongly emerged, shifts in the traditional tasks of street-level bureaucrats occurred ranging from a changed task profile to fulfilling duties and delivering services never provided before and not even related to the profession. It has been shown that the crisis-time work environment forced the street-level bureaucrats to apply various coping strategies aimed most of all at rationing the services in order to increase the policy outputs.

Besides their self-denying action as professionals when delivering public services, a relevant share of coping with the crisis at the street level concerned bearing the burdens such as the loss of benefits and compensations, the loss of routine work time and rest time and sacrificing their own comfort. In addition, street-level bureaucrats facilitated the adoption of austerity measures by silent response, loyalty and commitment towards the government cutback goals and measures undertaken. By not questioning the necessity of cutbacks and accepting the decrease in pay, an

increasingly complex work environment and unconventional task profiles, they contributed to achieving the crisis-time policy goals set by the government. Hence it could be concluded that the price paid at the street level for mitigating the crises was very high, at both the professional and personal levels.

All in all it can be concluded that though the principal crisis-time decisions in terms of cutbacks concerning the state budget were taken either at the governmental or the agency top management level, excluding street-level bureaucrats, the centralized decisions did not lift burdens from the shoulders of bureaucrats, nor did it ease their work. Therefore, street-level bureaucrats were still the key actors in crisis-time policy making as they secured the delivery of public services in very complicated circumstances. Eventually the street-level bureaucrats took the responsibility, accountability and also blame when delivering the services. Paradoxically, their empowerment in public policy-making did not result from strategic steering and inclusion from the government level but from being left “on their own”. The study exemplifies that bureaucrats can be part of the solution to the critical problems the public faces, and policy goals and outputs do not necessarily have to be superseded when the front-liners have to manage intense workloads and complex external environment.

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APPENDICES

Appendix 1: Major consolidation measures in Estonia 2008-2010 (Millions of Euro)

| Measure                               | Description   | Budgetary impact (% of GDP) |                        |                        |
|---------------------------------------|---|-----------------------------|------------------------|------------------------|
|                                       |   | 2009                        | 2010                   | 2011                   |
| <b>1. Expenditure measures</b>        |   | <b>854.5<br/>(6.2)</b>      | <b>331.1<br/>(2.3)</b> | <b>111.1<br/>(0.7)</b> |
| 1.1. Operational measures             | Operational budget cuts, including personnel expenditures   | 100.7                       | 57.8                   | -                      |
| 1.2. Programme measures               |   | 454.5                       | 113.5                  | 111.1                  |
| 1.2.1. Pension                        | Suspending the second pillar funded pension scheme  | 85.4                        | 71.4                   | 79.1                   |
|                                       | Decreasing the raise in pensions (5% instead of 14%)  | 78.2                        | -                      | -                      |
| 1.2.2. Social security                | Reduction of health insurance costs   | 39.1                        | -                      | -                      |
|                                       | Introduction of changes in employment act   | 49.1                        | -                      | -                      |
|                                       | Reform of sick-note compensation scheme   | 19.9                        | -                      | -                      |
|                                       | Decrease in the liabilities of health insurance fund  | 7.0                         | -                      | -                      |
| 1.2.3. Defence                        | Defence expenditures  | 30.9                        | 10.1                   | -                      |
| 1.2.4. Construction                   | Road maintenance  | 52.1                        | -                      | -                      |
| 1.2.5. Transfers to local governments | Decreasing the share of income tax to be transferred  | 38.3                        | -                      | -                      |
| 1.2.6. Lending to local governments   | Limiting lending to local government  | 32.0                        | 32.0                   | 32.0                   |
| 1.2.7. Investments                    | Environmental investments   | 22.4                        | -                      | -                      |
| 1.3. Other initiatives                | Numerous measures (e.g. imposing overall spending limits and expenditure freezes at central government level) | 299.3                       | 159.8                  | -                      |
| <b>2. Revenue measures</b>            |   | <b>417.3<br/>(3.0)</b>      | <b>578.3<br/>(4.0)</b> | <b>484.4<br/>(3.0)</b> |
| 2.1. VAT                              | Increasing the VAT tax rate from 18% to 20%   | 51.1                        | 111.8                  | 119.9                  |
|                                       | Increasing the lowered VAT rate   | 21.1                        | 21.9                   | 23.5                   |
| 2.2. Personal income taxes            | Abolishing additional basic allowance for the first child   | -                           | 46.1                   | 45.3                   |
|                                       | Excluding labour union fees and study loan interest from income deductions                                    | -                           | -                      | 3.0                    |
|                                       | Creation of the investment account  | -                           | -                      | -                      |
|                                       | Excluding educational costs from the list of fringe benefits  | -                           | -                      | -                      |

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|                                    |  |               |              |              |
|------------------------------------|--|---------------|--------------|--------------|
| 2.3. Social security contributions | Raising unemployment insurance tax from 0.9% to 4.2%                     | 50.2          | 112.7        | 124.7        |
|                                    | Increasing the social tax obligatory minimum to 100% of the minimum wage | 21.0          | 23.0         | 23.0         |
| 2.4. Excise duties                 | Increasing excise on alcohol, tobacco, fuel, gas and electricity         | 33.2          | 103.9        | 111.1        |
| 2.5. Dividends                     | Additional dividends from state-owned enterprises                        | 108.6         | 82           | 32           |
| 2.6. Property                      | Sale of real estate and land   | 75.9          | 64.9         | -            |
| 2.7. Other                         | Other revenues   | 56.1          | 2.0          | 2.0          |
| <b>TOTAL</b>                       |  | <b>1271.8</b> | <b>909.4</b> | <b>595.5</b> |

Source: adopted from OECD 2012

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**Public Policy-Making in a Time of Cutbacks: The Role of the Street-Level Bureaucrats in Estonia**

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#### **Article IV**

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## Managing the public sector under fiscal stress

Tiina Randma-Liiv and Riin Savi

### Introduction

The recent global financial and economic crisis, followed by fiscal crisis, have led most European governments to plan and implement austerity measures in order to cope with the concurrent problems of lower revenues and high public deficit and debt. This has not only influenced the delivery and quality of public services, but public administration more generally. Moreover, even though the economic figures show signs of restoring economic growth, the influence of fiscal stress on public administration and management is likely to continue for several years (Pollitt, 2010). The main research interest of this chapter is therefore 1) to investigate how different European countries have responded to the fiscal stress, and 2) to find out what impact has the global crisis had on public management patterns. This means that the current study treats the fiscal crisis as an *independent* variable explaining the possible crisis-led changes in public administration. The focus is not on explaining the crisis *per se* but on providing insights about the immediate *effects* that the crisis has brought along.

The global crisis has hit European countries to a various degree. After the 2008 banking crisis, which accelerated the economic decline, the low point was reached in 2009, when all European countries faced negative growth – more than 14% in the Baltic states, more than 5% in Germany, Hungary, Iceland, Ireland, Italy and Slovenia, and less than 5% in Belgium, France, the Netherlands, Norway, Spain and the UK. In most European countries the budget deficit underwent a sharp deterioration in 2008-2009 after the costly rescue measures applied in the course of the banking crisis. During the peak of the crisis, general government surplus existed only in Norway, while the deterioration in budget balance was the sharpest in Iceland due to the large share of banking in the economy. In most of the European countries the government gross debt started to rise from 2007 and continued to grow in the following years. Ireland and Iceland stand out in this realm, as in six years the countries governments' gross debt increased 93 and 75 percentage points, respectively. Also the UK and Spain have shown a remarkable growth of gross

debt of about 45 percentage points, whereas most of the governments have faced a growth of their gross debt between 12 and 27 percentage points in 2006-2012. Estonia has shown a rather stable trend with the lowest government gross debt in Europe while Norway, due to its oil and gas reserves, has even decreased the government gross debt during the period from 55% to 29%. Since 2010, the Eurozone crisis erupted: in countries with excessive national debt levels and budget deficits coupled with lenders' increasing interest rates on state bonds, it became impossible to further finance their deficits and debt. This was (and is) particularly the case when economic growth was low and debt was mainly in the hands of foreign creditors, as seen in Greece and Portugal. As a consequence, the Latvian government asked for an emergency bail-out loan in 2009; Greece, Ireland and Portugal had to be bailed out in 2010; Spanish banks received a bail-out in 2012, and Cyprus was bailed out by the European Commission, the International Monetary Fund and the European Central Bank in 2013.

One can assume that the worse the economic situation (GDP growth rate, unemployment, etc.) and the budgetary situation (budget deficit, state debt) were, the more drastic and far-reaching measures had to be taken by the governments and the more the crisis also affected public administration itself. The existing scholarly research has provided various insights about the implications and impact of the current crisis on public administration. For instance, several authors point out that the crisis has substantially redrawn the boundaries between public and private sectors (Thynne 2011) by empowering the former (Moulton and Wise 2010); and also affected the relationships between central and local governments (Ion 2014). The fragility of public-private partnerships in global financial crisis has been discussed by Lapsley (2013). Also, the critical role of coordination mechanisms of the key regulatory institutions has been studied (Gieve and Provost 2012). Lodge and Hood (2012) have theorised about the crisis-led shifts in the competencies of public servants. Peters, Pierre and Randma-Liiv (2011) have offered hypotheses about the effects of the crisis on centralisation, politicisation and coordination in public sector. Also the implications of fiscal austerity on public management have been investigated (Di Mascio and Natalini 2013). In addition, the issues of citizens' (declined) trust, (heightened) expectations and general attitudes towards government and the role of public leadership have been addressed (Posner and Blöndal 2012; Raudla and Kattel 2013; Van de Walle and Jilke 2012).

The existing academic studies show that the government responses to the crisis have been diverse. There have been “as many responses as countries” (Peters, 2011: 76) and in many cases the responses have been diverging (see Bideleux, 2011; Kickert, 2012; Lodge and Hood, 2012; Peters, 2011; Peters et al., 2011; Pollitt, 2010). Although the number of publications in the fields of public administration and political science addressing the recent crisis has been fastly growing during the last years, there is still a lack of comparative studies based on a common methodology. 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. Serving as one output of the research project, this chapter outlines the main similarities and differences between responses to the recent crisis with special focus on cutback strategies, consolidation measures and effects of crisis on public management patterns. The empirical study is based on three sources: the COCOPS survey of public sector executives in 17 European countries, 10 country reports, and 11 thorough country case studies collected in the framework of the Work Package 7 of the COCOPS project. The survey results help to comparatively map the variety of responses to crisis by European governments, whereas information from the country reports and case studies helps to shed light upon specific country responses.

### **Cutback strategies**

In the literature on cutback management, a number of categorisations of the cutback strategies have been put forth (for a literature review, see Raudla, Savi and Randma-Liiv, forthcoming). The most basic categorisation distinguishes between across-the-board (proportional) and targeted cuts. In case of across-the-board cuts (also called “cheese-slicing” or “decrementalism”), the central authorities fix the same overall proportion of cuts to be achieved for all institutions (e.g. 5%) and delegate decisions about specific cutback items down the line (Pollitt 2010). Across-the-board cuts are typically general and small in their nature (Wright 1981). On the contrary, targeted cuts are based on centralised priority setting where the (political) choices on cutback priorities and strategies result in substantial cuts where some programs, institutions or sectors face a larger cut than others (Pollitt 2010; Wilks 2010). The “targeted” or “selective” strategy may involve different tactics, ranging from “strategic prioritisation” and “managerial” to “ad-hoc” or even “random” (or garbage can) cuts (see, e.g., Levine 1979; Bartle 1996). The middle

way in-between these two strategies are productivity measures aimed at avoiding real cuts through making efficiency savings that enable the governments to “do more with less” (Pollitt 2010).

Levine (1979, 182) argues that at the beginning of the austerity, across-the-board cuts are more likely (as “sharing the pain” is expected to be perceived as more equitable and hence to generate less conflict and resistance), but if these measures are not sufficient, targeted cuts on the basis of prioritisation will be adopted (Hood and Wright 1981; Pollitt 2010). The experience of the 1980s shows that the longer-lasting and the more severe fiscal stress, the more likely that the authorities start imposing targeted cuts rather than continue implementing the across-the-board measures (Levine 1979, Hood and Wright 1981).

Figure 1. Perceived cutback strategies by European public sector executives.

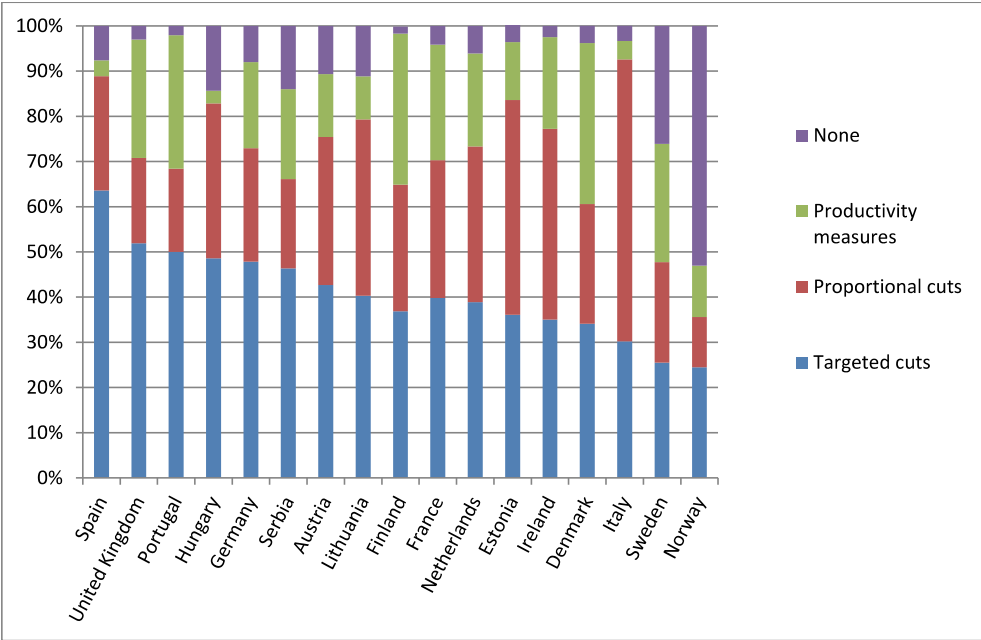


Figure 1 indicates the perceptions of European public sector executives on cutback strategies in their respective countries. Targeted cuts have been applied as a prevailing strategy of cutbacks in Spain, where an outstanding 64% of the respondents assured that targeted cuts were undertaken

during consolidation. Targeted cuts to budgets were stated as prevalent also in the UK, Portugal, Hungary, Germany, Serbia, Austria and France. Proportional across-the-board cuts have been reported as the main strategy for achieving cuts by 62% of public executives in Italy and, though to a lesser extent, been perceived as an important approach during retrenchment also in Estonia and Ireland. In Italy, however, the government introduced more targeted cutbacks in 2012 – the year when the survey was carried out – which can be the reason why this is not adequately reflected in the survey results. Interestingly, productivity measures make up the smallest portion among different strategies in most European countries, still seen as a predominant strategy in Denmark and markedly made use of in Finland, Portugal, the UK, Sweden and France. For example, the British government introduced the Operational Efficiency Program for all departments targeted at saving in back-office operation, equipment, IT reforms and collaborative procurement as well as increased cost saving in the public sector estates. Finally, the survey results prove that Norway and Sweden were less affected by the crisis as respectively 53% and 26% of respondents reported no cuts were taken at all.

The findings clearly show that European governments applied a mix of different types of cutback strategies during the crisis. The drastic and fundamental cutbacks taking place in Spain, the UK and Portugal are reflected by the high proportion of ‘targeted cuts’ in the survey. The survey thus is in line with the previous findings that the extent to which the cutback decisions were targeted or across-the-board, was related to the size of the fiscal crisis. The bigger the necessary cuts, the higher the chance that across-the-board measures will not be sufficient and targeted cuts become inevitable. At the same time, large-scale cuts in the Baltic states were carried out by using across-the-board cuts as prevailing cutback strategies. In other countries like France, Germany, the Netherlands and Italy, the relatively high perception of ‘targeted cuts’ in the survey somewhat differs from the information provided by country studies. This may result from the fact that often it is not possible to draw a clear-cut line between targeted and across-the-board cuts as governments tend to use a combination of the two.

In line with the trend set by the survey results, the country case studies indicated that applying cutbacks during the fiscal crisis was not a one-off event, but consisted of a series of stages in the majority of European countries (for a thorough overview see Kickert, Randma-Liiv and Savi,

forthcoming). As a prevalent pattern, at first denying or delaying the cutbacks prevailed, and only temporary and small-scale measures materialising in moderate adjustments were undertaken. In the later stage, a gradual recognition of the severity of the fiscal crisis and compliance with the necessity of cutbacks led to first attempts at serious cutbacks. Thereafter rather resolute cutback decisions were taken — firstly 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 austerity measures including targeted cuts and fundamental priority-setting. Besides that, also the EU pressure to keep within the Maastricht budget deficit limit was influential in impacting the speed and volume of cutback decisions in European countries.

### **Consolidation measures**

Cutback strategies are instrumentalised through the use of specific consolidation measures which can be divided into expenditure and revenue measures. The former includes cuts in operational costs, programme cuts and postponement or cancellation of investments, whereas the latter entails revenue enhancing measures most often by tax increase (OECD, 2011, 2012). Although all studied European governments made use of both expenditure and revenue measures, this study focuses upon expenditure cutbacks, and particularly upon cuts in operational expenditures as this most directly affects the functioning of public administration. In the literature, cuts in non-personnel operational expenditures are most commonly achieved by restricting or banning the spending on utilities, supplies, equipment, travel and communication (Wolman and Davis, 1980). The most often cited instruments to cut operational personnel expenditures are the following: reduced (over)time; furloughs; wage freeze or reduction in the rate of salary increase; slowdown of promotion; salary cuts; filling positions with less credentialed, lower-paid staff; reducing pay grades of vacated job lots; early retirement; reshuffling of staff; hiring freeze and layoffs (Downs and Rocke, 1984; Wolman and Davis, 1980).



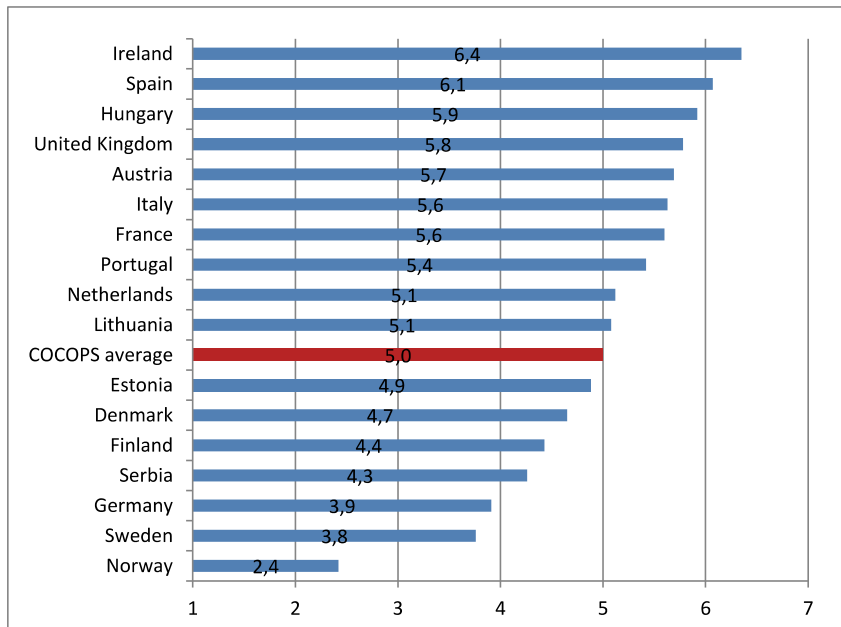
The COCOPS survey demonstrates that among personnel cuts, hiring freeze was the most widely applied cutback measure in Europe, followed by pay freeze, pay cuts and the reduction of staff through layoffs (see Figure 2). Concerning the consolidation measures related to programs and public service provision, the great majority of European governments had to cancel or postpone new policy programmes and cut expenditure on the existing programmes. Further, to achieve cuts on government spending, downsizing back-office functions was applied more often than downsizing the frontline staff directly involved with delivering public services. Increase in fees and user charges were rather modestly applied during the fiscal consolidation.

Figure 2: Cutback measures applied during the crisis in 17 European countries (1=not at all; 7=to a large extent).



As found by the survey, **hiring freeze** was the most widely applied measure to cut back on public spending in most European countries (see Figure 3). Especially extensive use of hiring freeze was reported by executives of Ireland and Spain but also from Hungary, the UK, Austria, Italy, France and Portugal. In Norway the respondents estimated that hiring freeze was modestly applied, similarly in Sweden and Germany hiring freeze was reported as a measure of rather low importance. Case studies show that in countries where hiring freeze was made use of, the length of its application differed as in some countries the period for hiring freeze was explicitly fixed, whereas in others its duration was treated more flexibly.

Figure 3. Hiring freeze (1=not at all; 7=to a large extent)



**Pay freeze** was also applied extensively during the retrenchment in the European countries, especially so in the UK, Portugal, Ireland, Spain and Estonia. Exceptionally, pay freeze was not so common in Norway as there was no need for substantive personnel cuts. **Pay cuts** were widely used cutback instruments in Ireland, Portugal and Spain. Also public executives from Lithuania and Estonia reported rather extensive pay cuts. Strikingly different results were reported by the top officials from Norway, Sweden, France, Austria and Denmark where pay cuts occurred in rather exceptional cases. Also in Germany, the Netherlands and Serbia pay cuts remained marginal when fighting the crisis. Wage reduction was a cutback measure that usually followed the more modest and less contested pay freeze in those countries where the budgetary problem and pressure were considerably higher. However, a few governments, such as those of Estonia and Lithuania, volunteered unpopular decisions of wage cuts immediately after the outset of crisis. Meanwhile, other countries which had received financial assistance from the IMF and the EU, such as Ireland, Portugal and Italy, were requested to carry out these politically more sensitive forms of cutbacks. Germany, on the other hand, has a special legal civil service system which prohibits wage reductions and even pay freeze.

**More radical measures, such as staff layoffs**, were rather extensively applied in response to crisis according to the executives in Hungary, Denmark, Estonia and Finland. At the same time, the responses of top officials from Germany, Austria, Italy, France and Portugal, point in an opposite direction where staff layoffs were not commonly used. Interestingly, very different tactics have been applied to achieve reduction in staff. For example, in Estonia and Lithuania radical layoffs were applied at the very beginning of the retrenchment. In France, the non-replacement of one out of two retiring civil servants was put in place (OECD 2012), while in Spain a 10% replacement rate for all staff in the public sector was implemented during 2011-2013.

In addition to public sector personnel cuts, a great majority of European governments had to **cancel or postpone new policy programs** and cut expenditure on the existing programs. According to the survey, postponing or cancelling new programmes to alleviate the crisis seems to have been a relevant measure in most of the countries studied. Cancelling or abandoning new programmes was substantial in Spain, Portugal, Ireland, and the UK. Only in Norway the top officials claimed new programmes were only rarely postponed or cancelled. With regard to **cutting expenditure on already existing policy programmes**, in Spain, Ireland, the UK and Portugal, executives claimed that cuts to existing programmes were rather common. On the contrary, Norway stands out as an exception where programmes were not cut extensively. As a rule, policy programmes were most strongly curtailed by cutbacks in countries utmost hit by the crisis. Cuts in programmes were the greatest in the fields of health care, pensions, welfare and infrastructure, in total making up the biggest share of expenditure reductions in state budgets in the majority of the European countries (see also OECD 2012).

In order to achieve cuts on government spending, **back-office functions** were downsized quite frequently. The respondents from five countries claimed that during the cutbacks the back-office functions were downscaled extensively — the UK, Ireland, Estonia, Denmark and France. On the other hand, in Norway and Serbia the respondents confirmed the opposite. **Reducing frontline presence** during the fiscal crisis seems not to have been a measure applied very often. Only in Ireland and the Netherlands, reducing frontline presence was seen as a tool to cope with the crisis. Although the fiscal stress may trigger the governments to increase service fees, **increasing**

**the fees and charges of public services** was not a popular measure applied in European countries. In all countries but Spain, Ireland, Hungary, Finland and the UK, the respondents estimated that increases in fees or charges were not common during fiscal consolidation.

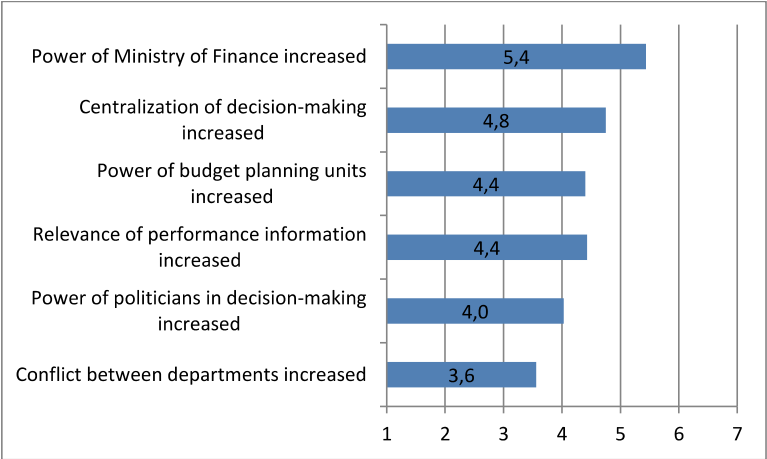
Paired with the survey results, the case analysis shows that the size and content of cutback measures depended on an array of factors. The selection of particular cutback measures was not only affected by the depth of the crisis in each country, but also by the national civil service systems and respective legislation. In countries where the fiscal crisis was too excessive and aided by the IMF or the Troika of IMF-ECB-EU, the fiscal consolidation measures were the most radical and large-scale. Likewise was the fiscal crisis in the UK and in the Baltic states so large that drastic measures had to be taken. Countries like Germany and neighbouring Belgium and the Netherlands were economically better off and suffered a more modest fiscal crisis, which was reflected in their relatively negligible consolidation measures.

### **Effects of fiscal crisis on patterns of public management and decision-making**

Responding to fiscal crisis is likely to distort the conventional patterns of public management and governmental decision-making and shake the established roles and power positions of politicians and civil servants. This is impelled by the governments' strive to centralise decision-making in order to facilitate quick legitimisation of decisions (Peters, 2011). Moreover, centralisation is considered the only feasible mechanism to achieve systematic spending cuts (Levine, 1979), therefore the need to cut back budgets is believed to reinforce top-down and rule-based budgetary procedures and increase the power of budgetary institutions (Schick, 2009: 10). In addition, increased politicisation is a likely response of governments in situations of rapid and extreme changes (Schick 2009). As a rule, crisis decision-making takes place in a small group setting of political leaders and distances the career civil service from the key actors to avoid conflicts and resistance to changes (Kickert 2012; Peters et al. 2011). Additionally, the need to cut back government expenditures calls for increased use of performance information to "eliminate waste" and to "increase efficiency" (Marcel 2013). It is argued that using performance information during fiscal crisis helps politicians to impose expenditure constraints or undertake cuts on a more "rational" basis (Straussman 1979).

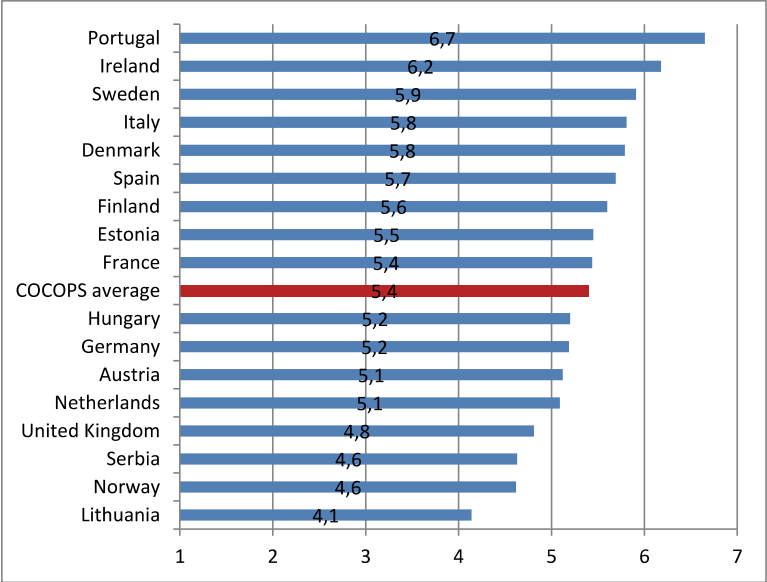
The survey demonstrates that responding to fiscal crisis brought along several changes and power shifts in the conventional decision-making patterns in European governments (Figure 4). Namely, extensive increase in the power of Ministries of Finance and to a slightly lesser extent in the power of organisational budget planning units was reported, alongside with the general increase in centralisation of organisational decision-making. In addition, it was acknowledged by the public executives that the relevance of performance information in crisis-time decision-making increased. According to the respondents, politicians gained more power when compared to the pre-crisis period and also conflict between organisational units increased, though modestly.

Figure 4. Dynamics of decision-making during the retrenchment in 17 European countries (1=not at all; 7=to a large extent)



The survey results portray that in all of the countries the **power of the Ministry of Finance** increased during the fiscal crisis (see Figure 5). A substantial increase was reported by the public executives in Portugal and Ireland. It is interesting to notice that even countries not severely hit by the crisis (e.g. Sweden, Norway) encountered a remarkable increase in the power of the Ministry of Finance vis-à-vis the line ministries. This trend is a function of more centralised arrangements in fiscal governance to achieve cutbacks often including the adoption of a more top-down approach to budgeting by setting limits and bans on spending. Consequently, both control and coordination functions of the Ministry of Finance tend to intensify during fiscal stress.

Figure 5. Increase in the power of the Ministry of Finance during the retrenchment in 17 European countries (1=not at all; 7=to a large extent)



Similarly, **centralisation of decision-making** occurred in all of the countries studied. The answers of the top officials show that during retrenchment the decision-making in respondents' organisations was estimated as more centralised, remarkably the country responses of 17 European countries range only slightly. Although the evidence from Germany, Sweden and Norway shows somewhat less centralisation, the overall trend is still followed. Centralization of decision-making occurs during retrenchment because the organisational subunits are unlikely to volunteer for cuts and tend to believe to have exceptional characteristics not suitable for cuts. Therefore top-down processes are at times indispensable for the achievement of systematic spending cuts.

When looking at the impact of the crisis on the **relevance of performance information**, the respondents from all countries agreed with the claim that the use of performance information during the crisis-time budgeting and decision-making processes increased. The increase in the relevance of performance information was considered the highest in Finland and Denmark ,

followed by Lithuania, Ireland, Sweden, the Netherlands, the UK, France and Italy. The rest of the countries reported slightly smaller but still rather significant increase in the use of performance information. Performance information is taken into account in the downsizing process as it is believed to enable to prioritise, and rationalise cutback decision-making.

Likewise **the role of budgetary units** in public sector organisations increased as a consequence of crisis. The sharpest rise in the power of budgetary units was reported in Sweden and Denmark. The public executives of eleven countries claimed rather similar shift in the power of budgetary units. The increased power of budgetary units in relation to their horizontal counterparts reflects the fact that during cutbacks the organisational units become to be seen as “budget holders” and planning and implementing cuts receive most of the managements’ attention.

The increase in **the power of politicians** was also perceived by the public sector executives during the crisis. The largest increase was reported in Portugal and Spain. In the Nordic countries the increase in the power of politicians was seen as the lowest but still confirming the general trend towards the growing role of politicians in crisis decision-making. Taking into account that budgeting is inherently political and decisions on cutbacks determine the losers and winners, the bigger role of politicians is expected.

When looking at the impact of crisis in terms of the **conflicts between organisational units**, the executives from all the seventeen countries report a rather similar increase in conflicts. The intensification of conflicts was most strongly reflected by the public officials in Italy and to a slightly lesser extent in the remaining countries. The increase of organisational conflicts can be explained by the pressure of the budgetary limits leading to zero-sum situation when departments tend to defend their own “turf” which may also negatively affect mutual collaboration and coordination in the government.

In addition to survey results that indicate changes in public decision-making patterns, the country studies reveal that the fiscal crisis affected also public administration reform agendas. Crisis-led pressure for reform was the largest in countries that were most severely hit by the crisis and had been compelled to request for foreign financial assistance, such as Ireland and Iceland. 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 (e.g. in Belgium, France, the UK). In some cases, the on-going administrative reforms were enhanced by the fiscal crisis, thus showing only a weak and indirect link between the crisis and administrative reform.

The country studies indicate that several European countries showed tendencies towards centralisation — strengthening of central (financial) control over public agencies and local governments, search for improved coordination in the centre of government, rationalisation of public sector organisation (mergers of agencies), and downsizing back-office functions via creation of shared service centres. This presents an interesting paradox compared to the previous global crisis in the 1980s. On the one hand, the crisis of the 1980s led to a major reform trend in Western administrations — New Public Management (NPM) as governments were forced to increase their cost-effectiveness and cost-efficiency leading to the widespread introduction of models and techniques from the private business sector carried by the aims of deregulation and decentralisation. On the other hand, the preliminary effects of the recent crisis show the opposite direction where the crisis contributes to the post-NPM practices through a more systematic attention paid to centralising initiatives and coordination.

## **Conclusion**

The study of the European governments' responses to fiscal crisis indicates both similarities and differences between countries. As for similarities, all European governments demonstrated a shift towards a higher degree of centralisation in decision-making — this was, first of all, operationalised through the increase in the power of the Ministries of Finance. A great majority of the countries also provided evidence of the increasing power of the budgetary units and the growing use of performance information during fiscal stress. In addition, the study shows that all European countries made use of a combination of targeted and across-the-board cutback strategies. They survey results indicated though that the longer-lasting and the more severe fiscal stress triggered targeted cuts from the governments.



Despite the similar tendencies across Europe, the contextual factors that define the depth of the crisis and hence shape the response(s) to crisis were found vastly different due to country-specific features. The comparison of European countries shows that government responses to fiscal stress were frequently influenced by the extent of the fiscal crisis. The one extreme of such a continuum includes countries which were only slightly hit by the crisis, and experienced hardly any need for major cutbacks. The experience of the Nordic countries shows that apart from the relatively modest measures to stabilise the financial sector, there was no necessity for significant expenditure cutbacks. The crisis had no substantial impact on the functioning of Nordic politico-administrative systems.

The other extreme of the continuum involves countries where the severity of the crisis impelled bail-outs, and outside financial assistance which, in turn, conditioned severe austerity and reform measures. From our selection of countries, this concerned Ireland, Italy, and Spain. The Icelandic and Irish governments were unable to domestically solve the crisis and had to be bailed-out by the external partners which, in turn, led to externally imposed reforms. Although Italy and Spain were not bailed-out, they did receive financial assistance from the Troika of IMF-EU-ECB leading to conditions of hard retrenchment and reform measures. This facilitated the introduction of radical operational cutback measures (e.g. layoffs, pay cuts) and substantive programme cuts – in several cases also involving cuts in public services. These countries did not have the time to gradually move from crisis-denial via small and moderate to radical cuts, but were forced to apply severe austerity measures more quickly than most of their European counterparts. The most substantial external influence over domestic reforms was detected in Ireland and Iceland, where the Troika conditionality was extended over the cutbacks and also affected public administration reforms. The study thus shows that when compared to previous eras of austerity, public managers of today 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 has to be considered more than ever before.

Most of the European countries fall in the middle of these two extremes. Several continental European countries (e.g. Belgium, Germany, the Netherlands) opted for “milder” cutback

instruments such as hiring freeze or pay freeze in contrast to the harsh consolidation measures discussed earlier. The Baltic countries, in turn, implemented substantial fiscal consolidation during the early stage of the crisis by applying several rounds of radical cutbacks including layoffs and pay cuts facilitated by the relatively underdeveloped civil society and unions unable to mobilise major protests, and by the missing tenure in the civil service regulation. In this group of countries, public administration reforms were not substantially affected by the crisis.

All in all, the European experience indicates that cutback management is likely to require difficult trade-offs between short-term and long-term goals, and between organisational present and future capacity. It assures that 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. 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.

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## **Article V**

Kickert, Walter, Tiina Randma-Liiv and **Riin Savi**. 2015. "Politics of Fiscal Consolidation in Europe: A Comparative Analysis." *International Review of Administrative Sciences*, xxx-xxx (*forthcoming*).







## Politics of fiscal consolidation in Europe: a comparative analysis<sup>1</sup>

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### Abstract

The aim of the article is to comparatively describe and explain consolidation measures and political decision-making processes in 14 European countries. The consolidation measures followed a similar pattern. Hiring and pay freeze occurred almost everywhere, whereas more radical cutback measures were introduced only in a limited number of countries. Cutback decision-making was not a one-off event, but consisted of a series of stages, beginning with temporary and small measures and gradually evolving into more serious cutbacks, sometimes arriving at targeted cuts and political priority-setting. The political decision-making was quite moderate and gradual than drastic and swift. Exceptions to this general pattern were the Baltic states as well as those European countries which received financial assistance on the condition of swift and severe cutbacks. Economic factors and supra-national influences primarily explained the size of consolidation measures, whereas domestic political factors turned out to have limited explanatory power.

### Points for practitioners

The comparative analysis of fiscal consolidation in 14 European countries showed that the consolidation measures followed a similar pattern. Hiring and pay freeze occurred almost everywhere, whereas more radical cutback measures were introduced only in the later stages of fiscal consolidation. At the beginning of the crisis, the severity and duration of the crisis were denied and the necessity for serious cutbacks was recognized only later. Exceptions to this general pattern were the Baltic States as well as those European countries which were bailed out on condition of swift and severe

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cutbacks. The article argues that the political will and capacity of governments to take drastic and targeted measures based on political priority-setting is still a serious need.

**Keywords**

cutbacks, Europe, fiscal crisis, political decision-making

**Introduction**

The country studies reported in this symposium provide an insightful account of the distinctiveness of fiscal consolidation in Belgium, Estonia, France, Lithuania and the Netherlands. In this concluding article we abstain from summarizing these country studies. Instead, we focus on the general patterns of fiscal consolidation across an enlarged set of European countries that allow for a comparative analysis and explanation. The main purpose of this article is to provide an international comparative analysis of how European governments responded to the fiscal crisis. The focus will be on the fiscal consolidation measures and the governmental decision-making processes leading up to these measures.

The existing scholarly research has provided multiple insights into the implications of the financial-economic and fiscal crisis on public administration. The crisis has been treated both as dependent and independent variable in theoretical and empirical works addressing different policy areas and aspects of public administration. Several authors point out that the crisis has substantially redrawn the boundaries between public and private sectors (Thynne, 2011) by empowering the former (Moulton and Wise, 2010; see also opposing theorizing by Pandey, 2010). Also, the coordination mechanisms of the key regulatory institutions have been addressed with some studies concluding that the financial crisis resulted from coordination failures (Dabrowski, 2009; Gieve and Provost, 2012). Lodge and Hood (2012), in turn, have theorized about the shifting competencies required from public servants and governments due to the crisis. Other scholars (Peters, 2011; Peters et al., 2011) have offered hypotheses about the effects of the crisis on centralization, politicization and coordination. Also the issue of citizens' (declined) trust, (heightened) expectations and general attitudes towards government and the role of public leadership have been addressed (Massey, 2011; Posner and Blöndal, 2012; Raudla and Kattel, 2013; Van de Walle and Jilke, 2014).

The existing academic studies show that up to now the government responses to the crisis have been diverse. There have been 'as many responses as countries' (Peters, 2011: 76) and in many cases the responses have been diverging (see Bideleux, 2011; Kickert, 2012b, 2012c, 2012d, 2013a, 2013b; Lodge and

Hood, 2012; Peters, 2011; Peters et al., 2011; Pollitt, 2010; Verik and Islam, 2010). Although the number of publications in the fields of public administration and political science addressing the recent crisis has been fast growing during the past couple of years, there is still a lack of comparative studies based on common methodology.

This article attempts to fill some gaps in the relevant research. As part of the EU Seventh Framework project 'Coordinating for Cohesion in the Public Sector' (COCOPS), in the Seventh Work Package on 'The global financial crisis in the public sector as an emerging coordination challenge', an international comparative study was carried out on the responses to the fiscal crisis by 14 European governments including Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, the Netherlands, Slovenia, Spain, and the UK (Kickert et al., 2013).

We abstain from the political economic, and often ideological, debate about the rightfulness of fiscal austerity in badly hit economies. Nobel prize-winning economists such as Krugman and Stiglitz have repeatedly argued in the opinion pages of the *New York Times* that fiscal austerity and cutbacks are the very opposite of economic recovery measures. According to left-wing Socialists, the current austerity and cutbacks measures that are taken by ruling class governments are misconceived, dysfunctional and causing largely unnecessary pain and damage to the population. The authors do not presume to possess the moral right to condemn or justify 'fiscal consolidation' – indeed, a rather euphemistic term in view of the political opposition, public protest and social resistance it effected – we just provide an empirical analysis of what actually happened. Our analysis starts from the point when governments had already decided to use consolidation measures to tackle the fiscal crisis. The focus is thus not on *why* a government chose one or another approach in addressing the fiscal crisis (which is more a domain of the political economy literature), but rather *how* consolidation decisions were actually reached and implemented.

The article looks at the fiscal consolidation measures and the political decision-making processes in the above-mentioned countries – therefore, it is first of all informative. The second objective is to compare the countries and try to explain the similarities and differences in fiscal consolidation in different countries. In addition to economic explanatory factors, we also look, in particular, at political-administrative factors that have affected the consolidation process. The main questions addressed in this article are the following:

- How did the European governments respond to the fiscal crisis, what consolidation measures were taken, and how did the political decision-making take place?
- How can the similarities and differences between the various governments' fiscal consolidation measures and political decision-making processes be explained, from both an economic and a political-administrative perspective?

## Analytical framework

### *Fiscal crisis*

Notions such as global financial crisis, banking crisis, economic crisis, fiscal crisis, and Eurocrisis have been used hand in hand, at times even interchangeably. In this article, the global crisis is divided into separate phases (Kickert, 2012a). First, the *banking crisis* was the initial phase of the crisis in 2008 when banks and other financial institutions collapsed and governments undertook support and rescue measures to save them. Second, the *economic crisis* emerged after the financial crisis began to negatively affect the economy and employment, forcing many European governments to undertake economic recovery measures in 2009. Third, the *fiscal crisis* arose when the budget deficits (and state debts) the governments were facing became excessive, so that governments had to begin consolidating the budgets and undertaking cutback management (Kickert, 2012a; Posner and Blöndal, 2012). From 2010, the fourth phase of the crisis erupted, the *European sovereign debt crisis*, also called the *Eurozone crisis*. In countries with excessive national debt levels and budget deficits coupled with (foreign) lenders' increasing interest rates on state bonds, it became impossible to further finance their debts and deficits. Greece, Ireland and Portugal were bailed out in 2010, Spanish banks were bailed out in 2012 and Cyprus was bailed out in 2013.

The focus of this study is on the phase of fiscal crisis, the other phases being used for contextual information. We investigate how the national governments handled their domestic fiscal crisis, and do not focus on decision-making at the European level. The Eurozone crisis, the joint European support measures and the Maastricht Treaty requirements clearly had a major impact on the economic and fiscal crisis in the Eurozone countries and on their consequent domestic fiscal consolidation measures. This study will consider these only as supra-national factors influencing the domestic fiscal consolidation.

### *Fiscal consolidation: Contents of measures*

The usual economic classification of consolidation measures (see e.g. OECD, 2011, 2012) into expenditure and revenue measures has been followed in this article (Table 1). Expenditure measures are distinguished into cuts in operational costs, in programmes and investments, whereas revenue measures most often entail tax increases.

In this study, particular attention will be paid to the expenditure cutbacks targeted at public administration, that is, operational spending cuts. Reductions in operational expenditures are commonly categorized by the object of expenditure, distinguishing between personnel expenditure and non-personnel expenditure. In the literature, the most often cited instruments to cut personnel expenditure are the following: reduced (over)time; furloughs; wage freeze or reduction in salary increase; slowdown of promotion; salary cuts; filling positions with lower-paid staff; reducing pay grades of vacated jobs; early retirement; reshuffling of staff;

**Table 1.** Classification of consolidation measures (based on OECD, 2011, 2012)

| Expenditure measures   | Revenue measures   | Other measures  |
|--|--|---|
| <i>1.1 Operational expenditures</i><br>Hiring or pay freeze; Wage reduction; Staff reductions; Reorganizations; Efficiency cuts. | Consumption tax: e.g. VAT, excise taxes on alcohol, tobacco, energy.<br>Income tax | Addressing tax evasion and social security fraud<br>Financial sector<br>Energy sector |
| <i>1.2 Programme expenditures in policy sectors</i><br>Social security; Health; Education;<br>Housing; Welfare; other sectors.   | Corporation tax: e.g. bank bonuses.<br>Non-fiscal revenues                         |   |
| <i>1.3 Capital expenditures</i><br>Cuts in capital spending.   |  |   |

**Table 2.** Rational-incremental dichotomy in decision-making

| Rational-comprehensive                  | Incremental-compromise                        |
|---|---|
| Political priority-setting              | No political priorities, no rational analysis |
| Fundamental rational core-task analysis | Across-the-board, cheese-slicing, equal cuts  |
| Strategic long-term decision-making     | Pragmatic short-term compromise decisions     |

hiring freeze and layoffs (Downs and Rocke, 1984; Levine, 1978, 1985; Wolman and Davis, 1980).

### *Fiscal consolidation: Decision-making characteristics*

The basic distinction in the cutback management literature (Raudla et al., 2013) is between across-the-board cuts (also dubbed cheese-slicing or decremental cuts), on the one hand, and targeted cuts (also called selective cuts or priority-setting), on the other hand. 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. This distinction resembles the classical dichotomy between rational-comprehensive and incremental decision-making (Lindblom, 1959) (see Table 2).

Peters and his co-authors (2011) have further elaborated this classical dichotomy and sub-divided decision-making into a number of categories such as fundamental priorities versus incrementalism, swift and drastic versus slow and small decisions, centralized versus decentralized decisions, coherent systematic versus incoherent patchwork, and long-term sustainable solutions versus short-term quick fixes (see Table 3).

**Table 3.** Characteristics of decision-making

| Fundamental political priority-setting   | Incremental pragmatic compromises |
|--|-----------------------------------|
| Swift, large and drastic decision-making | Slow, small and gradual steps     |
| Centralized decision-making              | Decentralized decision-making     |
| Coherent and systematic decision-making  | Incoherent patchwork              |
| Long-term sustainable solutions          | Short-term quick fixes            |

### *Fiscal consolidation: Decision-making stages*

Types and characteristics of decision-making may differ in various stages of crisis. When faced with fiscal stress necessitating spending cuts, public organizations can choose between two sets of actions: first, denying or delaying the cuts and, second, deciding and implementing actual cuts. This reaction pattern resembles the social-psychological ‘coping cycle’ (Carnall, 2003) of ‘resistance to change’: people first tend to deny the need for change, then defend the advantages of the current situation, and only afterwards recognize and comply with the need for change, adapt to it, and in the end internalize the need and agree to take action to change.

The experience with cutback management in the 1970s and 1980s has taught us that cutbacks took place in a series of stages (Raudla et al., 2013). After the initial stage of denial and defence was overcome, a first round of small cutbacks usually came about. Because politicians were initially not yet convinced of the gravity and duration of the crisis, the measures were moderate and temporary, and cutbacks were postponed or planned for later years. Only in the later stages of cutbacks did governments realize that the crisis was more severe and persistent than expected, the cutbacks became more severe and finally political priorities had to be set for targeted downsizing and cutting of public services. The existing cutback literature shows that, as a rule, the longer-lasting and the more severe the fiscal stress, the more likely it is that the authorities will begin to impose targeted cuts (rather than implementing the across-the-board measures) (Hood and Wright, 1981; Levine, 1979, 1985; Levine et al., 1981) (see Table 4).

### *Explanatory factors*

This report distinguishes between three types of explanatory factors in analysing consolidation measures and decision-making: economic factors, political-administrative factors and supra-national influences. First, economic factors, such as GDP growth, budget deficit, and gross debt, are used to understand and explain fiscal consolidation. Second, we also use political-administrative characteristics as explanatory factors. The well-recognized characteristics of political-administrative systems will be considered, such as state structure (e.g. unitary state, federal state, degree of centralization); type of political system (majoritarian or consensus); type of government (single-party or multi-party coalition; minority, majority or grand

**Table 4.** Stages of cutback decision-making

| Stages of cutback decision-making  | Types of cutback measures   |
|--|---|
| Denial. Defend advantages of present situation. Unconvinced of gravity and duration of crisis. | Temporary small measures.<br>Moderate adjustment to status quo.<br>Cuts postponed or planned for later years. |
| Compliance with the need for cutbacks.   | First attempt at serious cutbacks.  |
| Internalized need for cutbacks.  | First across-the-board and efficiency cuts.   |
| Action. Resolute cutback decisions.  | Later targeted down-sizing and cuts of public tasks. Ultimately fundamental political priority-setting.       |

coalition); and ideology of the governing parties (left–centre–right). Third, supra-national influences such as the worldwide financial-economic circumstances, the EU ceiling of 3 percent for budget deficit (and 60 percent for state debt) and the financial assistance provided by IMF, EU and the ECB will be considered in relation to their impact on domestic consolidation measures and decision-making processes.

### Empirical methodology

The comparative study is based on the analysis of 14 European countries: Belgium (BE), Estonia (EE), France (FR), Germany (DE), Hungary (HU), Iceland (IS), Ireland (IE), Italy (IT), Lithuania (LT), Norway (NO), the Netherlands (NL), Slovenia (SI), Spain (ES), and the United Kingdom (UK). These countries differ in terms of their economic and political-administrative characteristics.

The article draws on the main outcomes from the research compiled within the COCOPS Seventh Work Package by integrating information and findings from three different sources. First, ten short country reports provided information on governments' main responses to the crisis. Second, 11 academic country case studies provided more in-depth analysis of consolidation measures, decision-making processes, and the impact on public administration. Third, the relevant findings of a large-scale Europe-wide survey of 3397 senior public sector executives, 'Executive survey on public sector reforms in Europe', carried out in the COCOPS Third Work Package (Hammerschmidt et al., 2013), have been utilized.

### Fiscal consolidation measures

Table 5 depicts the expenditure and revenue measures during the fiscal consolidation based on the information presented in the COCOPS country studies and the OECD reports (OECD, 2011, 2012). The period covered starts with 2008, when the first consolidation measures were undertaken, although most of the countries introduced real cuts only in 2010 or 2011.

**Table 5.** Overview of consolidation measures 2008–12

|   | BE  | DE | EE  | ES  | FR  | HU  | IE | IS  | IT  | LT  | NL  | SI  | UK  |
|---|-----|----|-----|-----|-----|-----|----|-----|-----|-----|-----|-----|-----|
| Expenditure measures                              |     |    |     |     |     |     |    |     |     |     |     |     |     |
| <i>Operational measures</i>                       |     |    |     |     |     |     |    |     |     |     |     |     |     |
| Hiring freeze                                     | +   | +  | +   | +   | +   | +   | +  | +   | +   | –   | +   | +   | n/a |
| Wage reduction                                    | –   | –  | +   | +   | –   | +   | +  | n/a | n/a | +   | –   | +   | n/a |
| Pay freeze  | –   | –  | +   | +   | +   | +   | +  | +   | +   | +   | +   | +   | +   |
| Staff reductions                                  | +   | +  | +   | +   | +   | +   | +  | n/a | +   | +   | +   | +   | +   |
| Reorganization                                    | –   | +  | +   | +   | +   | +   | +  | +   | n/a | +   | +   | +   | +   |
| Efficiency cuts                                   | +   | +  | n/a | n/a | +   | n/a | +  | n/a | n/a | +   | +   | +   | +   |
| <i>Programme measures</i>                         |     |    |     |     |     |     |    |     |     |     |     |     |     |
| Health  | +   | –  | +   | +   | +   | +   | +  | +   | +   | +   | +   | +   | +   |
| Education   | n/a | –  | –   | +   | +   | +   | +  | n/a | n/a | +   | +   | +   | +   |
| Pensions  | +   | +  | +   | +   | –   | +   | +  | n/a | +   | +   | +   | +   | +   |
| Unemployment                                      | –   | +  | +   | +   | –   | n/a | +  | +   | n/a | +   | +   | +   | +   |
| Other social security/welfare                     | +   | +  | +   | +   | +   | +   | +  | +   | +   | +   | +   | +   | +   |
| Infrastructure                                    | +   | –  | n/a | +   | +   | n/a | +  | +   | n/a | n/a | n/a | +   | n/a |
| <i>Investment reductions</i>                      | +   | –  | n/a | n/a | –   | n/a | +  | n/a | n/a | n/a | +   | +   | n/a |
| Revenue measures                                  |     |    |     |     |     |     |    |     |     |     |     |     |     |
| VAT   | –   | –  | +   | +   | +   | n/a | +  | +   | +   | +   | n/a | +   | +   |
| Consumption tax:<br>e.g. alcohol, tobacco, energy | +   | +  | +   | +   | +   | n/a | +  | +   | n/a | +   | +   | +   | +   |
| Income tax  | +   | –  | +   | +   | +   | n/a | +  | +   | n/a | Re. | +   | +   | +   |
| Corporation tax<br>(bank bonuses)                 | –   | –  | n/a | n/a | +   | n/a | –  | +   | n/a | +   | +   | Re. | n/a |
| Non-fiscal revenues                               | +   | +  | n/a | n/a | n/a | n/a | +  | n/a | n/a | +   | n/a | n/a | n/a |

+indicates that either in country case studies or in the OECD (2012) report the specific cutback items have been reported.

<sup>n/a</sup> indicates that information on a measure is not available.

Re. indicates that tax rates were lowered.

Public expenditure cutbacks have to a large degree been targeted at governments' operational costs, that is, at public administration itself. When looking at the various measures to reduce operational expenditures, it can be seen that *hiring and pay freeze* have been applied in numerous countries. In some countries the period of pay or hiring freeze has been explicitly fixed; in others their duration has been treated more flexibly.

*Wage reduction* was a cutback measure that followed the more modest and less contested pay freeze in those countries where the budgetary pressure was considerably higher. However, some governments, such as those of Estonia and Lithuania, volunteered unpopular decisions of wage cuts immediately after the outset of the crisis. Meanwhile, other countries which had received financial



assistance from the IMF and the EU, such as Hungary, Iceland, Ireland, Italy and Spain, were requested to carry out these politically more sensitive forms of cut-backs. Germany, on the other hand, has a special legal civil service system which prohibits wage reductions and even pay freezes.

*Reduction in staff* was applied as a cutback measure in several European countries. Interestingly, however, different tactics have been applied to achieve this goal. For example, in Estonia and in Lithuania layoffs were applied at the beginning of the retrenchment (in Lithuania the executive and its institutions experienced a decrease of 11 percent in the positions filled). In France, a non-replacement of one out of two retiring civil servants has been put in place, while in Spain a 10 percent replacement rate for all staff in the public sector was implemented.

Several governments have also opted for *reorganizations* to reduce the expenditure side of the budget. In Lithuania, all ministries and many agencies were restructured when the government initiated broad organizational reforms. In the UK, a Public Bodies Reform plan was initiated in 2010 with the aim of reorganizing about 500 Arm's-Length Bodies by abolishing, merging or substantially reforming the agencies. In Spain, the restructuring of government included the abolition of duplicated bodies at the regional and central levels.

*Efficiency savings* seem to have been a less popular measure, although several governments have announced straightforward cuts based on increasing the efficiency. The UK introduced the Operational Efficiency Programme for all departments targeted at savings in back-office operations, equipment, IT reforms and collaborative procurement. Seeking efficiency gains has been on the agenda in Lithuania as well, where the efficiency assessment of staff functions was carried out at the central governmental level and also centralization of procurement functions and standardized state property management were applied.

## **Cutback decision-making**

### *Characteristics of decision-making*

This section offers an overview of the decision-making processes leading up to the fiscal consolidation measures in the selected European countries. Let us first provide brief contextual information about the decision-making in the preceding phases of the crisis (based on Kickert, 2012a).

During the 2008 *banking crisis*, the severity, magnitude and urgency of the crisis forced governments into very rapid and highly centralized crisis management. Only a few actors – usually the Prime Minister, the Finance Minister and the President of the National Bank assisted by a handful of top-officials – had to take decisions under enormous time pressure. In virtually all countries affected by the banking crisis, the decision-making was very quick and highly centralized.

During the 2009 *economic crisis*, many European governments devised economic recovery plans. However, this time the crisis was not as urgent, and decision-making followed the usual political and parliamentary path, often including

extensive consultations with employers' and employees' organizations. Moreover, the crisis in some countries was not considered severe enough to justify large extra expenditures. Decision-making during the economic crisis was neither fundamental, nor swift, nor centralized, nor systematic, nor long-term in most European countries.

The *Eurozone crisis* that erupted in 2010 provided a totally different type of decision-making pattern, this time not restricted to domestic government decisions but a highly complex and multi-layered cooperative decision-making by all Eurozone states together.

By 2010 most European governments arrived at the stage where budget deficits (often far exceeding the EU ceiling of 3 percent of GDP) required *fiscal consolidation* measures. At the beginning, many political and social actors were far from being convinced of the need for expenditure cutbacks and, for example, debated the strictness of the European deficit ceiling. As the need for more resolute cutbacks grew, governments tended to centralize their decision-making processes.

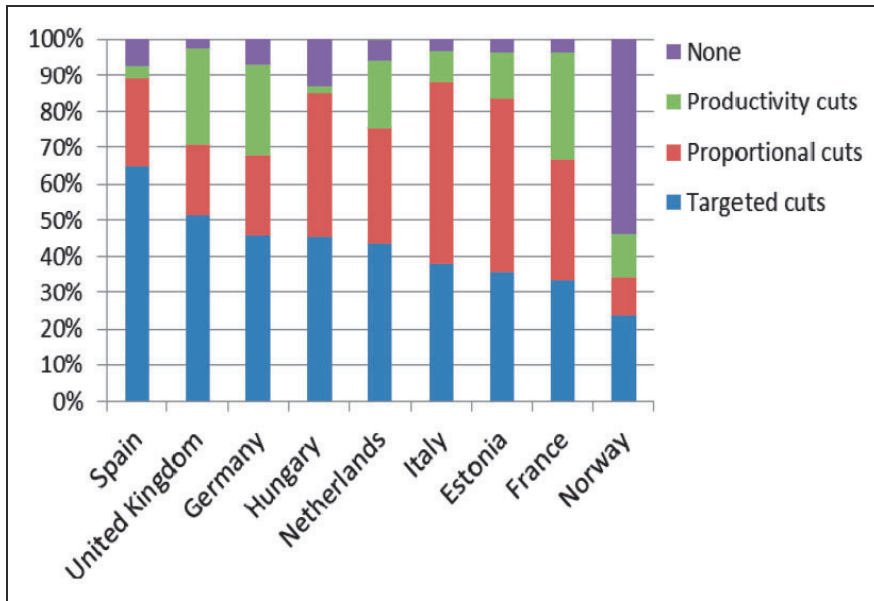
Table 6 summarizes the characteristics of the decision-making process country by country. Within each country, decisions of successive governments are distinguished.

In addition, the characteristics of the cutback decisions were, to a large extent, related to the size of the fiscal crisis. Countries that were bailed out received the loans on condition of not only drastic but also swift cutback measures. Also, the British Cameron–Clegg coalition cabinet very quickly agreed upon a drastic retrenchment package and rapidly finalized its details. The Estonian and Lithuanian governments opted for radical cutbacks and front-loaded them right at the beginning of the crisis. In most countries with a consensual democracy and multi-party coalitions, the decision-making was accordingly characterized by long-lasting deliberation and compromise, and therefore slow decision-making. An example of extremely slow decision-making was Belgium. After the 2010 general election the coalition formation took 18 months and was more concerned with Flemish–Walloon political language-group conflicts than with the priority-setting for fiscal consolidation. Ultimately fiscal consolidation measures were taken after extreme pressure from the European Union and the falling credit ratings of Standard & Poor's.

### *Targeted versus across-the-board cuts*

The extent to which the cutback decisions were targeted or across-the-board was related to the size of the fiscal crisis. Relatively small cutbacks can easily be realized by across-the-board measures. The greater the necessity for the cuts, the higher the chance that across-the-board measures will not be sufficient and targeted cuts become inevitable. As Table 6 distinguishes between successive governments in a country, we can see how successive stages of cutback decision-making (see also below) yielded not only an increase in the size of cuts, but also a shift from across-the-board to more targeted cuts.





**Figure 1.** Types of decision-making perceived by European public sector executives

The COCOPS survey on public executives (Hammerschmidt et al., 2013) offered a complementary approach to the qualitative research by demonstrating how public sector executives perceived the cutback decision-making in their particular organizations (see Figure 1). In the survey, the dichotomy ‘targeted versus across-the-board cuts’ was expanded to the following three divisions: targeted cuts according to priority-setting; productivity and efficiency savings; and proportional across-the-board cuts.

Norway hardly experienced an economic and fiscal crisis, so it is not surprising that the survey yielded the highest outcome of ‘no cutbacks’ regarding this question. The drastic and fundamental cutbacks taking place in Spain and the UK are confirmed by the relatively high outcome of ‘targeted cuts’ in the survey. At the same time, large cuts in Estonia were carried out by using across-the-board cuts as prevailing cutback strategies. In other countries such as France, Germany and the Netherlands, the relatively high perception of ‘targeted cuts’ in the survey somewhat differs from the information provided by country studies. The survey results also show that often it is not possible to draw a clear-cut line between targeted and across-the-board cuts. Most often, governments tend to use a combination of the two, leading to a wide variety in the perceptions of public sector executives.

### *Stages of cutback decision-making*

The case studies confirmed that the decision-making on fiscal consolidation and cutback measures consists of a series of stages. The first cutback decisions in most countries took place in 2009–10, and subsequent rounds of further cutbacks followed as the fiscal crisis persisted. At the beginning, the decisions tended to be moderate and temporary, as the actors were unwilling to believe that the crisis and the need to undertake cuts were real. In the majority of European countries, the first cutback plans were met with protest and resistance from the political left, trade unions, and other interest groups affected. In some of countries studied, cuts were postponed or planned for later years, as the crisis was believed to be short-lived. Later the decisions became less hesitant but still addressing rather small adjustments. Table 7 outlines the stages of the cutback decision-making in various countries.

There are a few countries which handled cutbacks considerably faster than the general European pattern indicates. For example, in Estonia, the coalition government took its fiscal consolidation measures in three successive supplementary budgets. In the June 2008 austerity package, nearly half of the expenditure cuts were about operational costs, mainly dismissals, salary cuts, work-time reduction and lay-offs. In January 2009, the operational expenditures were once again curtailed. The third cutback package of June 2009 also introduced cuts in program expenditures. Also, the severe banking crisis in Iceland in October 2008 did not leave room for crisis denial, postponement of measures or temporary solutions. The cutback decision-making was swift and drastic, partly imposed by the IMF. Interestingly, the Icelandic government did not opt for across-the-board cuts, but immediately chose fundamental priority-setting. Ireland, in turn, had eight episodes of fiscal adjustment between summer 2008 and spring 2012. The severity of the crisis was quickly recognized by the government and cemented by the Troika loan program. The first round of consolidation measures relied upon efficiency cuts, moving gradually to across-the-board measures, and from there to targeted cuts.

## **Explanatory factors**

### *Economic factors*

Macro-economic indicators on GDP growth, budget deficit/surplus and gross debt (Eurostat) form an important contextual background as the ‘financial size’ of the crisis affects the ‘financial size’ of the consolidation measures. Consolidation decision-making is related to the financial-economic circumstances of a country prior to and during the crisis.

This study confirms the earlier findings of the OECD (2012) that the size of the fiscal consolidation measures in a country (in percent of GDP) was primarily related to the size of the fiscal crisis, that is, the budget deficit and debt. The

**Table 7.** Stages of cutback decision-making

|                              | BE      | DE        | EE        | ES        | FR   | HU        | IE         | IS        | IT   | LT        | NL        | SI        | UK   |
|------------------------------|---------|-----------|-----------|-----------|------|-----------|------------|-----------|------|-----------|-----------|-----------|------|
| Temporary small measures     | 2009    | -         | -         | -         | -    | -         | Oct. 2008  | 2009      | 2009 | -         | Feb. 2009 | Feb. 2009 | 2009 |
| Moderate adjustments         | 2009-II | -         | -         | -         | -    | -         | Dec. 2008  | -         | 2009 | -         | Feb. 2009 | Apr. 2009 | 2009 |
| First attempts at cutbacks   | 2009    | -         | -         | June 2008 | 2010 | -         | April 2009 | 2009      | 2010 | -         | Oct. 2010 | Apr. 2009 | 2009 |
| Resolute cutback decisions   | 2012-   | June 2010 | June 2008 | May 2010  | 2012 | June 2010 | Dec. 2009  | 2009 2010 | 2011 | Dec. 2008 | Oct. 2012 | May 2012  | 2010 |
| Fundamental priority-setting | -       | -         | -         | Dec. 2011 | -    | -         | Dec. 2010  | 2009      | -    | -         | Oct. 2012 | May 2012  | 2010 |

worse the economic situation (GDP growth rate, unemployment, etc.) and the worse the budgetary situation (budget deficit, state debt), the more drastic and far-reaching were the consolidation measures that had to be taken by the governments. In countries where the fiscal crisis was too excessive to be solved domestically and external loans from the IMF (Iceland) or the IMF-ECB-EU (Ireland) were necessary, the fiscal consolidation measures were the highest. Spain received an external loan to rescue its failing banking sector, and correspondingly had to take severe cutback measures. Countries such as Germany and neighbouring Belgium and the Netherlands, were economically better off and suffered a more modest fiscal crisis, which was reflected in their relatively low consolidation measures.

### *Political-administrative factors*

This study also considered the political-administrative explanatory factors by investigating how the type of state system (unitary, decentralized, federal), political system (majoritarian or consensus democracy), government system (single-party cabinet or coalition government) and the ideological composition of government (right, centre or left-wing) affected consolidation decision-making. Table 8 summarizes the characteristics of the state and government systems in the countries studied.

The usual assumption in international comparative political science research, that *unitary states* are more capable than *federal states* of taking swift, drastic and uniform decisions, is confirmed in the cases of Belgium and Spain, but rejected in the case of Germany. The Belgian case provides an example of the great complexity of a federal state hindering resolute political decision-making.

The political assumption that *single-party* governments are more capable than *multi-party coalition* governments of taking swift and drastic decisions is not confirmed. On the contrary, during the single-party Labour government under Brown, the government explicitly refrained from taking harsh cutback decisions. It was the 2010 Conservative–Liberal-Democrat Cameron–Clegg coalition cabinet that decided upon drastic and swift cutbacks. Similarly, under President Sarkozy, the single-party French government did not take drastic cutback decisions. In Spain the single-party government under Prime Minister Zapatero did prepare drastic cutbacks under the pressure of the EU, but the massive protests and demonstrations forced it to call new elections, which it lost. At the same time, coalition governments in both Estonia and Lithuania were capable of carrying out swift and radical cutback measures.

The assumption that *minority coalition* governments are less capable than *simple or grand coalitions* of taking swift and drastic decisions is partly confirmed and partly rejected. On the one hand, the grand majority governments in Ireland and Hungary did take drastic cutback measures. The Dutch centre-right minority coalition fell in preparing drastic cutbacks and had to call new elections. On the other hand, in Denmark, with its long tradition of minority coalitions, a similar

Table 8. State and government characteristics

|                            | Belgium           | Estonia           | France      | Germany                   |
|----------------------------|-------------------|-------------------|-------------|---------------------------|
|                            | (2011–)           | (2007–09)         | (2007–12)   | (2009–)                   |
| Unitary/decentral./federal | Federal           | Unitary           | Decentral.  | Federal                   |
| Single-party/coalition     | Coalition         | Coalition         | Single      | Coalition                 |
| Left/centre/right-wing     | Left-centre-right | Right-centre-left | Right       | Centre-left/ Centre-right |
| Grand/normal/minority      | Grand             | Normal            | n.a.        | Grand                     |
|                            |                   |                   |             | Normal                    |
|                            | Hungary           | Ireland           | Iceland     | Lithuania                 |
|                            | (2010–)           | (2008–11)         | (2009–)     | (2008–12)                 |
| Unitary/decentral./federal | Decentral.        | Decentral.        | Unitary     | Unitary                   |
| Single-party/coalition     | Coalition         | Coalition         | Coalition   | Coalition                 |
| Left/centre/right-wing     | Centre-left       | Centre-right      | Centre-left | Centre-right              |
| Grand/normal/minority      | Normal            | Normal            | Normal      | Normal                    |
|                            |                   |                   |             | Normal-minority           |
|                            | Netherlands       | Slovenia          | Spain       | UK                        |
|                            | (2010–12)         | (2008–11)         | (2004–11)   | (2010–)                   |
| Unitary/decentral./federal | Unitary           | Unitary           | Decentral.  | Unitary                   |
| Single-party/coalition     | Coalition         | Coalition         | Single      | Coalition                 |
| Left/centre/right-wing     | Centre-right      | Left              | Right       | Right-centre              |
| Grand/normal/minority      | Minority          | Normal            | n.a.        | Normal                    |



centre-right minority cabinet, supported by a similar right-populist party as in the Netherlands, did take drastic cutback decisions, and moreover did so right before the approaching general election. The Estonian coalition government fell in 2009 because of the disagreement on cutbacks, but the new right-wing minority coalition was able to decide swiftly on major consolidation measures. The grand Christian–Social-Democrat coalition in Germany postponed the unpopular decision-making about fiscal consolidation and cutbacks until the general election was over.

The political assumption that *right-wing* governments are more inclined and capable than *left-wing* governments of taking swift and drastic cutback decisions is partly confirmed and partly rejected. On the one hand, the right-wing governments of Estonia and Lithuania were able to carry out swift and radical cutbacks. Also the right-wing government of Hungary did take drastic cutback measures after the landslide victory of FIDESZ. On the other hand, the left-wing governments in Ireland and Iceland also undertook drastic and immediate cutbacks. One could argue that the latter cutbacks were strongly imposed by Troika whose influence seemed to override the ideologically driven choices of these governments.

### *Supra-national influence*

While domestic political-administrative factors have rather limited explanatory power, supra-national influence plays a strong role in explaining domestic cutback decision-making. First of all, developments in the worldwide economy clearly affected the state of the domestic economy and public finances in European countries. The increase in industrial exports to East Asia, especially China, greatly contributed to the swift economic recovery of Germany and, therefore, indirectly, to the economic recovery of surrounding countries that have strong economic relations with Germany, such as Belgium and the Netherlands.

In addition, the EU Treaty of Maastricht placed ceilings on budget deficits and state debt. In many European countries, EU pressure to keep within the deficit limit was influential in forcing the government to cut back. Estonia provides an interesting example of a country where fiscal tightening was an independent decision, first and foremost explained by the Estonian government's predominant political priority to join the Eurozone that tied the government with the above-mentioned criteria of the Maastricht Treaty.

Last but not least, countries such as Iceland, Ireland and Spain which received financial assistance (bail-outs) from the IMF or Troika, had to comply with strict and specified conditions of fiscal consolidation. It is important to note that the Troika holds an 'orthodox' view in addressing the crisis (Dellepiane, 2012): Fiscal consolidation should start early and be imposed quickly in a front-loaded strategy to restore market confidence in governments' ability to manage their public finances (Pisani-Ferry, 2007). It is therefore not surprising that countries following the requirements of the Troika's loan programs were quickly forced to make real cutbacks.

## Clusters of countries

Notwithstanding the many differences among the European countries, clusters of countries can be discerned in their responses to fiscal crisis. The country examples show that decision-making processes were often influenced by the size and extent of the fiscal crisis. The one extreme of such a continuum includes countries which were not or only slightly hit by the financial and economic crisis, and experienced hardly any need for consolidation measures and major cutbacks. The other extreme of the continuum involves countries that were so severely hit by the financial crisis that they had to be bailed out, and they received external financial assistance on condition of severe austerity and reform programs. Most of the European countries fall in the middle of these two extremes (see also OECD, 2012). The study at hand allows us to distinguish between five clusters of countries.

First, thanks to its North Sea gas and oil revenues *Norway* did not really face a fiscal crisis of excessive budget deficits. There was no necessity for fiscal consolidation and significant expenditure cutbacks. The crisis had no impact on the functioning of the Norwegian administrative system.

Second, several European countries were hit so hard by the crisis that they were forced to seek external assistance from the IMF-EU-ECB Troika. From our selection of countries, this concerned *Iceland, Ireland, Italy* and *Spain*. The Icelandic and Irish governments were unable to domestically solve the crisis and had to be bailed out which, in turn, led to externally imposed fiscal reforms. Italy was deeply affected by the Eurozone crisis and, in return for the ECB massively buying up endangered state bonds, serious fiscal austerity was required. In return for the bailout by the ECB for its banking sector, the Spanish government was forced to introduce serious fiscal austerity. A similar feature in this country cluster is the relatively swift and centralized decision-making process prompted by the Troika conditionality. These countries did not have time to move gradually from crisis-denial via small and moderate to radical cuts, but were forced to apply severe austerity measures much more quickly.

Third, one can distinguish a cluster of European countries where the modest size of the economic and fiscal crisis led to relatively moderate fiscal consolidation. This group of countries, first, includes those neighbouring and economically connected to Germany: Belgium and the Netherlands. They benefitted greatly from the swift economic recovery of the German economy. These governments were at first reluctant to apply consolidation measures. In all of these countries the cutback decisions were postponed until after the general election, and hence coincided with the multi-party deliberations and negotiations about a new coalition cabinet. In the highly complex Belgian consensus politics it took 18 months to form a new coalition cabinet. Similarly, the Slovenian government initially denied the severity of the crisis, after which it first applied small consolidation measures and moved gradually to more substantial cutbacks. And although France had a single-party cabinet, and the energetic right-wing President Sarkozy as a former Finance Minister and known advocate of austerity and reform was expected to put fiscal

consolidation high on the agenda, in actual practice the cutback decision-making was only half-hearted.

The fourth cluster of countries involves the Baltic states of Estonia and Lithuania. The Baltic countries implemented substantial fiscal consolidations immediately after the onset of the crisis in 2008, and subsequently carried out several rounds of substantive cuts. While in the earlier phases of the crisis more across-the-board cuts were applied, as the time progressed the cuts became more targeted. Such an approach towards the cuts was facilitated, first, by the relatively underdeveloped civil society unable to mobilize major protests; second, by weak unions with trade union density the lowest in Europe; and third, by the lack of tenure in the civil service regulations which allowed for pay and personnel cuts.

Finally, the United Kingdom seems to represent a unique case. A majoritarian single-party cabinet refuted the alleged assumptions of swift and drastic decision-making. The Labour government under Prime Minister Brown explicitly refused to take cutback decisions in view of the upcoming general election. It was the Cameron–Clegg two-party coalition cabinet that took unprecedented and unequalled massive cutback decisions.

## **Conclusions: The politics of fiscal consolidation**

The comparative analysis has shown that cutbacks on operational costs, that is, cuts in the administration itself (hiring and pay freeze, wage reduction, staff reduction, efficiency cuts), followed a similar pattern across Europe. Virtually no country could escape the measures to freeze hiring and pay, and to set caps on replacements. In most countries, it was only in the later stages of the crisis that governments introduced the politically sensitive measures of actually reducing wages and employment. However, those European countries which received bail-outs on condition that the public sector wage bill was reduced did apply immediate cuts in public sector salaries and employment. Also Estonia and Lithuania opted to apply radical cutbacks immediately after the onset of the crisis.

The study of the characteristics of political decision-making has demonstrated that radical and swift cutback decisions were the exception rather than the rule. Most governments relied upon moderate and gradual measures. The extent to which drastic and swift cutbacks were applied was primarily related to the economic size of the fiscal crisis, and only incidentally to political factors such as the political orientation of the government (right-wing cabinets in Estonia and Hungary) or the margin of government majority (grand majority in Hungary and Ireland). Likewise the extent to which governments took targeted cuts (instead of across-the-board ones) was related primarily to the size of the crisis.

The comparative analysis did confirm that cutback decision-making consisted of a series of stages. At the beginning, denying or delaying the cutbacks prevailed, and only temporary and small measures were undertaken. In the subsequent stage, the gradual recognition of the severity of the fiscal crisis and compliance with the necessity of cutbacks led to first attempts at serious cuts. Thereafter, quite resolute

cutback decisions were taken – first across-the-board efficiency cuts, second, targeted downsizing and cuts, and ultimately the final stage of fundamental political priority-setting. Countries hit hardest by the crisis, especially the bailed-out ones, reached the stages of serious and resolute cutbacks faster.

Economic factors provided the strongest explanatory power for the size of the fiscal consolidation measures, which is hardly surprising as the main objective of the measures was to reduce the budget deficit and state debt accumulation. The explanatory power of political-administrative factors, however, remained limited. The findings partly supported and partly contradicted the theoretical predictions. The political science assumption that unitary states are better able than federal states to take swift and drastic measures was not really confirmed. Single-party governments were not better able to take swift and drastic cutback decisions than coalition governments. In some cases multi-party minority coalition governments were able to apply radical cutback measures. And the assumption that right-wing governments are more inclined and able to take swift and drastic cutback measures than left-wing governments could not be confirmed.

While domestic political-administrative factors apparently have rather limited explanatory power, supra-national factors play a major role in explaining cutback decision-making. First, developments in the worldwide economy clearly affected the state of the economy and public finances. Second, the EU ceilings on budget deficits and debt in many European countries were crucial in forcing government to cut back. And third, countries which received bail-outs had to comply with strict fiscal conditions and cutbacks.

The comparative analysis carried out in this article has thus provided new insights into the general patterns of fiscal consolidation efforts of European governments. Admittedly, our primary aim to find general patterns in the political decision-making, that is, the ‘politics’ of fiscal consolidation, yielded limited results. Apparently the usual political science variables of political and government systems have insufficient explanatory power for this comparative analysis. On the other hand, the wealth of unique insight and explanations in the in-depth country case studies presented in this symposium do confirm that political factors are paramount in understanding the course of events in domestic fiscal consolidation decision-making. National uniqueness, however, normally excludes international generalizations.

The ‘politics’ of fiscal consolidation do become more significant when looking at the effects of consolidation (Kickert and Randma-Liiv, 2015). There the fiscal and economic effects yielded rather limited results. Restoring public finances and the economy depends on many more variables than domestic fiscal consolidation alone, and statistical correlations confirm that low expectation. The measurement of the political effects did provide significant results. The electoral effects were significant. Incumbent governments in all but one cases lost general elections because of cutback measures planned or already undertaken. In many cases early elections were called. And in several cases coalition cabinets lost their parliamentary majority because coalition partners walked out. Furthermore, when

widening the concept of political effect to include public protest and social unrest, Iceland, Ireland and Spain provide clear examples of such effects. No wonder that in the beginning governments in most countries postponed the fiscal consolidation and cutback decision-making until after the general elections. It is clear that early cutback decision-making consisted of a series of stages, and it was only in later stages that serious cuts took place.

Politics did matter in fiscal consolidation, and fiscal consolidation, in turn, had major political effects.

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### Note

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## Article VI

Raudla, Ringa and **Riin Savi**. 2015. "The Use of Performance Information in Cutback Budgeting." *Public Money and Management*, xxx-xxx (*forthcoming*).



# **The Use of Performance Information in Cutback Budgeting**

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## **Abstract:**

This paper explores the use of performance information in budgetary decision-making during fiscal crisis. The theoretical part of the paper outlines the rivalling predictions of different theoretical approaches: agency theory, incrementalism, and interactive-dialogue theory. The empirical study of the Estonian case demonstrates that in a situation of fiscal crisis, performance information is not used for making budgetary decisions due to time pressure, the political nature of the budgetary process, and limited analytical capacities.

**Key words:** cutback budgeting, fiscal crisis, performance information, performance budgeting, Estonia

## **1. Introduction**

If history is any indication, it can be expected that the current era of austerity in European countries (and elsewhere) is likely to bring about an increased focus on performance-based budgeting. As Marcel (2013, p. 17) puts it, “focus on results is now more needed than before, as governments are expected to do more (or at least the same) with fewer resources”. The perceived need to cut back government expenditures provides a fertile ground for calls to “eliminate waste”, to “increase efficiency” – and to use performance budgeting to achieve that. Thus, in normative discussions on expenditure cutbacks (in the past and presently), various consultants and academics have argued that performance information (PI) should be used for making

“rational” and “intelligent” decisions about where the cuts should fall (e.g., McTighe, 1979; Robinson, 2013).

Our paper follows a positive rather than normative approach and explores whether performance information (PI) is actually used in cutback budgeting. Specifically, we focus on the following research question: What role did PI play in cutback decisions and the design of austerity packages in the executive branch of the Estonian central government during the fiscal crisis in 2008-2010? Given the extensive nature of austerity measures adopted in Estonia, it is an illuminating case for exploring the use of PI in cutback decisions.

The paper is organized as follows. Section 2 outlines the theoretical discussion on the role of PI in budgetary decision-making during fiscal crisis. Section 3 gives an overview of the existing empirical studies. Section 4 presents the empirical findings about Estonia. Section 5 concludes.

## **2. Theoretical Discussion**

Performance information refers to “systematic information describing the outputs and outcomes of public programmes and organizations ... generated by systems and processes intended to produce such information” (Pollitt, 2006, p. 39). In the existing literature on performance budgeting, one can find various theoretical approaches that have been used to conceptualize the role of PI in budgetary decision-making. Agency theory, incrementalism, and interactive-dialogue theory are probably the most prominent.

According to *agency theory*, we would expect budgetary principals (like politicians and the Ministry of Finance) to pay increased attention to PI during cutbacks. The central problem of agency is that the goals of the agent may not correspond exactly to those of the principal, which necessitates some sort of monitoring to ensure that the agent’s behaviour reflects the principal’s interests (Moe, 1984). Agency theory emphasizes informational asymmetries between principals and agents and points to different mechanisms – like performance information – that can be used to alleviate these asymmetries and to hold agents accountable (Waterman and Meier, 1998). Based on this perspective, in the context of a fiscal crisis, PI can be used to make cutback

decisions on a more rational basis (Robinson, 2013) and to increase the accountability of the agents (e.g. line ministries), especially if detailed decisions over cutbacks are delegated to them.

Based on the theory of *incrementalism*, which emphasizes the inherently political nature of budgeting and cognitive limitations of decision-makers (Caiden, 1998; Joyce, 1996, 2008; Wildavsky, 1978), we would expect that PI is *not* used during fiscal crisis. In times of crisis, pursuing extensive debates on the specific goals and targets of government organizations could be too polarizing (Schick, 1988). Disputes over PI when making cutback decisions would counteract the general aspiration of budget actors to reduce the level of conflict in an already tense environment. In such a context, across-the-board cuts may be viewed as more feasible given their perceived fairness (Behn, 1980; Levine, 1978). Furthermore, during a fiscal crisis, when a sense of urgency prevails, the decision-makers may not have sufficient cognitive space or time to pay attention to PI (Joyce, 2008; Van Dooren, 2011).

Between these theoretical perspectives pointing to either definite “use” or “non-use” of PI during fiscal crisis is *interactive-dialogue* theory (Moynihan, 2006, 2008). According to this approach, the utilization of PI depends on what the *motivations* of the users of PI are and whether PI is *useful* for their goals (Moynihan, 2006, 2008). Based on this perspective, on the one hand, budget actors might want to use PI in order to explain the necessity of expenditure cuts (if they are “guardians of the purse” in the Ministry of Finance) or to protect their budgets from these cuts (if they are “advocates” from the line ministries). On the other hand, there are several reasons that may render decision-makers less willing to use PI when discussing budgetary cutbacks. First, given that PI could give the line ministries (and agencies) “ammunition” for advocating their programmes and explaining why budget cuts should *not* fall on *them*, the officials of the Ministry of Finance (MoF) may be reluctant to raise discussions over PI during negotiations over budget cuts. Instead the MoF would prefer to focus the debate on “cutting the dollars” rather than on “cutting the programs” (Schick, 1983). Second, decision-makers face conceptual problems when trying to link PI to allocation decisions. Establishing links between resource allocation and achieved (or predicted) performance is complicated, *inter alia*, by attribution problems, rival causes, and time lags (Caiden, 1998; Pollitt, 2001). During fiscal crisis, these conceptual dilemmas become even more aggravated. For example, the performance

indicators of some programmes may fall because of the fiscal environment. Hence, these indicators may send “wrong” signals about how the programmes are “performing”: they may be a sign of increased demand for public services rather than of poor performance.

### **3. Existing Empirical Studies**

There is, by now, a significant body of empirical studies that have looked at how governments undertake budget cuts in response to fiscal stress or fiscal crisis. One of the central questions in these studies is whether the government opts for a more strategic approach in the form of targeted cuts or whether they prefer across-the-board cuts with all sectors and organizations facing an equal share of the cuts (for a detailed overview of the literature, see Raudla *et al.* 2015).

So far, however, only a handful of empirical studies have focused *explicitly* on the question of whether and how PI is used during a period of fiscal crisis. Looking at the *national* level of government, Schick (1988) concludes in his study of OECD countries during the 1980s that cutback budgeting was not, for the most part, based on the assessment of existing programmes. He claims that an important reason for that was the mandated nature of numerous expenditures; as a result, cuts were made to discretionary programmes, irrespective of their performance. Schick also observes that “in an environment dominated by the quest for savings, governments are tempted to take the cutbacks that are readily within reach, politically feasible and safe, and easy to implement” (1988, p. 528). In a study of developments in budgetary decision-making in the Canadian federal government, Good (2011) finds that when the government faced the need to undertake fiscal consolidation in the mid-1990s, there was a shift to utilizing PI (in the form of programme reviews) for undertaking cuts. In the early 2000s, the cuts imposed, however, followed an incremental logic – in order to alleviate the level of conflict in budgetary decision-making. Troupin *et al.* (2013) examine cutback budgeting in the Belgian Federal government (in 2009-2012) and conclude that due to the political nature of budgetary decision-making and insufficient quality of PI, the budget cuts have, for the most part, followed the cheese-slicing tactics rather than being based on PI,

The empirical studies undertaken on budgeting in the US *states* (Lauth, 1985; Willoughby, 2004; Hou *et al.* 2011) provide further evidence of the limited or non-existent role of PI in budgetary decision-making during austerity. Hou *et al.* (2011) observe, in their longitudinal study of 11 states that while PI tends to be used by line agencies for advocacy purposes during periods of boom, the conceptual issues in linking PI and resource allocation (including attribution problems) and the political nature of budgetary decision-making reduced the use of PI in bust years. The studies undertaken at the *local government* level in the US provide somewhat diverging evidence. In a study of departments at the city of Indianapolis, Ho (2011) finds that in the context of fiscal stress, PI was used by the managers in budgetary decision-making at the *programme* level in order to reallocate resources and “to do more with less”. In a survey of 1400 US municipalities between 2009-2011 Jimenez (2013) observes that the cities with performance management systems made more extensive use of targeted cuts than those without such systems. At the same time, the email interviews he conducted indicate that during fiscal crisis, budgetary decisions appear to be “divorced from performance considerations”, primarily because of the political nature of budgeting.

#### **4. The Case of Estonia**

For the empirical part of the study, 21 semi-structured interviews were conducted with Estonian civil servants. The purposive sample included five interviews from the Ministry of Finance and sixteen interviews from *all ten* Estonian line ministries (mostly with officials from budget departments). The main criterion for selecting the interviewees was their direct involvement in budgetary decision-making process during cutbacks. The list of interviews is provided in Appendix I. In the interviews, the public officials were asked about the use of PI in budgetary decision-making during the acute crisis in 2008-2010. The interviews with the MoF officials were digitally recorded and fully transcribed. During the interviews with line ministry officials, hand-written notes were taken. The transcripts and notes were then openly coded in order to identify common themes, converging assessments and diverging views.

## **4.1. Background Information on Estonia**

### **4.1.1. The Fiscal Crisis of 2008-2010**

The global financial crisis hit Estonia hard: the economic boom of 2000–2007 was followed by a dramatic downturn, with the GDP falling by 4.2% in 2008 and by 14.1% in 2009 (Eurostat). The Estonian government responded to the “economic crisis” as if it was also a “fiscal crisis” and undertook several rounds of budget cuts and tax increases in order to curtail the deficit, starting in 2008 (the reasons behind such actions are explained in Raudla and Kattel, 2011). In 2008, an austerity package was adopted in the middle of the year, cutting expenditures by about 2% of GDP. In 2009, the fiscal consolidation measures, adopted in three austerity packages, amounted to more than 9% of GDP (Raudla and Kattel, 2013). For 2010, expenditure reduction measures amounting to 6.3% of GDP were foreseen (OECD 2012; Savi and Randma-Liiv, 2015).

Cuts were applied to all expenditure categories, though operating expenses and transfers took a larger hit than investments. As Raudla and Kattel (2013) show, the expenditure measures in the austerity packages combined cheese-slicing with more targeted approaches: while operational expenses were subjected to across-the-board cuts, more selective cuts were applied to transfers and investments (see also Raudla, 2013). In the case of operational expenses, a “cascading” cheese-slicing approach to making the cuts was used, meaning that while the cabinet and the MoF adopted a top-down approach in determining *how much* each ministry had to cut (for example, 8% in January 2009 and 7% in June 2009), it refrained from dictating the specific content of *how* to curb the operating expenses, leaving it for the individual ministries to decide how to achieve these cuts.

### **4.1.2. Performance Budgeting System in Estonia**

Estonia has undertaken a number of steps to integrate PI into the budget process, primarily through pursuing closer links between strategic plans and budgets. Between 2002 and 2005, a system for developing strategic plans, performance plans and performance reports – and their role in the budget cycle – was put in place.



As a result, the annual budget cycle in the *executive* branch contains the following elements. The first step in the annual budget cycle is the preparation of the State Budget Strategy (SBS), adopted by the government each year for the next four years on a rolling basis. As an input to the SBS, the ministries have to submit their development plans (together with a financial plan) which are consolidated into the SBS by the MoF. The development plans outline the goals of area of government (i.e., the parent ministry and their subordinate agencies) for the next four years, indicators that reflect the progress towards achieving these goals and relevant actions to be undertaken to achieve these goals. After the SBS has been approved, the line ministries prepare annual action plans and budget bids for implementing these plans and submit them to the MoF. These action plans also indicate goals, activities, and expected results. Following the negotiations between the MoF and line ministries, the cabinet approves the budget and submits it to the parliament. After the end of the fiscal year, the ministries have to submit reports on the execution of the action plans, which, in principle, should be taken into account when deciding on the next year's budget (for more detailed descriptions of the budget process in Estonia, see Kraan *et al.* 2008, Raudla, 2012).

In sum, in Estonia, PI is presented together with financial information and, in principle, it is expected that PI is considered when appropriations are discussed. The provisions in the organic budget law and also in the regulation that concerns strategic plans and reports imply that the MoF should take PI into account when putting together the draft budget.

#### **4.2. Findings: The Use of Performance Information during the Fiscal Crisis in 2008-2010**

##### *Ministry of Finance*

*All* interviewed officials from the MoF concurred that PI was *not* taken into account in the cutback decisions for the austerity packages and in budget negotiations between the MoF and line ministries during the crisis. Also, although a “cascading” approach to making the budget cuts was undertaken in the case of cutting operational expenditures (i.e. the line ministries could decide how to achieve the cutback targets), the MoF did *not* use PI for holding the line ministries accountable, contrary to the expectations of agency theory. In fact, in response to the crisis, the

MoF demanded *less* PI from the line ministries during the budget process and also included less PI in the SBS (interview E). For example, while the SBS for 2007-2010 was 137 pages long, the SBS for 2010-2013 had only 36 pages.

In line with the predictions of incrementalism, several interviewees emphasized that in an atmosphere of “emergency”, when decisions had to be taken very fast, there was simply *no time* for conducting any analyses that would have allowed utilizing PI for the cutback decisions. In the words of one official, “We had an emergency situation. Thus, we had to focus on putting out the fire and it was simply not practical to bring performance information into the discussions.” (Interview E) Another interviewee noted that “The cutback decisions had to be taken very fast: the analysis of performance information would have taken too much time.” (Interview F)

The interviewees also claimed that in the context of the crisis, most of the MoF’s attention was on the *macro-economic* aspects of the budget, estimating the total aggregates, and calculating the impacts of different austerity measures on fiscal indicators. Hence, there was no “cognitive space” for including PI in the discussions and decision-making. As one of the civil servants put it, “During the crisis, the whole attention of the cabinet and the Ministry of Finance was on the consolidation of the budget. There was so simply no space for performance information in our discussions.” (Interview E).

In line with the predictions of incrementalism, some of the interviewees admitted that it would have been difficult to achieve *political consensus* in the cabinet about the cutbacks if a more differentiated approach to making the cutbacks had been chosen. No line ministry would have “volunteered” to implement larger cuts than the others; therefore, the equal share approach was the only one that was politically feasible. (Interviews B, E; F) In the words of one official, “It would have been impossible to reach an agreement about targeted cuts on the basis of performance information” (Interview B). He added that if the government had set out to make cuts on the basis of PI, “it would not have yielded sufficiently large cuts”.

The officials of the MoF admitted that they lacked the *analytical capacities* to process the PI submitted by the line ministries. In the words of one interviewee, “We don’t have a methodology

for taking into account performance information in budgetary decision-making. The officials have not been sufficiently trained to do that.” (Interview D). Another official remarked, “There is so much performance information that we have not been able to process it all.” (Interview F) It was also noted that in order for the MoF officials to take PI into account in budgetary decisions, they should have a good sectoral knowledge of the line ministries “but the reality is that we cannot expect the MoF officials to have better knowledge of the inner workings of a sector than a specialist from a line ministry” (Interview D). All of these aspects, in turn, made it difficult for the MoF officials to make substantive use of PI during the discussions over austerity measures.

Several interviewees from the MoF mentioned conceptual challenges involved in examining the causal links between inputs-activities-outputs-outcomes. They pointed to attribution problems, rival causes and time lags, and the resulting difficulties for taking these links into account when deciding on where cuts should fall. As one of the officials put it, “Deterioration in a performance indicator does not mean that the officials have done bad work. The reasons for the result may lie elsewhere and hence it would be difficult to say what the budgetary implications should be.” (Interview D). Another official added, “If the unemployment rate falls, it is unrealistic to attribute the whole blame for that to the Ministry of Social Affairs. There are several external factors influencing that performance indicator.” (Interview E). It was also emphasized that in order for strategic planning and performance budgeting to work, the fiscal environment has to be stable: if decision-making is faced with high uncertainties it is difficult to make projections about performance indicators and to take them into account in financial decisions (Interview E).

Several MoF officials stated that the performance plans and performance reports submitted by the line ministries not provide useful inputs for budgetary decision-making. For example, it was noted that “There is a lot of text in those documents but not enough useful and usable information” (Interview B). One of the interviewed officials emphasized that because of underdeveloped activity-based costing, neither the MoF nor the line ministries have sufficient information about the actual cost of different activities and programmes and this makes it difficult to estimate the effects of different spending levels on performance (Interview B). In other words, “insufficiently spelled out linkages between expenditures, activities and results in the performance documents means that it is difficult to use performance information for

budgetary decision-making” (Interview B). Thus, without the capacity to estimate the effects of budget cuts on organizational or sectoral performance, the budget actors saw limited value in using PI for austerity decisions.

### *Line Ministries*

The interviews with the line ministry officials also indicate that PI did *not* play a significant role in cutback decisions – either in negotiations with the MoF or in internal budgetary decision-making of the ministries – during the fiscal crisis. None of the interviewees reported any use of *ex post* performance data in deciding where the expenditure cuts should fall: prior performance of the various departments and programmes was *not* used as a guide to aid cutback decision-making. Like the officials of the MoF, many interviewees from the line ministries noted that since cutback decisions had to be taken very fast, there was *no time* to consider PI. They also felt that officials both in line ministries and the MoF lacked *analytical capacities* to make expenditure cuts based on PI. As one of the interviewees commented, “We have provided the Ministry of Finance a lot of performance information but they have not really been able to analyse it or use it in budgetary decision-making.” (Interview A)

With regard to the use of *ex ante* PI (i.e. the expected impact of cuts on performance targets and indicators), two interviewees (Interviews U, T) mentioned that in making the cuts there was some assessment of how the cuts may influence the achievement of set targets. The officials of the Ministry of Foreign Affairs noted that when budget cuts were made, consular services were spared in order to avoid a drop in the number of visas issued – primarily to prevent a fall of revenues from issuing visas (Interview U). Further, in making the cuts, the ministry “tried to ensure that diplomatic relations and alliances with strategic partners would be maintained” (Interview U). Second, an interviewee from the Ministry of Education and Research explained that during the crisis, strategic goals were kept in mind and cuts were applied to the activities that could be postponed without hurting the achievement of these goals (Interview T). He specified, however, that since the sector of education was relatively spared from cuts – the Ministry of

Education and Research did not in fact have to undertake extensive programmatic cuts – there was no need to consider PI for the purposes of making cutbacks.

In several cases, spending cuts were made first and then the documents containing PI were adjusted. As an official of the Ministry of Culture explained, after the cuts had been made in 2008, the annual performance plan of the Ministry was rewritten, in order to take into account the austerity measures. He also noted that in response to the crisis, the performance plans in 2009-2010 became significantly shorter and less detailed – so that they would not have to be rewritten after each round of cuts. He added, “For example, we used to have 19 performance indicators for our Ministry but during the crisis we cut them down to 8” (Interview A).

Generally, the interviewees felt that undertaking across-the-board cuts was the fastest – and also the fairest – option. If a more “differentiated” approach to implementing the spending cuts was at all undertaken by a ministry, cutback decisions followed other tenets or rules of thumb, instead of analysing PI. Most interviewees noted that the ministries cut those expenditures that were “cuttable” or could be postponed without major difficulties. Some interviewed officials noted that in making the cuts (at least some) politically prioritized activities were spared (Interviews S, T, U). Yet others noted that in making the cuts, they tried to make sure that international commitments (e.g. commitments to NATO in the case of Ministry of Defence) would not be violated (Interviews S, U, V). Some interviewees noted that the main principles guiding the cutbacks were the following: first, planned but not yet implemented activities were postponed, areas not directly related to the provision of public services were addressed, and lastly, expenditures related to “staff” rather than “line” were cut (Interviews O, P). In some cases, size-related criteria were used. For example, in the Ministry of Agriculture, the size and the existing level of resources of the organizations were taken into account (e.g. museums, which were small and were already struggling with resources, faced a smaller cut than larger organizations): “We could not impose the same percentage cuts on smaller organizations in our governing area – it would have been too difficult for them to cope with such a large cut” (Interview H). Another interviewee emphasized that the utmost aim was to keep the cuts in the organization and spare the citizens (i.e. avoid cuts in benefits and support measures) (Interview P). Many cuts of operational costs were also symbolic – “no colour-printing”, “no free coffee” etc. – in order to

pass on the general mentality of austerity (Interviews O, R). As emerged from some of the interviews, since the breakdown of the budget is based on the economic classification of inputs (e.g., personnel costs, transfers, investments) the cutback discussions and decisions inevitably focused on those categories rather than on performance-related criteria.

Like the officials from the MoF, the line ministry officials often felt that strategic planning and performance budgeting might be appropriate in a more stable economic context but these activities face clear challenges in a volatile environment. In the words of one interviewee, “How can we establish any performance goals and appropriate money for these goals if the revenue forecasts are adjusted downward several times a year?” (Interview A). Insufficient linkages between performance goals and budget appropriations and attribution problems were also viewed as hindrances to using PI.

## **5. Conclusion**

While in normative discussions, the use of performance information for making decisions on expenditure cutbacks have often been advocated, the current study shows that achieving this “normative ideal” can be very difficult in practice. Although the Estonian government had to undertake deep budget cuts in 2008-2010, the MoF and line ministries *did not*, for the most part, make use of PI for decisions about where the cuts should fall. Furthermore, compared with the pre-crisis period, the importance of PI in the budget process actually decreased. Based on the Estonian case study, we can point to the following implications for theory and practice.

First, the empirical study demonstrates that the challenges of using PI in budgetary decision-making become more pronounced during a fiscal crisis. The annual budget process is subject to time pressures and cognitive constraints already in “normal” times. If, in response to the crisis, the government adopts several supplementary budgets during a fiscal year (as happened in Estonia in 2009), the insight of incrementalism – that decision-makers simply do not have the time or cognitive space to analyse PI – becomes especially clear. Thus, if officials in other countries with existing performance information systems consider it important to use PI for

cutback decisions, it might only be feasible if the austerity packages are not adopted in great haste.

Second, in line with the predictions of incrementalism and interactive-dialogue theory, the budget actors in Estonia viewed the adoption of across-the-board cuts (undertaken without the analysis of PI) as a tactic for reaching a consensus on the austerity packages. Across-the-board cuts were perceived to be fairer because they allowed “sharing the pain” between different organizations. In contrast, making cutback decisions on the basis of PI was viewed to be too polarizing. Thus, officials in other countries should consider that inserting PI into austerity discussions may evoke conflict-ridden negotiations and a lengthy period for reaching decisions.

Third, although the agency theory would have predicted increased attention to PI during cutbacks – especially if a “cascading” approach to implementing the cuts (whereby detailed decisions over cuts are delegated to line ministries) is undertaken – this did not happen in Estonia. Our interviews indicate that when the budgetary “principals” in the MoF have limited analytical capacity to process PI, they are not able to use it for holding the “agents” (i.e. the line ministries) accountable for budgetary decisions. Thus, in further theorizing about the use of PI as a mechanism for alleviating informational asymmetries, the analytical capacity of the “principals” should be taken into account. The same applies for practice: if governments want to make sure that PI is considered in cutback decisions, building the MoF officials’ capacity to analyse, interpret and evaluate PI is an important precondition.

Finally, the Estonian case demonstrates that, in consonance with the observations of interactive-dialogue theory, the way budget dialogues are structured by the more “technical” aspects of budgeting can influence the use of PI in budgetary decision-making. In particular, if the budget classification is based on inputs, budgetary discussions over expenditure cuts tend to focus on input categories rather than on outcomes. If the organizations have not adequately developed activity-based costing, the use of PI in cutbacks is challenging because the decision-makers do not have sufficient information for establishing links between resources and performance. Thus, programme (and performance) based structure of the budget and the development of activity-based costing might contribute to more active utilization of PI in cutback decisions.

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## **Appendix I**

### Interviews

Interview A: official of the Ministry of Culture, 12 June 2010

Interview B: official of the Ministry of Finance, 21 April 2011

Interview C: official of the Ministry of Finance, 2 May 2011

Interview D: official of the Ministry of Finance, 4 May 2011

Interview E: official of the Ministry of Finance, 6 May 2011

Interview F: official of the Ministry of Finance, 11 May 2011

Interview G: official of Ministry of Culture, 3 April 2013

Interview H: three officials of the Ministry of Agriculture, 18 April 2013

Interview I: official of the Ministry of Interior 21 April 2013.

Interview J: official of the Ministry of Social Affairs, 25 April 2013.

Interview K: official of the Ministry of Culture, 26 April 2013

Interview L: two officials of the Ministry of Social Affairs, 26 April 2013

Interview M: official of the Ministry of Justice, 26 April 2013

Interview N: official of the Ministry of Justice 29 April 2013

Interview O: official of the Ministry of Economic Affairs and Communications, 6 March 2012

Interview P: official of the Ministry of Social Affairs, 13 March 2012

Interview R: official of the Ministry of Finance, 27 February 2012

Interview S: official of the Ministry of Environment, 3 September 2013.

Interview T: official of the Ministry of Education and Science, 2 October 2013.

Interview U: two officials of the Ministry of Foreign Affairs, 4 October 2013.

Interview V: official of the Ministry of Defence, 9 September 2013.

## Article VII

Raudla, Ringa, James Walter Douglas, Tiina Randma-Liiv and **Riin Savi**. 2015. "The Impact of Fiscal Crisis on Decision-Making Processes in European Governments: Dynamics of a Centralization Cascade." *Public Administration Review*. Published online 20 April 2015, available at <http://onlinelibrary.wiley.com/doi/10.1111/puar.12381/abstract>.



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## The Impact of Fiscal Crisis on Decision-Making Processes in European Governments: Dynamics of a Centralization Cascade

**Abstract:** *The Great Recession resulted in fiscal crises for governments across the Western world. Significant cuts in government programs were initiated as many governments scrambled to reduce their growing budget deficits. This article explores how European governments reacted during the recent crisis. In particular, the authors focus on the interlinkages between shifts toward more centralized decision making. The article uses a survey of thousands of public sector executives in 17 European countries. The authors find evidence of a centralization cascade, such that centralizing one element of the decision-making process leads to greater centralization throughout the system. Results also show that having a high number of organizational goals and facing clear sanctions for failing to achieve goals lead to greater centralization, but greater organizational commitment reduces the need to centralize.*

### Practitioner Points

- We find evidence of a centralization cascade, such that centralizing one element of the decision-making process leads to greater centralization throughout the system.
- Having a high number of organizational goals and facing clear sanctions for failing to achieve goals lead to greater centralization.
- Greater organizational commitment on the part of agency staff appears to reduce the need to centralize.

The Great Recession resulted in fiscal crises for governments across the Western world. Significant cuts in government programs were initiated as many governments scrambled to reduce their growing budget deficits. We expect that the need to undertake large-scale cutbacks leads to changes in governmental decision-making processes in general and in fiscal governance in particular. Based on existing theoretical discussions and the experience of previous economic downturns, we conjecture that the need to undertake fiscal retrenchment gives rise to centralization of decision making in the public sector, which can take several forms (Behn 1985; Di Mascio, Natalini, and Stolfi 2013; Hendrick 1989; Molander 2001; Peters, Pierre, and Randma-Liiv 2011; Schick 1986).

A number of studies have examined the effects of fiscal governance institutions and budgetary decision-making processes on fiscal policy outcomes, indicating for the most part that the more centralized the budgetary institutions are, the greater the fiscal discipline of the government (e.g., Fabrizio and Mody 2006; Hallerberg, Strauch, and Von Hagen 2009; Hallerberg and Von Hagen 1999). Few recent studies, however, have examined the effects of changes in the fiscal environment (e.g., the occurrence of a fiscal crisis) on

shifts in governance arrangements. Given that fiscal governance arrangements and decision-making processes can influence the nature of the decisions taken, it is of great interest how shifts in decision-making processes are brought about by periods of fiscal crisis.

This article explores how European governments reacted during the recent crisis. In particular, it focuses on the interlinkages between various shifts toward more centralized decision making. It also identifies several other factors that influenced the degree to which decision-making processes became more centralized during the crisis. We employ a survey of senior government officials in 17 European countries, undertaken within the framework of the Coordinating for Cohesion in the Public Sector of the Future (COCOPS) project, the largest comparative public management project undertaken in Europe to date.

### Theoretical Framework: Fiscal Crises and Decision-Making Processes

In the fiscal governance literature, public budgeting has often been conceived as subject to common-pool problems (e.g., Alesina and Perotti 1999; De Haan, Jong-A-Pin, and Mierau 2013; Hallerberg 2004; Hallerberg, Strauch, and Von Hagen 2009; Hallerberg and Von Hagen 1999; Krause 2012;

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Molander 2001; Tang, Callahan, and Pisano 2014). Although the specific forms of the models can vary (see Raudla 2010), the common gist of budgetary commons models is that the participants involved in budgeting internalize the full benefits of a spending proposal but bear only a fraction of the cost because it is financed from the common tax fund. The divergence between perceived and actual costs of programs, in turn, leads the “herders” on the commons (i.e., those who desire more spending) to demand higher levels of particularistic expenditures than would be efficient, leading to increased spending and higher deficits (see Velasco 2000). Weingast, Shepsle, and Johnsen (1981), who put forth the first formal model of decision making on budgetary commons, pointed to the “law of  $1/n$ ,” which predicts that the larger the number of herders (the  $n$ ) on the budgetary commons, the smaller the fraction of costs that each herder internalizes. The smaller the fraction that each herder has to bear, the smaller the perceived costs are compared with the actual costs and the more severe the common-pool problems involved in budgeting are likely to be.

In the case of budgetary cutbacks—as with “maintaining” the commons—the costs of undertaking the expenditure cuts are concentrated within individual ministries and agencies, whereas the potential benefits (if any) of successful fiscal consolidation are diffused. Several studies of cutback budgeting have emphasized that it is very unlikely that the “spenders” (either the line ministries/agencies as a whole or subunits within organizations) would voluntarily propose cuts on themselves (Behn 1980, 1985; Bozeman and Straussman 1982; Dunsire and Hood 1989; Levine 1979, 1985). The line agencies and ministries are likely to believe that they have “special characteristics” that are not suitable for cuts (Dunsire and Hood 1989, 131), and hence appeals for budget cutting are likely to elicit a “you first, then me” response, implying that top-down decisions would be needed in order to proceed with cuts (Levine 1979, 181). The fiscal governance literature makes similar predictions (e.g., De Haan, Jong-A-Pin, and Mierau 2013; Tang, Callahan, and Pisano 2014).

Drawing on theoretical discussions about how to solve collective action problems (e.g., Ostrom, Gardner, and Walker 1994), the fiscal governance literature has argued that having central entrepreneur(s) that can monitor the behavior of the other actors and impose sanctions can help secure coordination on the budgetary commons (see, e.g., Hallerberg 2004; Hallerberg and Von Hagen 1999). Hence, based on common-pool models of budgeting, we can predict that in order to respond to fiscal stress by undertaking cuts, decision making on the “commons” must become more centralized; otherwise, the ministries and agencies (and the subunits within agencies) would respond with lukewarm (if any) answers to calls for expenditure cuts. As the fiscal governance literature emphasizes, features of budget processes that make decision-making processes more centralized facilitate the internalization of externalities and the imposition of concentrated costs with diffused benefits. Similarly, in the crisis management and cutback management literatures, the prevalent prediction is that the need to respond to fiscal crisis would bring about a shift toward more centralized decision making (Boin et al. 2008; Jick and Murray 1982; Peters 2011; Peters, Pierre, and Randma-Liiv 2011; Wildavsky 1984).

The general shift toward more centralized decision making can express itself in various forms. First, the centralizing pressures of

fiscal crisis and stress can take the form of more decision making shifting to the *politicians vis-à-vis the civil servants*. Second, it can imply shifts in fiscal governance arrangements toward more centralized budgetary decision making (e.g., increased power for central budget actors such as the Ministry of Finance [MOF]). Third, it can entail more centralized decision making *within* the individual government organizations. Fourth, fiscal crisis is likely to give rise to an increased role for the budget offices within the individual organizations. The existing theoretical discussions usually focus on these issues separately. The theoretical discussion here delineates the dynamics of each shift in decision making as well as the interlinkages among them, and the hypotheses derived thereof are presented.

First, with regard to the actions of politicians in response to fiscal stress, the existing theoretical perspectives point to diverging directions. On the one hand, based on the *blame-avoidance* perspective, we can expect that in response to fiscal crisis, politicians will try to *reduce* their involvement in budgetary decision making in order to avoid taking responsibility (and thus preventing electoral backlash) for imposing painful measures (Hood 2002, 2011; Peters, Pierre, and Randma-Liiv 2011; Schick 1988; Tarschys 1985; Weaver 1986).<sup>1</sup> By withdrawing from the details of expenditures and delegating decision making, politicians would be less implicated regarding specific cutbacks (Hood 2002). Instead, spending agencies would be compelled to make the hard choices. On the other hand, based on the *credit-claiming* perspective, we can conjecture that in response to the fiscal crisis, politicians may want to become *more involved* in budgetary matters (Giger and Nelson 2010; Hood 2011). In the context of a crisis, elected officials are likely to assume that voters will give credit to leaders who are perceived to take charge boldly and are “not dithering on the sidelines blaming everyone else” (Hood 2011, 71). Also, as argued by Peters, a shift toward more politicized decision making may take place because the public expects the politicians to assume a stronger leadership role in response to the fiscal crisis: citizens would prefer that such crucial decisions are taken by elected officials rather than by “faceless bureaucrats” (2011, 78). Further, the necessity of cutbacks brings about the need to reconsider (or at least reassert) the priorities of the government (Behn 1980; Boin et al. 2008; Peters 2011; Wildavsky 1984). Decisions on the general priorities of the government tend to belong to the realm of *political* rather than everyday *administrative* decision making, and this would imply increased power for elected officials in decision making (Peters 2011).

The starting point of our article and the following theoretical discussion is what happens *if* elected officials do decide to become *more involved*. What would be the repercussions of that shift on other aspects of governmental decision making (in particular, on the shifts in power between the MOF and the line ministries), on whether the decision making within individual organizations becomes more centralized, and on whether the budget units within individual organizations gain power? In developing our hypotheses, we draw on the literature of fiscal governance and cutback budgeting.

Based on the fiscal governance literature, we expect that *if* politicians *choose* to exert greater influence over budgetary matters, they are likely to alter fiscal governance arrangements (Hallerberg 2004; Krause 2012). There are, in principle, two different routes available for elected officials *if* they choose to exert greater control over



budgetary decision making. On the one hand, drawing on basic dyadic principal-agent models analyzing the relationships between political principals and bureaucratic agents (see e.g., Moe 1984), we would expect that politicians would get *directly* involved in budgetary decision making within the agencies. Given the informational asymmetries and assumed goal conflict between the political principals and bureaucratic agents (e.g., Bendor 1988; Bendor, Taylor, and Van Gaalen 1987), the elected officials may feel that they need to assume more direct control over the details of organization-level decision making instead of entrusting another agent—the MOF—with more powers. Also, based on the credit-claiming perspective, such a strategy would enable the elected officials to “claim more credit” for dealing with the crisis (Hood 2011). This leads us to our first hypothesis.

**Hypothesis 1a:** Increases in the power of politicians regarding organizational decision-making processes are negatively associated with increases in the power of the MOF.

On the other hand, we can expect that elected officials would choose to empower the central budget office (i.e., the MOF). Elected officials’ direct involvement in organization-level decision making entails high transaction costs (Mitnick 1980). Also, more nuanced principal-agent models allow for the possibility of goal congruence between various types of principals and agents (e.g., Waterman and Meier 1998). If elected officials have resolved to take action in response to fiscal crisis, the MOF—as the “guardian” of the budget process—is their most obvious ally in implementing these actions. In the context of a fiscal crisis, the goals of the politicians and of the MOF are likely to be closely aligned—that is, to consolidate the budget. As the fiscal governance literature has emphasized, the MOF—the guardian of the public purse—is usually assumed to take a more comprehensive view of the budget than the line ministries; thus, it has incentives to internalize the costs of public spending programs and can also internalize the benefits from a successful consolidation program (Alesina and Perotti 1999; Hallerberg 2004; Hallerberg, Strauch, and Von Hagen 2009; Hallerberg and Von Hagen 1999; Krause 2012). Furthermore, given that the MOF has more detailed information about budgetary matters (derived from the routines in preparing and implementing the annual budget), empowering the MOF can help alleviate the informational asymmetries that elected officials may face in imposing budget cuts on the individual agencies. Finally, from the point of view of solving the collective action problem on the budgetary commons (Hallerberg 2004; Hallerberg, Strauch, and Von Hagen 2009), elected officials may want to increase the power of the MOF in the budget process in order to make sure that none of the organizations shirks in adopting austerity measures. The existing literature on cutback management and cutback budgeting also predicts that fiscal crisis would bring about an increase in the *power and role* of the MOF vis-à-vis the line ministries (Di Mascio, Natalini, and Stolfi 2013; Schick 1986). As Schick explains, when the budget is “targeted for contraction or stabilization” (1986, 125), a bottom-up process may lead to excessive conflict between demanders and constrainters because the former would be likely to continue to press for greater spending. Hence, in order to alleviate the level of conflict and make cutbacks feasible, the elected officials would

grant more power to the budget guardians (i.e., the MOF), especially in the form of stronger “agenda-setting” powers at the beginning of the budget cycle (Molander 2001; Tarschys 1983, 1985). Based on this discussion, we propose a competing hypothesis:

**Hypothesis 1b:** Increases in the power of politicians regarding organizational decision-making processes are positively associated with increases in the power of the MOF.

If, in response to fiscal crisis, the powers of politicians and the MOF increase, what does that imply for decision-making dynamics within the individual agencies? Based on the discussions in the fiscal governance and cutback management literatures, we would expect this to lead to more centralized decision making in individual organizations. The *cutback management* literature argues that if external pressures are imposed on individual organizations to cut expenditures, that will trigger movement toward mechanistic structures and hierarchy-based procedures in organizations (Bozeman 2010; Peters 2011; Stern and Sundelius 1997). Centralization of decision making is seen as a necessary precondition for undertaking retrenchment because, as in the interorganizational context, subunits within individual organizations would be unlikely to volunteer to cut themselves (Behn 1985; Bozeman and Straussman 1982; Levine 1985). In Behn’s words, “It would be a very unusual organization indeed that generated through a decentralized process . . . proposals for self-imposed cutbacks to match a significant decline in resources” (1980, 619).

Thus, in order to achieve the cutbacks required of their agencies, top managers are likely to adopt a more centralized stance in the budgetary decision-making process and set targets for their organizational subunits. Also, in response to the external pressures of retrenchment from elected officials and the MOF, the top managers of the line units may want to strengthen their position in the decision-making processes of their organizations in order to protect what they view to be their core functions and priorities (Douglas 1999; Levine 1978). Furthermore, in the context of externally imposed resource pressure on the organization, managers are likely to view mistakes made within the organization as more visible and costly and hence would want to assume control over more decisions (Whetten 1987).

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The stronger the pressures from outside, the more extensive the centralization of decision making within the organization is likely to be to cope with the intraorganizational common-pool problems.

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In a similar vein, according to the *fiscal governance* literature (e.g., Alesina and Perotti 1999; Hallerberg 2004; Hallerberg, Strauch, and Von Hagen 2009), the solution of the common-pool problems involved in adopting cutbacks *within* an organization—in response to external pressures to cut expenditures—would entail strengthening the powers of central organizational actors who can sanction the subunits when necessary in order to secure their cooperation in achieving the cutbacks.

The stronger the pressures from outside, the more extensive the centralization of decision making within the organization is likely to be to cope with the intraorganizational common-pool problems. Thus, if elected officials and the MOF pressure the managers at the top of the organizational hierarchy to undertake cutbacks in response to a fiscal crisis, we can expect the decision making within

that organization to become more centralized. This leads us to our second hypothesis:

**Hypothesis 2:** Increases in the power of politicians and the Ministry of Finance are positively associated with greater centralization in organizational decision making.

Finally, looking at the shifts in the power and role of the *budget units within* individual organizations, we can predict—based on the discussions of the more nuanced principal–agent models earlier (see Waterman and Meier 1998)—that just as elected officials might want to use the MOF as their “ally” to exert more extensive control over the line ministries, top managers within agencies are likely to ally with the budget department in their organizations to facilitate the adoption of cuts (given that the budget departments are the best informed about agency expenditures). Furthermore, external actors are likely to request additional financial information during periods of fiscal crisis, amplifying the importance of the budget office within the organization.

Thus, the adoption of more centralized decision making is likely to cause managers to draw more heavily on the expertise of their budget offices to help them both protect the organization from external attacks and make the difficult choices regarding which areas to cut. The existing literature on *cutback budgeting* also argues that in return for accepting stricter control over budget totals by the MOF (and the necessity to cut expenditures), the spending agencies would want more flexibility in using the funds, which, in turn, would mean the empowerment of the budget units within the individual organizations (Cothran 1993; Levine, Rubin, and Wolohojian 1982; Schick 1988; Tarschys 1986). This leads us to our third hypothesis:

**Hypothesis 3:** Increases in the power of politicians and the MOF and increases in centralized decision making within agencies are positively associated with increases in the power of organizational budget planning offices.

Thus, the story offered here suggests that centralizing actions at one point in the system can lead to reactions that result in a centralization cascade, such that greater centralization occurs across other elements of the system. Thus, when politicians begin to behave in a more top-down manner in order to maintain the commons during fiscal crises, they might choose to enhance the power of the MOF (i.e., the central budget office). As external forces (e.g., politicians and/or the MOF) exercise more control, managers of individual agencies might respond by centralizing decision-making processes more within their organizations. These actions, in turn, would lead to the granting of more authority to organizational budget offices.

Empirical studies have touched on how efforts to “maintain the budgetary commons” during times of fiscal crisis have affected decision-making processes. Studies of the previous era of cutbacks in the 1970s and 1980s for the most part appear to confirm the prediction that shifts toward *top-down* budgeting—in its genuine variant of combining centralized control over totals with decentralization of decision making on the details—would take place.

This was observed in a wide variety of settings, including national governments of Organisation for Economic Co-operation and Development countries (e.g., Bozeman and Straussman 1982; Schick 1986, 1988, 1990; Tarschys 1983, 1985, 1986; Wright 1977, 1981), state governments in the United States (e.g., Lee 1991) and local governments (e.g., Cothran 1993; Hendrick 1989; Levine, Rubin, and Wolohojian 1981a, 1981b). Some studies, however, found that instead of bringing about increased flexibility over the details of spending, fiscal stress induced more centralized control over the specific line items of the budget (e.g., Caiden and Chapman 1982; Levine, Rubin, and Wolohojian 1982; Massey and Straussman 1981; Schick 1988), in the hope that “if you watch your pennies the dollars will take care of themselves.” Scholars also noted in the 1990s that fiscal consolidation often led to increased centralization of budgetary decision making, shifts to top-down budgeting, and enhanced power for the MOF (Hallerberg 2004; Krause 2012; Molander 2001; Schick 2001).

With regard to the *current* era of austerity, a significant number of studies have addressed the general responses to the fiscal crisis by different governments, the nature of the cutbacks (e.g., across-the-board versus targeted cuts), and the content of the consolidation measures undertaken (see, e.g., Dougherty and Klase 2009; Kattel and Raudla 2013; Raudla and Kattel 2011, 2013; Scorsone and Plerhoples 2010). Few studies, however, have systematically examined the impact of the crisis on decision-making processes across governments. Shifts toward more centralized governmental decision making and increases in the power of the MOF have been observed in case studies of Germany (Kickert 2012b, 2013), Estonia (Raudla 2013), the United Kingdom (Peters 2011), Hungary (Hajnal and Csengödi 2014), Portugal (Di Mascio and Natalini 2015), Italy (Di Mascio and Natalini 2015; Di Mascio, Natalini, and Stolfi 2013), and Slovenia (Pevcin 2014). Increased politicization of (budgetary) decision making has been observed in the Netherlands (Kickert 2012a), Hungary (Hajnal and Csengödi 2014), and Slovenia (Pevcin 2014).

All of the existing studies look only at jurisdictions as a whole, ignoring individual governmental organizations. Also, no studies have examined whether governmental organizations (ministries, agencies, etc.) increase the power of their budget offices during periods of fiscal crisis. Furthermore, existing studies have not looked at how the different shifts in decision-making processes are connected to each other. For example, the literature generally concludes that centralization and increased power of the MOF (or central budget unit) occur during fiscal crises but does not examine the extent to which intervening factors influence these outcomes and how the shifts in the power of the MOF, in turn, may influence the decision-making processes in the line ministries. In other words, previous studies have failed to take a holistic approach to these larger issues. This article seeks to address this gap by exploring the hypotheses outlined in this section.

## Research Design and Methodology

### Data

The analysis employs data from the COCOPS project, one of the largest comparative public management research projects

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External actors are likely to request additional financial information during periods of fiscal crisis, amplifying the importance of the budget office within the organization.

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in Europe, intended to provide a comprehensive picture of the challenges facing the public sector in European countries.<sup>2</sup> A cornerstone of the project was the COCOPS Executive Survey on Public Sector Reform in Europe, an original, large-scale survey of public sector top executives in 17 European countries (Austria, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Lithuania, the Netherlands, Norway, Portugal, Serbia, Spain, Sweden, and the United Kingdom). The survey targeted 22,586 senior-level managers from these 17 countries, resulting in a response rate of 30.6 percent (6,701 valid responses). Although the survey cannot claim full representativeness for the data, it can be regarded as a good proxy, and it is by far the largest comparative data set for European public administration collected until now. In order to avoid random sampling and issues of representativeness, the COCOPS executive survey was based on a full census of all central government ministries and agencies in the target countries. It covers all high-level public sector executives who could be expected to be involved in public administration reform processes. Generally, within all central government ministries and subordinated agencies, the two top administrative levels were addressed; in some cases, invitations were also sent to executives on the third level if, because of their policy relevance, this was deemed appropriate. The survey was launched in May 2012 and implemented in several rounds (for a more detailed overview of the survey, see, e.g., Hammerschmid, Oprisor, and Stimac 2013).

The survey aimed to explore public sector executives' perceptions and experiences regarding public management practices, public sector reforms, and the impact of the fiscal crisis. Our analysis focuses primarily on a subset of questions dealing specifically with managers' perceptions of how the fiscal crisis affected public administration within their organizations. Managers whose organizations were required to achieve savings/cutbacks in response to the fiscal crisis were directed to several questions addressing their perceptions concerning the impact of the crisis on decision-making processes. Approximately 75.8 percent of the respondents (5,082 managers) indicated that their organizations had participated in savings/cutbacks efforts during the fiscal crises. The data provided by these respondents serve as the basis for the analysis.

### Variables

This article seeks to take a more holistic approach than previous research in analyzing how decision-making processes are affected during periods of fiscal crisis. To that end, the survey data produced a number of variables useful for assessing the impact of key factors on the extent to which decision-making processes became more centralized for European public sector organizations. As discussed earlier, a shift toward more centralized decision making can express itself in various forms. Several questions in the survey focused on respondents' perceptions of whether such outcomes were taking place. Managers were asked the extent to which they agreed (on a seven-point Likert scale, where 1 = strongly disagree and 7 = strongly agree) with the following statement: "As a result of the fiscal crisis," (1) "The power of politicians (versus nonelected public officials) in the decision-making process has increased"; (2) "The power of the Ministry of Finance has increased"; (3) "Decision making in my organization has become more centralized"; and (4) "The unit dealing with budget planning within my organization

has gained power." We utilize these questions to test our main hypotheses.

We include in our models several vectors of control variables gleaned from the COCOPS survey to more fully account for the differences in responses regarding the power of the MOF, the centralization of organizational decision making, and the power of organizational budget units. One vector includes *organizational behavior* factors reported in the COCOPS survey that could influence respondents' perceptions or otherwise influence outcomes regarding power relationships and centralization. These include the extent to which: the organization has a high number of goals; it is easy to observe and measure the organization's activities; the organization receives clear sanctions for not achieving its goals; people in the organization enthusiastically pursue collective goals and mission;<sup>3</sup> and the respondent interacts with administrative superiors and higher administrative levels.<sup>4</sup> Additional vectors include *organizational type* in which the respondent worked (ministry at the central government level, agency or subordinate government body at the central government level, ministry at the state or regional government level); *organizational size* where the respondent worked (less than 100, 100–499, 500–999, 1,000–5,000, greater than 5,000, unsure of size); *level of hierarchy* in which the respondent worked (top hierarchical level in the organization, second hierarchical level in the organization, third hierarchical level in the organization, other/unsure of level); and *policy area* of the respondent's organization (general government; foreign affairs; finance; economic affairs; infrastructure and transportation; defense; justice, public order and safety; employment services; health; other social protection and welfare; education; environmental protection; recreation, culture, religion; other; multiple policy areas).<sup>5</sup> We also included country dummies to control for country-level differences.

### Methodology

The survey results were used to estimate three ordered probit regression models corresponding to our main hypotheses. Such an approach is appropriate because of the ordinal nature of the dependent variables. The key question addressed by the models is whether, during times of fiscal crisis, centralizing pressures lead to even greater centralization of decision-making processes for public organizations. Other organizational factors that could affect the extent to which centralization occurs are assessed as well, and country-level fixed effects are controlled for. Our analysis proceeds by discussing descriptives regarding the theoretical variables and then presenting the results of the probit models.

## Results and Analysis

### Descriptive Analysis

Table 1 shows that respondents, in general, perceived moderate increases in the centralizing factors as a result of the fiscal crisis. Perceptions regarding the power of politicians were almost evenly split (mean = 4.03) between those largely disagreeing that politicians' power had increased (scores of 1–3, 36.7 percent) and those largely agreeing (scores 5–7, 39.9 percent), with the remaining 23.3 percent falling in between these perceptions. In contrast, respondents were much more likely to perceive the MOF as having gained power as a result of the crisis, with almost three-quarters designating a score of 5 or greater to this question, producing a mean score of 5.37. Perceptions regarding increases in the power of organizational

**Table 1** Frequency Counts for Main Theoretical Variables

| Question: As a result of the fiscal crisis . . .   | 1<br>Strongly Disagree | 2            | 3            | 4              | 5              | 6              | 7<br>Strongly Agree | N     | Mean |
|--|------------------------|--------------|--------------|----------------|----------------|----------------|---------------------|-------|------|
| The power of politicians (versus nonelected public officials) in the decision-making process has increased | 483<br>9.7%            | 701<br>14.0% | 651<br>13.0% | 1,166<br>23.3% | 817<br>16.3%   | 714<br>14.3%   | 465<br>9.3%         | 4,997 | 4.03 |
| The power of the Ministry of Finance has increased   | 184<br>3.6%            | 217<br>4.3%  | 228<br>4.5%  | 681<br>13.4%   | 950<br>18.7%   | 1,261<br>24.8% | 1,561<br>30.7%      | 5,082 | 5.37 |
| Decision making in my organization has become more centralized   | 304<br>6.0%            | 422<br>8.3%  | 424<br>8.3%  | 958<br>18.9%   | 1,041<br>20.5% | 1,101<br>21.7% | 832<br>16.4%        | 5,082 | 4.70 |
| The unit dealing with budget planning within my organization has gained power                              | 410<br>8.2%            | 504<br>10.1% | 532<br>10.7% | 1,054<br>21.2% | 955<br>19.2%   | 911<br>18.3%   | 604<br>12.2%        | 4,970 | 4.37 |

budget units were generally lower (mean = 4.37), with slightly less than half agreeing and only 12.2 percent strongly agreeing. Finally, respondents tended to believe that decision making within their organizations had become more centralized (mean = 4.70), with 58.6 largely agreeing.

Table 1 reveals clearly that a substantial number of respondents disagreed (scores of 1–3) or were neutral (scores of 4) regarding these questions, and those who agreed differed in the strength of their agreement. This variation allows for the testing of the main hypotheses concerning whether shifts in certain elements of centralized decision making are associated with changes in other centralizing elements. Initial bivariate correlation analysis suggests the existence of such relationships: the power of politicians was positively associated with the power of the MOF ( $p < .001$ ); the power of politicians and the power of the MOF were both positively associated with more centralized decision making within organizations ( $p < .001$ ); and the power of politicians, the power of the MOF, and more centralized decision making within organizations were all positively associated with the power of organizational budget offices ( $p < .001$ ).

Table 2 displays country means for each question. Politicians look as if they became much more involved in organization decision making in countries where the fiscal crisis was more severe (Portugal, Spain, Estonia, Ireland, Italy),<sup>6</sup> but less so in countries where the crises was relatively mild (Sweden, Norway, Denmark, Germany, the Netherlands). This general pattern also occurred for the degree to which organizational decision making became more centralized, with Norway, Sweden, Germany, Austria, and the Netherlands seeing the least amount of centralization, while Portugal, Ireland, Italy, Estonia, and Spain saw the most. On the surface, these findings indicate that both politicians and public managers facing more extreme fiscal circumstances feel a greater need to exert control over organizational decision making in order to better influence responses and outcomes. In contrast, no clear pattern emerged across country responses concerning the power of either the MOF or organizational budget offices, indicating perhaps different strategic approaches across countries on the question of how much politicians and managers should utilize these fiscal offices to respond to economic downturns.

As stated earlier, we seek to take a holistic look at the extent to which greater centralization occurs during fiscal crises by analyzing the interlinkages among the main forms through which more centralized decision making often expresses itself, whereas previous research focused on these forms separately.

**Table 2** Country Means for Main Theoretical Variables

| Country        | Power of Politicians Increased | Power of Ministry of Finance Increased | Decision Making in Organization Became More Centralized | Power of Organization's Budget Planning Unit Increased |
|----------------|--------------------------------|--|---|--|
| Austria        | 3.92<br>(378)                  | 5.27<br>(385)                          | 4.42<br>(382)   | 4.40<br>(382)  |
| Denmark        | 3.18<br>(125)                  | 5.82<br>(126)                          | 4.97<br>(126)   | 4.95<br>(125)  |
| Estonia        | 4.42<br>(268)                  | 5.46<br>(268)                          | 5.06<br>(269)   | 3.35<br>(267)  |
| Finland        | 4.02<br>(623)                  | 5.58<br>(627)                          | 4.79<br>(629)   | 4.48<br>(628)  |
| France         | 3.97<br>(474)                  | 5.44<br>(478)                          | 4.87<br>(479)   | 4.73<br>(478)  |
| Germany        | 3.67<br>(379)                  | 5.14<br>(381)                          | 4.14<br>(380)   | 4.34<br>(380)  |
| Hungary        | 3.95<br>(182)                  | 5.27<br>(182)                          | 4.95<br>(185)   | 4.66<br>(186)  |
| Ireland        | 4.23<br>(309)                  | 6.13<br>(315)                          | 5.38<br>(314)   | 4.74<br>(312)  |
| Italy          | 4.20<br>(140)                  | 5.84<br>(143)                          | 5.15<br>(142)   | 4.75<br>(142)  |
| Lithuania      | 3.99<br>(301)                  | 4.17<br>(299)                          | 4.87<br>(304)   | 3.41<br>(294)  |
| Netherlands    | 3.69<br>(171)                  | 5.10<br>(172)                          | 4.44<br>(172)   | 4.38<br>(172)  |
| Norway         | 3.12<br>(143)                  | 4.67<br>(150)                          | 3.39<br>(148)   | 3.51<br>(150)  |
| Portugal       | 5.41<br>(236)                  | 6.65<br>(241)                          | 5.39<br>(241)   | 4.32<br>(238)  |
| Serbia         | 4.17<br>(655)                  | 4.74<br>(695)                          | 4.61<br>(689)   | 3.83<br>(595)  |
| Spain          | 4.99<br>(238)                  | 5.62<br>(240)                          | 5.01<br>(238)   | 4.73<br>(238)  |
| Sweden         | 3.08<br>(325)                  | 5.91<br>(330)                          | 3.92<br>(334)   | 5.50<br>(333)  |
| United Kingdom | 3.94<br>(50)                   | 4.90<br>(50)                           | 4.68<br>(50)  | 4.32<br>(50)   |
| COCOPS mean    | 4.03<br>(4,997)                | 5.37<br>(5,082)                        | 4.70<br>(5,082)   | 4.37<br>(4,970)  |

Note: Number of respondents in parentheses.

Table 3 presents the results of three ordered probit regression models designed to test our specific hypotheses and, more broadly, to address the question of whether centralizing actions at one point in the system lead to reactions throughout the system. The models estimate the relationships between the independent variables and the perceptions of public managers regarding whether, as a result of the fiscal crisis, *the power of the MOF increased* (model 1), *decision making within their organization became more centralized* (model 2), and *the unit dealing with budget*

Both politicians and public managers facing more extreme fiscal circumstances feel a greater need to exert control over organizational decision making in order to better influence responses and outcomes.

**Table 3** Ordered Probit Regression Estimates (country-level fixed effects)

|   | Model 1<br>Power of the MOF | Model 2<br>Centralized Decision Making | Model 3<br>Power of Budget Unit |
|---|-----------------------------|--|---------------------------------|
| <i>Theoretical variables</i>  |                             |  |                                 |
| Power of politicians has increased  | 0.192 (0.010)***            | 0.202 (0.010)***                       | 0.039 (0.010)***                |
| Power of the Ministry of Finance has increased  | —                           | 0.249 (0.011)***                       | 0.194 (0.012)***                |
| Organizational decision making has become more centralized                            | —                           | —                                      | 0.208 (0.011)***                |
| <i>Organizational behavior variables</i>  |                             |  |                                 |
| High number of goals  | 0.021 (0.011) <sup>†</sup>  | 0.035 (0.011)***                       | 0.029 (0.011)**                 |
| Activities are easy to observe and measure  | 0.008 (0.011)               | 0.014 (0.011)                          | -0.002 (0.010)                  |
| Face clear sanctions for not achieving goals  | 0.034 (0.011)**             | 0.024 (0.011)*                         | 0.019 (0.011) <sup>†</sup>      |
| Frequent interaction with superiors and higher administrative levels                  | —                           | -0.039 (0.018)*                        | —                               |
| Mission and goals enthusiastically pursued by organization's members                  | —                           | -0.056 (0.012)***                      | —                               |
| <i>Organization type (reference category is ministry at central government level)</i> |                             |  |                                 |
| Central government agency or subordinate body   | -0.074 (0.039) <sup>†</sup> | 0.028 (0.039)                          | -0.126 (0.039)***               |
| Ministry at state or regional level   | 0.140 (0.094)               | 0.379 (0.094)***                       | 0.262 (0.093)**                 |
| <i>Organization size (reference category is &gt; 5,000 employees)</i>                 |                             |  |                                 |
| Fewer than 100 employees  | 0.001 (0.062)               | -0.214 (0.062)***                      | -0.071 (0.061)                  |
| 100–499 employees   | 0.031 (0.056)               | -0.143 (0.055)**                       | -0.085 (0.054)                  |
| 500–999 employees   | 0.047 (0.064)               | -0.028 (0.063)                         | 0.043 (0.062)                   |
| 1,000–5,000 employees   | 0.116 (0.062) <sup>†</sup>  | 0.029 (0.061)                          | 0.066 (0.060)                   |
| Unsure of size  | -0.039 (0.150)              | -0.207 (0.152)                         | -0.037 (0.152)                  |
| <i>Level of hierarchy (reference category is first hierarchical level)</i>            |                             |  |                                 |
| Second hierarchical level   | -0.111 (0.046)*             | 0.150 (0.046)***                       | 0.065 (0.044)                   |
| Third hierarchical level  | -0.166 (0.048)***           | 0.161 (0.048)***                       | 0.073 (0.047)                   |
| Other/unsure of level   | -0.090 (0.101)              | 0.088 (0.100)                          | 0.090 (0.099)                   |
| <i>Policy area (reference category is general government)</i>                         |                             |  |                                 |
| Foreign affairs   | 0.071 (0.099)               | -0.307 (0.096)***                      | 0.164 (0.096) <sup>†</sup>      |
| Finance   | -0.304 (0.073)***           | -0.022 (0.073)                         | 0.197 (0.073)**                 |
| Economic affairs  | 0.035 (0.076)               | -0.006 (0.074)                         | 0.043 (0.074)                   |
| Infrastructure and transportation   | 0.031 (0.080)               | 0.064 (0.079)                          | -0.016 (0.079)                  |
| Defense   | 0.021 (0.118)               | 0.254 (0.117)*                         | -0.144 (0.115)                  |
| Justice, public order, and safety   | 0.169 (0.073)*              | 0.216 (0.072)**                        | 0.194 (0.071)**                 |
| Employment services   | -0.106 (0.084)              | 0.161 (0.083) <sup>†</sup>             | -0.080 (0.083)                  |
| Health  | 0.223 (0.085)**             | 0.020 (0.084)                          | 0.091 (0.083)                   |
| Other social protection and welfare   | 0.157 (0.086) <sup>†</sup>  | -0.052 (0.084)                         | 0.147 (0.083) <sup>†</sup>      |
| Education   | 0.205 (0.081)*              | -0.015 (0.036)                         | 0.030 (0.078)                   |
| Environmental protection  | 0.042 (0.087)               | -0.057 (0.088)                         | 0.026 (0.086)                   |
| Recreation, culture, religion   | 0.162 (0.102)               | 0.067 (0.100)                          | 0.136 (0.100)                   |
| Other   | -0.025 (0.096)              | -0.147 (0.097)                         | -0.029 (0.097)                  |
| Multiple policy areas   | 0.032 (0.064)               | -0.025 (0.063)                         | 0.090 (0.063)                   |
| $\chi^2$  | 1234.3***                   | 1693.9***                              | 1759.3***                       |
| Nagelkerke $R^2$  | 0.239                       | 0.317                                  | 0.324                           |
| N   | 4,714                       | 4,583                                  | 4,627                           |

Notes: Unstandardized regression coefficients are shown. Standard errors are in parentheses. Country dummies are suppressed.

<sup>†</sup> $p < .1$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ .

*planning within their organization gained power* (model 3). Positive coefficients represent greater agreement regarding these outcomes, while negative coefficients represent greater disagreement.<sup>7</sup> For each model, the chi-square statistic is significant and the Nagelkerke  $R^2$  exceeds 0.20, indicating that they are reasonably fitting models.

### Power of the Ministry of Finance

Model 1 shows that respondents' perceptions regarding politicians' power over their organizations' decision-making processes were positively associated with their perceptions of the extent to which the power of the MOF had increased ( $p < .001$ ). This finding disconfirms hypothesis 1a while confirming hypothesis 1b, suggesting that during the fiscal crisis, elected officials who chose to exert more control over organizational decision making did so, at least in part, by enhancing the power of the MOF rather than by circumventing the MOF in an effort to either "claim credit" for dealing with the crisis or avoid bureaucratic filtering of their policy directives. Politicians apparently view the MOF more as a policy tool given its expertise and knowledge about organization budgets—information

that elected officials need to effectively observe and control organizational actions.

Relationships also existed between respondents' perceptions of the MOF's power and the extent to which respondents believed their organizations had a high number of goals and faced clear sanctions for not achieving their goals. This makes sense given that the MOF is a logical organization for carrying out the task of assessing organizational activities and performance. Therefore, organizations with high numbers of goals likely experienced more interactions with MOF officials as these goals were assessed during the crisis, amplifying perceptions of the MOF's power. Also, where performance assessments were utilized to help make the difficult choices necessitated by the fiscal crisis, the MOF would reasonably be viewed as playing a more powerful role by managers.

Organizational type and size played little role in influencing perceptions of the power of the MOF. However, respondents working in the second and third hierarchical levels were less likely than officials

in the first hierarchical level to view the MOF as having gained power. This finding indicates that to the extent that the MOF actually exerted more influence over agencies, it did so in a top-down manner. Thus, it appears to have focused more on macro-level issues within organizations during the fiscal crisis, leaving top managers with the responsibility of deciding how to carry out its instructions at lower organizational levels. Several of the policy area variables also achieved significance. Perceptions of increased MOF power were higher for officials working in the areas of health; education; and justice, public order, and safety; and lower in the area of finance. In the case of the latter, it is interesting (but not surprising) that MOF officials were less likely than many others to believe that they had gained power during the fiscal crisis.

### **Organizational Decision Making**

Model 2 confirms hypothesis 2. Managers' perceptions of the power of both politicians and the MOF were positively associated with their perceptions of increased centralized decision making within their organizations ( $p < .001$ ). As a result, it appears that during the fiscal crisis, ministries responded to greater external interference by centralizing their decision-making processes. This is possibly attributable to top managers seeking to maintain control over their agencies' operations in order to protect core functions and priorities from excessive cuts and/or to guard against visible mistakes that might prove especially costly while external interference was high.

The greater the number of organizational goals, the more likely respondents were to perceive decision making to have become more centralized during the crisis. This is possibly attributable to top managers needing to address the common-pool problem and perhaps wanting to protect their highest priorities. It is natural for all units within an organization to believe their goals to be vital. As resources shrink, conflict increases as units compete for a smaller pot of money. Under such conditions, more centralized control may be needed to make the difficult choices concerning winners and losers. Managers who believed that their organizations faced clear sanctions for not achieving goals were also more likely to perceive decision making to have become more centralized. This may be attributable to central managers relying more heavily on performance assessments to assign winners and losers across their organizations.

In contrast, less centralization was perceived by respondents who interacted more frequently with their supervisors and high-level officials and by respondents scoring higher on the extent to which their members enthusiastically pursued the organization's mission and goals. It appears, therefore, that greater organizational commitment on the part of employees overall makes top managers less inclined to exert more control during times of crisis. When organizational commitment is high, organizational personnel may be more willing to work together to resolve conflict and make sacrifices for the greater good. Frequent interaction between managers and supervisors may also be leading to more trust by top officials in the actions of their subordinate manager, and, therefore, less need to centralize decision making. Alternatively, respondents who interact more with their superiors may simply perceive that their input is being taken into account by high-level officials (or perhaps their

input gives them a better understanding of higher-level decisions), making them less likely to agree that greater centralization had occurred.

In regard to other organizational variables, officials in ministries at the state or regional level were more likely than respondents working for the central government to perceive increased centralization, while individuals working in smaller organizations (fewer than 500 employees) were less likely to view their decision-making processes as having become more centralized. Interestingly, respondents working within their organizations' second and third hierarchical levels reported greater centralized decision making as a result of the fiscal crisis. Thus, while second- and third-level officials were less likely to believe that the MOF had gained power (model 1), they were more likely than first-level officials to report greater centralization within their organizations. This lends support to our earlier suggestion that external pressures were exerted more at higher levels, with top managers then being required to transmit tough decisions down to the lower levels of the hierarchy. Finally, defense; employment services; and justice, public order and safety reported greater centralization, whereas foreign affairs respondents reported less.

### **Power of Organizations' Budget Planning Offices**

Our final hypothesis (3) is confirmed in model 3. Officials' perceptions regarding the power of politicians, the power of the MOF, and the degree of centralized decision making within the organization are all positively associated with perceptions regarding the power of the budget planning unit within the respondent's organization ( $p < .001$ ). This is possibly the result of external actors both imposing restrictions on and requesting more information from agencies, as well as internal managers relying more heavily on the expertise of their budget officers to aid them in identifying areas for potential cuts. Both circumstances necessitate greater reliance on agencies' budget units.

Once again organizations with a high number of goals and organizations that faced clear sanctions for not achieving goals were positively associated with the dependent variable, and prospectively for the same reasons alluded to in the previous models. Several organizational variables were also significantly associated with respondents' perceptions regarding the power of their organization's budget unit. Central government agencies or subordinate bodies were less likely to perceive their budget offices as having gained power during the crisis, whereas ministries at the state or regional level were more likely to have such perceptions. Finally, officials working in the areas of foreign affairs; finance; other social protections and welfare; and justice, public order, and safety were more likely to respond that their budget office's power had increased as a result of the crisis.

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Greater organizational commitment on the part of employees overall makes top managers less inclined to exert more control during times of crisis.

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### **Conclusion**

This article has taken a more holistic approach than previous research in analyzing how decision-making processes are affected during periods of fiscal crises by examining how different centralizing outcomes relate to one another. It has done so using a unique data set—the responses of thousands of top public managers across 17 European countries. The survey responses generally match

the expectations set in the literature, that decision-making processes become more centralized during times of crisis—respondents reported that the power of politicians, the MOF, and organizational budget units tended to increase during the crises, and decision making within government organizations tended to become more centralized. Our study moves beyond the existing literature, however, which simply acknowledges that centralizing outcomes generally occur during fiscal crises. We do so by identifying the occurrence of a centralization cascade, such that centralizing actions at one point in the system lead to increased centralization across the system, and by revealing how other factors affect the extent to which centralization occurs.

We provide evidence that the power of the MOF is enhanced when politicians exert more control over agencies during fiscal crises. This is no surprise given that it is logical for elected officials to rely heavily on the MOF to gather information and enforce compliance with politicians' directives. What is more interesting is that the MOF appears to make its increased power felt more at the top hierarchical level of agencies. Politicians and the MOF, therefore, appear to be trying to influence organizational behavior in a top-down manner—likely focusing more on the aggregates and leaving the details of cuts up to organizational managers (as predicted in much of the literature). This, in turn, seems to have a centralizing influence on organizational decision making. Greater external pressures create a need for top organizational managers to gain more control over their organizations' action in order to both protect key functions and direct necessary cuts across lower level units. This appears to be especially true for agencies with a high number of goals, which makes sense given the greater difficulty of coordinating cutbacks in such organizations. Our findings thus lend general support to the budgetary commons literature, which predicts that dealing with increasing common-pool problems in response to fiscal crisis necessitates more centralized decision making. We can observe that the more serious the common-pool problems within the organization are, the more likely the centralizing tendencies. When the organization has a large number of goals (a variant of the law of  $1/n$ ), centralization is likely to become necessary in order to impose budgetary cutbacks. What we add to the existing literature on budgetary commons is the notion that centralizing actions by elected officials and increased power of the MOF may lead to centralizing tendencies throughout the rest of the governmental organizations as well.

A particularly interesting finding is that a high degree of organizational commitment on the part of employees (and perhaps more frequent interaction between managers and higher level officials) seems to make centralization less necessary within organizations, possibly because staff in these agencies work together more during periods of crisis to protect the larger organization. It may be the case that top officials in these organizations believe their staff are less biased and parochial and, therefore, providing more reliable information and advice that can be used to help the organization navigate the crisis. This finding is especially interesting to scholars of public management and should be explored more deeply in future research.

We also provide evidence that increased intervention by politicians, greater influence by the MOF, and more centralized

decision-making processes all lead to enhanced power for organizational budget planning offices. This finding is important because the role of organization-level budget units during times of fiscal crisis has been completely ignored in the cutback budgeting and fiscal governance literatures. Finally, it is important to note that politicians and the MOF had both direct and indirect effects on centralizing factors at the organizational level. The increased power of politicians, for example, was significantly related to increased power of organizational budget offices, as well as being significantly related to increased power of the MOF and greater centralization of organizational decision making—both of which influenced the power of organizational budget units directly. The direct effect is possibly attributable to politicians requiring more information from budget offices, but this is simply conjecture. Future research should study how exactly the different elements enhance the power of organizational budget offices.

Rubin (2015) points out in her article on the past and future budget classics that future research on budgeting should pay more attention to conflict. Drawing on the findings of our article, future research could look at how shifts in the powers of the main budget actors influence the level of conflict in the budget process and whether crisis-induced centralization (cascades) alleviates or aggravates conflicts in budgetary decision making. Furthermore, as emphasized by Rubin, future studies should take a closer look at the power struggles between the legislature and the executive. While our article shows that greater involvement of politicians creates ripple effects throughout the system, it would be useful to explore in presidential systems whether the branch of government of the politicians matters.

There are many questions that future research should address in order to understand more fully how the elements of the larger system affect one another when centralization cascades occur during periods of fiscal stress. It must be remembered that the data employed here are survey responses regarding the perceptions of top public managers. Therefore, it would be useful if more objective measures of centralization were explored by future researchers to better assess the extent to which centralization cascades occur in response to fiscal crises. Future research should also examine the concept of centralization cascades more broadly. Under what other conditions might they occur? And, are the potential outcomes beneficial or problematic—for example, how might centralization cascades affect organizational performance? More research is needed regarding this phenomenon.

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## Notes

1. In our theoretical discussion we focus on the national level of government. In the context of intragovernmental relations, additional decision-making dynamics

- can emerge (e.g., in the form of emergency financial managers, appointed by the elected officials from the state level, to rectify the financial problems in local governments going through fiscal crisis, after the political decision making in the local government level has ended in stalemate) (see, e.g., Kasdan 2014).
- For more detailed information, see <http://www.cocops.eu>.
  - Respondents were asked to score each of these statements on a seven-point Likert scale; 1 = Strongly disagree, 7 = Strongly agree.
  - Respondents were asked to score this statement on a 6 point scale; 1 = Never, 2 = Rarely, 3 = Yearly, 4 = Monthly, 5 = Weekly, 6 = Daily.
  - Each vector includes multiple dichotomous variables (0 = no, 1 = yes) denoted in the parentheses. Reference categories are indicated in table 3.
  - Although many media reports and the general public viewed politicians in the crisis-stricken countries (Portugal, Spain, Italy, and Ireland) as yielding power to the external actors like the European Commission, the European Central Bank and the International Monetary Fund, our survey results show that at least in the perception of the senior-level managers, the elected officials' power in these countries had increased in response to the crisis. Thus, it appears that even if the politicians' authority vis-à-vis external actors may have decreased, their perceived power vis-à-vis managers may have grown.
  - Differences occur between the size of the subsamples included in the models and the larger sample as identified in table 1 due to a number of respondents not answering all of the survey questions utilized in the models. Difference in means tests, however, indicated no statistically significant differences at the  $p = .10$  level between the subsamples and larger sample group on the responses to the theoretically important questions listed in table 1.

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2007-2009 Tartu Ülikool, teadus- ja arendusosakond, Euroopa Regionaalarengu Fondi projektide peaspetsialist

#### 6. Teadusprojektid

2012-2015 Eesti Teadusfondi grant nr 9435 “Majanduskriisi mõju avalikule haldusele: Eesti juhtumi analüüs”; põhitäitja

2011-2014 FP7 uurimisprojekt “Coordinating for Cohesion in the Public Sector of the Future” (COCOPS); põhitäitja

#### 7. Muu akadeemiline töökogemus

2013-... Tallinna Tehnikaülikool, Ragnar Nurkse valitsemise ja innovatsiooni instituut; avaliku halduse magistriprogrammi juht

2013-... Tallinna Tehnikaülikool, Ragnar Nurkse valitsemise ja innovatsiooni instituut; magistritööde kaitsmise komisjoni liige ja aseesimees

2013 Konverents “The Impact of Fiscal Crisis to Public Administration”, Tallinn, Eesti, 3-4. mai 2013; korralduskomitee liige

#### 8. Kaitstud lõputööd

2007 “Policy Transfer in Transition Societies – the Establishment of Probation Systems in Estonia and Latvia” (*Magister Artium*), University of Konstanz

2005 “Eraõiguslik töövahendussüsteem Eestis – hetkeolukord ja võimalikud muudatused” (*Baccalaureus Artium*), Tartu Ülikool

#### 9. Publikatsioonid

Douglas, James, Ringa Raudla, Tiina Randma-Liiv and Riin Savi. 2015. “The Impact of Fiscal Crisis on Decision-Making Processes in European Governments: Dynamics of a Centralization Cascade.” *Public Administration Review*. Ligipääsetav <http://onlinelibrary.wiley.com/doi/10.1111/puar.12381/abstract>.



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