

The Impact of the 2007 – 2012 Financial Crisis in Public Management Reforms

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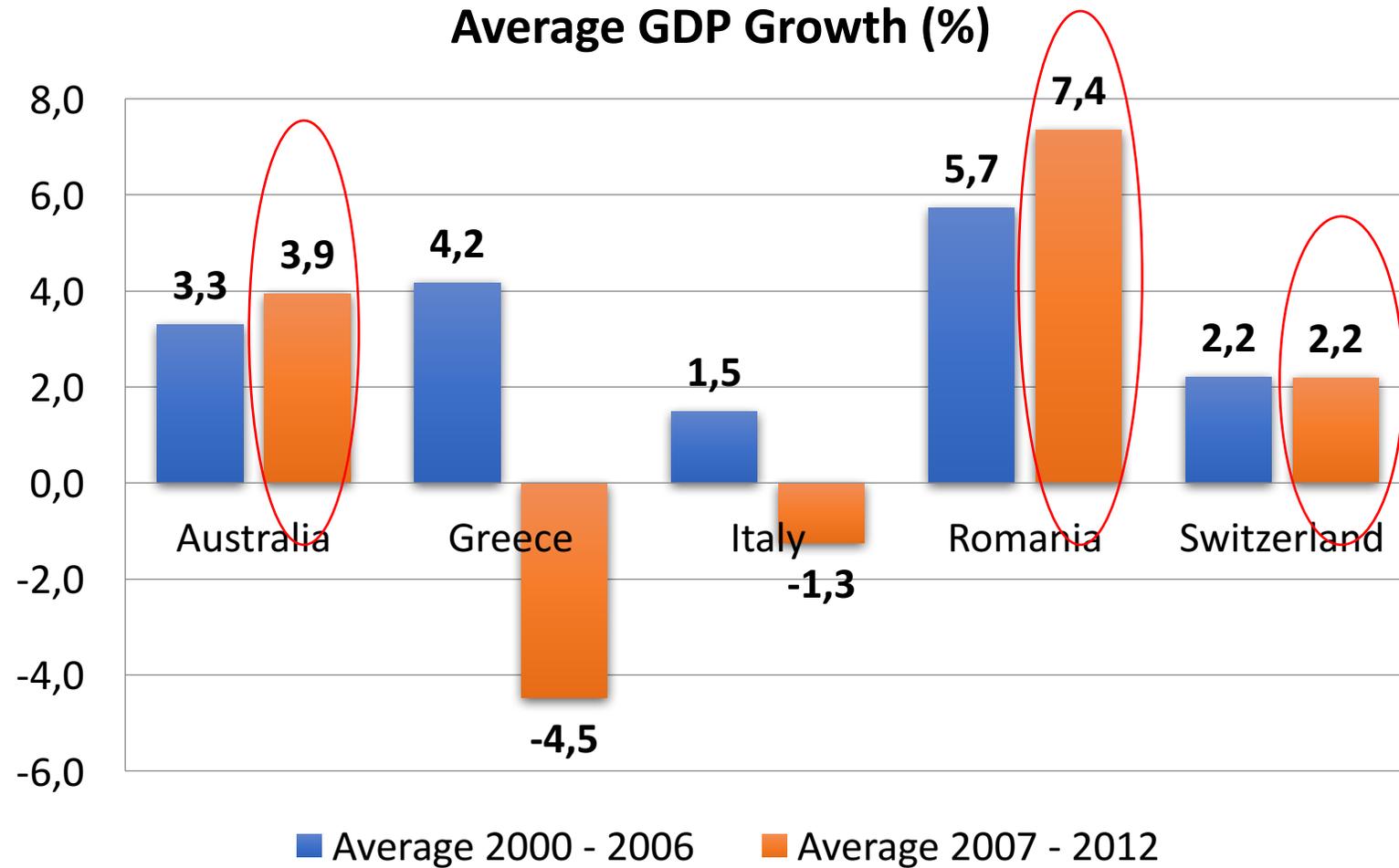
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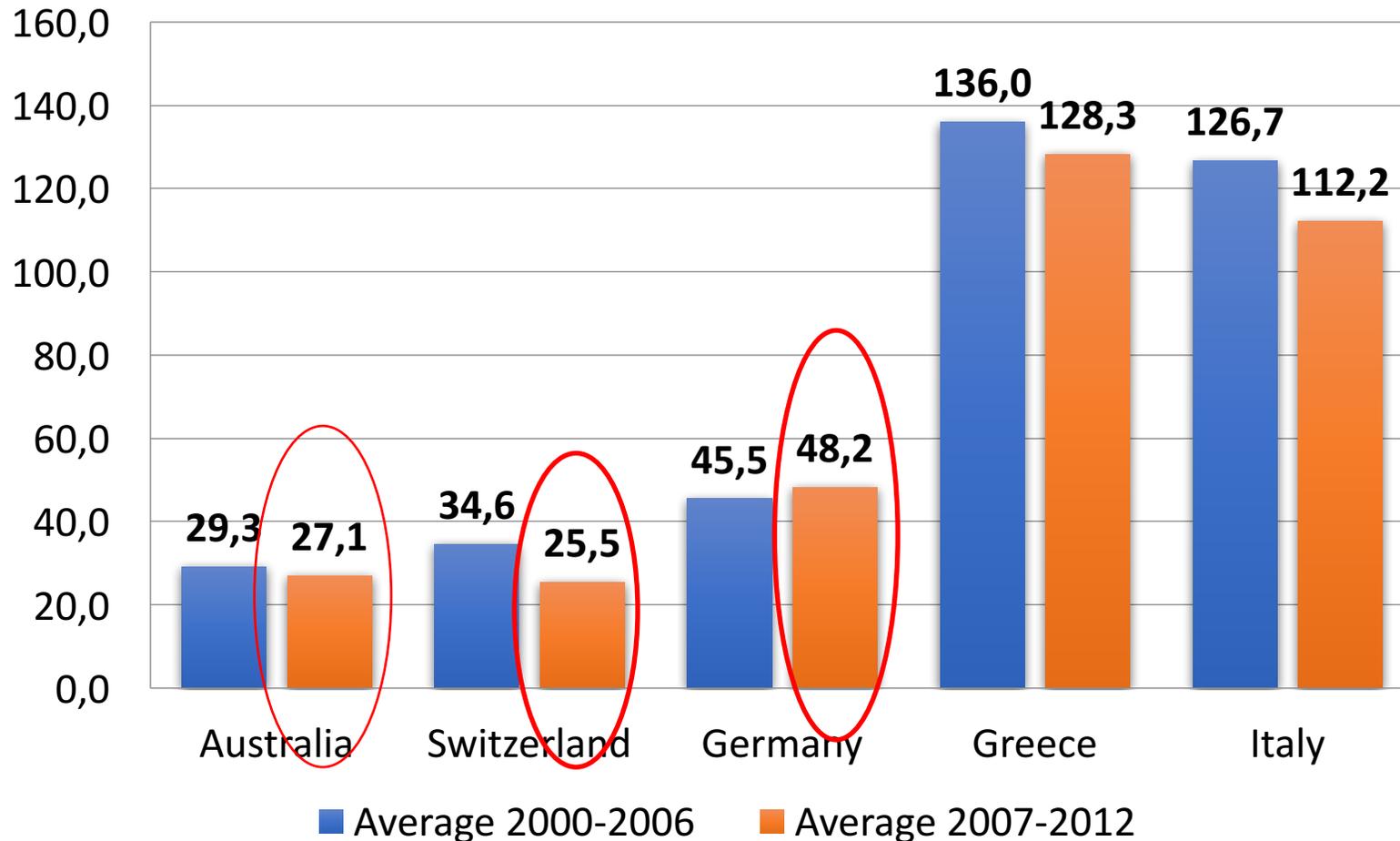
Was the Crisis Global? (1)



Source: World Bank

Was the Crisis Global? (2)

Average Central Gov. Debt as % of GDP



Source: World Bank

Examples:

Countries who faced a severe crisis: e.g. USA, Greece, Ireland, Spain, Portugal, Italy etc

Countries that were indirectly affected by crisis: e.g. Southeast European Countries (SEE)

Countries that were less or not affected at all by crisis: e.g. Nordic countries

Levels affected by the 2007 - 2013 Crisis

The decision making during cutback management occurs at three levels in government:

- ❑ **Macro level:** The central governments have to find general strategies for cutting back the public expenditure (*public sector as a whole, inter-governmental relations, PPPs, government-citizen relationships*)
- ❑ **Meso level:** It affects the organisational-level, and the main dilemmas are related to preserve or rearrange the existing patterns of organisation and service delivery (*institutional relationships and processes*)
- ❑ **Micro level:** Individual levels: the professional and behavioural problems of “doing more with less” (*fiscal balance, planning, strategy, budgeting, structural and cultural organization*)

Evolution of Crisis 2007 – 2012 (1)

1st Phase – Real Estate Market and Banking Crisis

- ❑ The Crisis started in USA in late 2007
- ❑ Governmental measures to save the financial institutions
- ❑ Decision power was centralized in the hands of Prime Minister and Minister of Finance



Sources: Taylor 2009; Pollitt and Bouckaert 2011; Kickert 2012; Denk 2013; Randma-Liiv 2014; Robins and Lapsley 2014; Cepiku and Savignong 2012; Schick 2013)

Reasons for the Real Estate and Banking Crisis

- Housing price increase in the first part of 2000s, followed by a levelling off and price decline
- Increase of default and foreclosure rates (Chairman of Federal Reserve – *Alan Greenspan* – Federal Funds rate (AAA) = 1%)
- Collapse/bankruptcy of the investment banks in 2008
- Collapse of stock-prices

This phase is also called **SUBPRIME MORTGAGE CRISIS**

Evolution of Crisis 2007 – 2012 (2)

2nd Phase – Economic Crisis

- ❑ Real impact on economy
- ❑ Implementation of economic stimulus packages

Real effects of the Financial Crisis (a)

PRIVATE SECTOR

- Cutbacks on investments, technology, marketing and employment
- Constrained firms tend to burn a sizeable portion of their cash savings during the crisis
- Cut dividend distribution
- Withdrawal of funds from their lines of credit because of concerns that their banks may restrict future access to those lines
- Selling assets to generate funds

Real effects of the Financial Crisis (b)

THIRD SECTOR

- Reduction of the PPP market (from 2007 to 2009 PPP market fell by 50%) Kappeler and Nemoz, 2010
- Demand for public services increases, while the resources are scarce.
- Increase of the role of TSOs.

Real effects of the Financial Crisis (c)

PUBLIC SECTOR

- Decline of GDP
- Decline of income
- Increase of unemployment
- Increase of public deficit
- Increase of public debt
- Low trust of citizens on government

Evolution of Crisis 2007 – 2012 (3)

3Rd Phase – Fiscal Crisis

- ❑ Accumulated deficit and debt
- ❑ Budget and cutback reforms

Public Management Reforms during the 2007-2012 crisis

Main reforms implemented in different countries:

- **Organizational structure:**
 - *downsizing*
- **Public Finance: Budgeting
Cutbacks**
 - *necessity for fiscal ambiguity*
 - *promoting sustainable growth*
- **Human Resources Management**
 - *cutbacks on human resources*
- **Regulatory reforms:**
 - *Centralisation/Decentralisation*

Budgeting Reforms

Typology of Budgeting Reforms		Advantages	Disadvantages
Reforms that serve to “saving” objective	Cheese slice /Across the board cuts	Reinforcement of finance ministers	Opportunistic decision making
		Decision making closer to implementation actors	Opportunistic behaviors may arise
	Strategic cuts	Politicians have direct control and strategic planes are put into action	Distance from design and implementation, lack of control
Reforms that serve to “performance” objective	Performance information of annual budget	Its informative	Difficulty to relate specific performances to specific financial allocations
	Change the format & contents of budget itself	Detailed information about the costs and revenues	Lack on time and possible resistance to change
	Change of budgeting procedure	Makes the system more transparent and	Might requires more time for a proper implementation

Sources: Pollitt & Bouckaert, 2011; Raudla et al, 2013

Examples

- Reforms with long-term objectives:
 - Switzerland
 - Norway
 - Finland
 - Sweden
- Reforms with short-term objectives:
 - Greece
 - Italy
 - Ireland
 - Hungary

Evolution of Crisis 2007 – 2012 (4)

4th Phase – Euro-zone Crisis (i.e Grexit, Brexit)

- ❑ Euro area countries, Euro-zone countries and those willing to join EU
- ❑ Incompleteness of EU institutions to implement efficient reforms against crisis
- ❑ Decision-making was politicized at different levels among EU countries
- ❑ Inadequacy of EU Institutions



EU Crisis

- **Monetary crisis:** mainly related to the Greek government – debt crisis
- **Borders crisis:** immigrants and refugee seekers crisis
- **Political crisis:** Grexit – Brexit, but also political instability within a country.

Evolution of Crisis 2007 – 2012 (5)

5th Phase – Social Crisis

- ❑ Aroused by austerity measures
- ❑ Impossibility of government to fulfill the needs of citizens
- ❑ The crisis had a harmful effect on social cohesion
- ❑ Increase of poverty and inequality



Examples

- Anti-austerity protests in Italy
- Violent protests in Turkey
- Public-servants' protests in Greece

Factors that Influenced Cutbacks

- Duration of the crisis
- Severity of the crisis
- Country context (pre-crisis model of growth).
 - *Distressed countries* – immediate reduction of budget -
AUSTERITY Measures
 - *Less distressed countries* – cutback measures, but still remained
on the same/similar levels prior to crisis

Exogeneous factors

- Globalization**
- Demographic change**
- Climate change**
- Economic trajectories**
- Technological developments**
- Public trust in government**
- Changes in the nature of political environment**

What emerged after the Crisis (1)

- No new public management models emerged
- Mixed models are being implemented in most of the European countries
 - a paradigm shift towards the empowerment of **central government** e.g. Italy, Spain, Norway, Germany, France, Estonia, Portugal etc.
 - former NPM and NPG reforms will continue to be implemented, especially in **local governments** e.g. Italy, France, Germany, Portugal, The Netherlands, Germany etc.

Parameters used for the re-inforcement of Central Government

- Empowerment of Prime Ministers' office
- Empowerment of Ministers of Finance and other line Ministries
- Resources are in the hands of Central Government
- HRM is being directed from forces of law and regulations
- Centralization of policy and budgetary decision-making
- Management and control power for the implementation of public policies

What emerged after the crisis (2)

- There is no “one best model”. The decision-making process was politicized at different degrees among countries.
- The results cannot be generalized, as there are exemptions from these rules. Some examples are:
 - **SEE countries:** are mostly using NWS model in the whole public sector
 - **Sweden:** integrated governance in central government (NPG), and kept high levels of autonomy of local government
 - **Ireland:** despite reinforcing the central government the increased influence of international institutions reduced the sovereignty and power of central government.

Therefore, in some cases power is moving away from the nation state towards international networks, and in other cases towards regional or local bodies

Useful databases

- World Bank: <https://data.worldbank.org/>
- International Monetary Fund (IMF):
<http://www.imf.org/external/index.htm>
- OECD: <https://data.oecd.org/>
 - OECD at a Glance: <http://www.oecd.org/gov/government-at-a-glance-22214399.htm>
- Eurostat <https://ec.europa.eu/eurostat/data/database>
- National Institute of Statistics
 - Italy: ISTAT <http://dati.istat.it/?lang=en&SubSessionId=25b37dfd-2283-4b4f-8415-ed0a68b4deed>

Homework for 12 October 2018

A challenging task:

Are the “basic income (reddito di cittadinanza)” & the “flat tax” realistic?

Each group should analyze different aspects of the Italian programme:

- Legislation
- Public expenditure of a specific public sector
- Revenues collected from a specific sector
- What can be done (cheese-slice cuts, strategic cuts, investments, FDIs, increase of taxes, collaboration with third-sector organizations, new innovative management ideas....)?

In the last hour we will merge the results of each presentation to reach a conclusion.