

# THE NEW PUBLIC MANAGEMENT

by  
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A global revolution in public management is underway. It emerged in the last quarter of the Twentieth Century in American cities and at the national level in New Zealand and Great Britain, and it can be seen in China and Mongolia, among many other countries. The thrust is to reinvent government in order to produce better performance and greater accountability. As evidence of this revolution, government leaders are gradually changing the nature of public administration.

Academics call this “the new public management” (NPM). It is the latest manifestation of the never-ending process of government reform, and it is taking place at all levels of government and in many countries. Different authorities would produce somewhat different lists of principles, but in general the term encompasses the following:

1. Reverting to core functions
2. Restoring civil society
3. Adopting market principles
4. Decentralizing and devolving authority
5. Focusing on management
6. “Rightsizing” government
7. Institutionalizing e-Government and Other New Technologies<sup>1</sup>

These are described and discussed in detail.

## 1. Reverting to Core Functions

Governments own and operate a bewildering variety of businesses. In Pakistan, for example, the state-owned Pakistan International Airways operates a poultry farm and raises chickens and turkeys. Why? In order to supply meals for passengers. While it is true that a good manager can operate in different fields, one wonders about the managerial similarity of raising chickens and running an airline. The Arab Republic of Egypt owns and operates a brewery (making alcoholic beer in a Moslem country), a bakery that makes cakes and cookies, a factory manufacturing automobile tires, and a hotel. It is difficult enough to govern a nation without engaging in such activities as running airlines, hotels, and bakeries, raising chickens, or making beer and tires.

One need not look with amusement only at developing countries for weird government activities. European governments are engaged in many ordinary commercial activities that are not core functions; these government enterprises are relics of an earlier era but often retain public support out of custom and habit. In the United States, the U.S. Naval Academy until recently owned and operated a 350-hectare dairy farm. The federal government owned a railroad and helium plants before selling them in the 1980s and 1990s respectively.<sup>2</sup> The New York City government owned two radio stations and a

television station. The State of Michigan owned an insurance company. Government agencies in New York State own and operate golf courses and ski resorts and owned the World Trade Center, including a luxury hotel that was destroyed in the 9/11 terrorist attack.

None of these is a core function of government. Government is overloaded as it is. There is no need for it to be involved in such extraneous activities; performing merely the necessary government functions is difficult enough. A redesigned government would unburden itself of such nonessential responsibilities and devote full attention to those functions that are intrinsically governmental. One should note that the Spanish word “gobierno” like the English word, “govern,” is from the Greek word for steering. In other words, the task of government is to steer, not to row.<sup>3</sup> Raising cows and chickens, running golf courses and breweries, and operating radio stations and railroads are examples of rowing, and government is not well suited for rowing. The same can be said of municipal trash collection and vehicle maintenance. These activities can best be placed in the hands of the private sector with government doing only the necessary steering.

Sometimes government continues activities that are obsolete. For example, the U.S. government owns and operates the Uniformed Services University of Health Sciences, which graduates physicians for the military at a cost of \$562,000 each, whereas the Health Professionals Scholarship program costs only \$111,000 per physician.<sup>4</sup> Massachusetts used to send state employees in their automobiles to deliver state lottery tickets to all the vending locations throughout the state, a process that took up to two weeks. Now they use express mail services to deliver the tickets in two days at a fraction of the cost. While not exactly a technological breakthrough, this simple re-engineering provided speedier service and saved millions of dollars by eliminating scores of light-duty patronage jobs.

Increasingly the private sector is reverting to core functions, moving away from the old pattern of vertical integration. Corporations in the financial business outsource their company cafeteria operations to firms that specialize in food service. A manufacturer may outsource its warehousing and delivery function to a parcel-delivery firm. Staff services such as processing payrolls and handling benefit claims are similarly outsourced. Nonprofit organizations, too, are adopting this approach. Universities, for example, often outsource their food, travel, and security services while retaining their core functions of teaching and research.

Because information technology and telecommunications, for instance, are not core competencies, many governments decided to concentrate on what they do well and outsourced this high-tech business to firms with that core competence. This reversion to core functions is becoming commonplace as many areas previously deemed “inherently governmental” are being reevaluated from this new perspective. Many of the services provided by governments are not, in fact, “public goods” as classically defined. There are limits to what government can and should do.

Organizations must focus on their core activities and contract out non-core activities to firms that, in turn, specialize precisely in those non-core areas. Naturally enough, what is non-core to one organization is core to another. “Do what you do best and outsource the rest,” is the reigning philosophy. But outsourcing is no simple matter, as is discussed below.

## 2. Restoring Civil Society

What is the role of government? This is a fundamental question. Throughout the world there is a growing realization that government is only one element of society, an indispensable and vitally important one to be sure, but nevertheless only one; the private sector also plays a vital role in a healthy society. This is most obvious in the post-socialist countries of Central and Eastern Europe that are still struggling to get out from under the smothering State and to create a civil society, a private-sector counterweight to the State.

A better balance is needed—a better allocation of societal responsibilities—between government and civil society. The latter has been defined as a “vast network of networks, beginning with the individual and moving outward to encompass families, community organizations and businesses—all invented by individuals coming together voluntarily.”<sup>5</sup> These are the private institutions of society: (1) the family, which is, after all, the original Ministry of Health, Ministry of Human Services, Ministry of Housing, Ministry of Education, etc.; (2) voluntary civil associations (nongovernmental organizations—NGOs) of all kinds—neighborhood groups, faith-based institutions, charities, civic organizations, unions, sports teams, and clubs, for example; and (3) the marketplace, with private firms and market forces working under the minimum necessary degree of regulation.

The relatively unfettered marketplace increasingly is seen as having primary responsibility for economic progress, under the appropriate type and minimal necessary amount of government regulation. Nongovernmental organizations and the family are seen as having primary responsibility for fulfilling social needs and addressing social problems, such as drugs, teen pregnancy, motherhood without marriage, and dropping out of school. They are better than government bureaucracies at dealing with such problems. This calls for a different and more circumscribed—more focused—role for government, one that empowers citizens and communities to address their problems instead of treating them as clients permanently dependent on professional bureaucracies.

In the United States, in contrast to the challenge faced by the post-socialist countries, neighborhood and civic associations, faith-based institutions, charities, fraternal groups, and other such organizations can and do undertake many functions that government attempts to handle but with only limited success. These have been called “mediating institutions” as they serve to buffer the individual from large, impersonal government and market organizations.<sup>6</sup> They are the “little platoons” cited by de Toqueville that create a sense of community, develop citizenship skills, and satisfy people’s needs that neither the marketplace nor government can do as well.<sup>7</sup> Devolving power can help restore civil society.<sup>8</sup> Programs promoting faith-based and community

institutions, charter schools, and vouchers for school choice exemplify this movement. The goal of a healthy society is well-functioning communities of citizens, not clients.

### 3. Adopting Market Principles

A market economy has proven over the centuries to be best for producing a high standard of living and a bountiful cornucopia of goods and services. Governments are increasingly adopting five important elements of market systems: competition, privatization, deregulation, user charges, and pricing strategies.

Competition. Numerous past efforts aimed at improving government services: better public administration, pre-service education, in-service training, civil service reform, performance budgeting, computers, quantitative methods, reorganization, organizational development, sensitivity training, incentive systems, management by objectives, productivity programs, joint labor-management committees, total quality management, re-engineering, etc. All of these were or may be desirable, but all failed to identify, let alone address, the underlying problem of government monopoly. This is an important structural cause of malperformance of government services. This problem will not yield to managerial fads, preaching, indignation, scapegoating, or finger-pointing at villains. Competition is key to breaking up the *unnecessary* monopolies that we have established in the public sector, recognizing, however, that some government monopolies are necessary.

Adam Smith in his 1776 book, *The Wealth of Nations*, recognized the power of competition in achieving efficient use of resources. Generally speaking, the more providers in any market, the greater the competition, resulting in more efficient production of desired goods and services. It is curious, therefore, that so many government activities are still carried out by monopolistic agencies even when monopolies are not warranted. The situation is changing, however, as governments take advantage of this powerful weapon. They are introducing competition through outsourcing conventional public services, awarding concessions for infrastructure, and auctioning assets—although sometimes not wisely or well. “Competitive sourcing” encourages in-house employees to bid against private firms in order to retain their current work, a mandatory practice in Great Britain for many local government services. Experience shows that after losing several such competitive bids, public agencies often improve their operations, increase their efficiency and effectiveness, and win subsequent competitions against their private rivals.<sup>9</sup> Numerous careful studies of government outsourcing in many countries show that average savings range up to 30 percent, depending on the function, for the same level and quality of service.<sup>10</sup>

Competition leads to choice because one is not restricted to a single service provider. This is an important issue in America today, as school choice becomes a potent rallying cry for parents dissatisfied with their children’s education in conventional public schools. But one must beware of uncritical enthusiasm for market approaches.<sup>11</sup> Well-functioning societies need both cooperation and competition.

Privatization. If government should revert to its core functions, stick to steering instead of rowing, and have its growth restrained, how will people's many needs be satisfied? Who will do the rowing? The answer, of course, is the private sector. Broadly defined, privatization means relying more on the private institutions of society and less on government to satisfy people's needs, that is, changing to a smaller or less direct role for government.<sup>12</sup> As noted above, the private sector has three components relevant to this issue: the market, nongovernmental institutions, and the family. Broadly speaking, the private sector can provide private (individual) goods through the marketplace, merit (worthy) goods through voucher programs, and public (collective) goods through contracts for service.<sup>13</sup> Contracts can be with for-profit or nonprofit organizations.<sup>14</sup> Even something as "governmental" as the justice system is being privatized through alternative dispute resolution and privatized prisons.<sup>15</sup> As noted above, private firms also "contract out" when they outsource selected functions to more specialized private firms.

Deregulation. Governments tend to be populated by lawyers, many of whom seem to believe that whatever they deem wrong with society can be set right by passing new laws, issuing new regulations, and lengthening the lists of rules. Some other reasons for regulating have even less merit, namely, giving an advantage to a favored special interest.

Of course, civilized societies require regulations. The rule of law must prevail. Rights must be protected. Public safety must be assured. External costs must be internalized and compensated. The problem arises from over-regulation. Many regulations are two-edged swords, with both positive and negative effects on society. Often the cost of regulation exceeds the societal benefit. For example, requiring elaborate procedures to obtain a license to start a business may protect society from fraud and dissatisfaction, but it may prevent an honest citizen from earning a decent living. Hernando de Soto, the Peruvian economist, catalogued the numerous governmental barriers—requiring a year and a half of determined effort to overcome—that prevented people from starting simple businesses in his native country.

Welfare reform is a form of deregulation: Federal laws in the United States were changed allowing cities to put welfare recipients to work. The results were highly successful: less government spending and higher incomes and better lives for those dropped from the welfare rolls.

Economic regulations are very different from safety regulations. For example, passenger vans in New York properly are regulated as to driver and vehicle safety and insurance, but, arguably, vans and taxicabs should be free of economic regulations concerning entry and exit into the business.

User Charges. A basic principle of public finance is that the beneficiary should pay. Where a direct beneficiary of a public service can be identified and charged for service, a user fee should be imposed. This has the salutary effect of confronting the user with the cost of the service and thereby providing an incentive for using a limited resource wisely. Besides, when user charges are used instead of the general budget to fund an activity, unjustified cross-subsidization by nonusers is avoided.

Pricing Strategies. Prices rather than edicts can be used to affect behavior. A good example is the use of tolls on congested transportation choke points such as bridges, tunnels, and limited-access highways. Time-of-day pricing with higher tolls during rush hours and lower ones during off-peak periods causes commuters to reevaluate their preferences and reconsider their driving patterns even if the elasticity of demand is modest. Prices are also being used instead of regulation. Pollution control has been achieved more efficiently by allowing the trading of pollution credits rather than imposing prohibitions. Industrial plants can decide whether to spend money to upgrade their pollution-control equipment or to purchase pollution credits from another firm in the same catchment area that emits less than its permitted load of pollutants.

#### 4. Decentralizing and Devolving Authority

Government too often is too highly centralized. While many decisions are best made at the national level, many others are best made at a much more local level, the level closest to people's daily lives. International aid organizations recognized this and recommended empowering lower levels of government, giving them responsibility, authority, and access to resources to address a wide range of issues that fall naturally in their domain. Their aid programs increasingly focused on very local assistance, not aid to central governments, in part to reduce theft but mostly to achieve greater effectiveness.

In the United States, state, county and municipal governments, and even local, neighborhood-based, community organizations, are the appropriate levels for many governmental activities currently directed by higher levels of government. Trying to perform such functions from a distant, over-centralized government is a prescription for bad, unresponsive government. Mayors make a strong case for greater empowerment of local governments to address local problems free of unnecessary intrusion by higher levels of government, and offer illustrations ranging from garbage collection to school choice, school construction, and policing.<sup>16</sup> They argue persuasively that devolution of authority is needed to fight drug dealing and to improve education, for example, asserting that state usurpation of local discretion hinders cities in addressing their local problems.<sup>17</sup>

The concept of decentralization applies just as well within government agencies. Decentralized institutions can be more flexible, innovative, and effective than centralized ones, and they can generate higher morale, deeper commitment, and greater productivity among the workers.<sup>18</sup> Centralized personnel departments are sometimes notorious for the Byzantine processes they devise. Drastic decentralization was proposed for the U.S. federal government's personnel function to eliminate red tape, devolve authority for recruiting and examining job applicants, simplify the rigid civil-service classification system, allow agencies to design their own performance management and reward systems, and reduce the time required to terminate unsatisfactory employees for cause.<sup>19</sup> Procurement and budgeting are other internal areas where an appropriate degree of decentralization makes sense.

#### 5. Focusing on Management

There is renewed emphasis on public management. Leaders are devising strategies, formulating management agendas, setting goals, and managing for results.<sup>20</sup> Performance measurement is in and outputs, not inputs, are targeted for attention. In the past, government agencies typically reported inputs and workloads but not outputs or outcomes. Now, however, it is no longer enough that a highways department reports the cost of road repairs and the number of man-hours spent on that activity; it should report on the condition of the road before and after the work, or the time and money saved by drivers due to improved road conditions. Inputs are recognized as valuable only insofar as they produce desired outputs and measurable results.<sup>21</sup> Similar demands are being made on sleepy educational agencies.

It is almost always possible to measure government outputs and outcomes in a useful way, although is generally more difficult than for profit-oriented private businesses.<sup>22</sup> More and more governments are adopting proven methods of measuring performance and, increasingly, they are issuing formal reports to the public.<sup>23</sup> Business groups, civic associations, and chambers of commerce engage in such evaluations, and so do citizen groups concerned about particular issues such as parks or transportation. Enterprising journalists, too, carry out investigations, however limited, of government performance. Measuring government performance is a desirable trend to be encouraged at all levels.

Moreover, citizens are also consumers of government services, and therefore government must, like all service providers, satisfy its customers (among its other tasks). The citizen-consumer-customer is king. Customer service is a major thrust of modern managers in government<sup>24</sup> and is an essential component of innovative government. This means getting things done right, quickly, courteously, and knowledgeably. Local governments conduct citizen surveys to measure satisfaction with their services;<sup>25</sup> the city of Charlotte, North Carolina, conducts such surveys biannually, and San Diego, California, employs surveys frequently with results shown by department in the city's annual report. Customer service standards have been identified and set forth in detail for U.S. federal government services.<sup>26</sup>

Measuring and reporting on government performance is not enough, however. In a democracy officials do not reign; they must satisfy public expectations or expect to be replaced. Government is responsible for results and elected officials are being held accountable; a more educated public demands it.

## 6. "Rightsizing" Government

The world has learned that governments are not omnipotent. On the contrary, often they are impotent, unable to achieve promised goals despite awesome powers and huge expenditures. Often a new government program, launched with much fanfare and grand rhetoric, in retrospect turns out to be merely a costly and symbolic gesture that does no more than demonstrate politicians' heartfelt concern about a current issue of public interest. The end result is squandering the people's money.

Proposed expansions of government are being viewed critically and skeptically. Alternatives are being explored thoroughly before embarking on any effort, however well intentioned, to enlarge the role of government.<sup>27</sup> These alternatives include streamlining and restructuring agencies, eliminating or consolidating agencies, and trimming overstaffed agencies.

On the other hand, rightsizing does not mean downsizing. Government leaders are assessing services and establishing priorities. They expand certain services and reduce others. For example, Mayor Goldsmith of Indianapolis drastically reduced the size of the public works department but expanded the police and fire departments and increased spending on infrastructure because they merited more of the city's limited resources. The public understood and accepted this reallocation of limited resources.

### 7. Institutionalizing e-Government and Other New Technologies

Many processes and procedures in government, unchanged in decades, are being re-engineered to take advantage of technological advances in communications, computers, and the Internet, for example. Information kiosks are springing up like mushrooms on the urban landscape. Citizens can engage in transactions with government agencies without leaving their homes, thanks to the Internet. Fees and fines can be paid automatically using a telephone or computer and a credit card without the help of a clerk. Forms can be downloaded and filed without a trip to the municipal center. Modern, integrated systems are being designed so that government can serve its citizens better and at lower cost. This is the route to more efficient and effective government.

Mayor Rudolph Giuliani initiated a broad-based transformation in New York City through e-government. Following him, Mayor Michael Bloomberg, a self-made billionaire because of the information empire he created as a private businessman, has successfully applied that same talent to introduce an effective system that has responded to more than 20 million citizen queries in three years and captures valuable citizen feedback on hundreds of city services. They set a new standard for responsiveness and service to their citizens and established models that others are following. State governors focused on telecommunications technology to connect schools, communities, and government offices in a large but sparsely populated state. A high priority of the governor of Texas was to connect students to the Internet as a means of developing the state's human infrastructure and preparing it for a high-tech economy. The governor of Colorado applied similar ideas on a broader scale to diversify the state's economy from one primarily dependent on agriculture, mining, and tourism into one with a rich component of high-tech industry.<sup>28</sup>

## CONCLUSION

Reform is basically a political act. Management reform requires strong political direction and commitment from the top. Properly implemented, it produces better government performance and therefore leads to satisfied citizens and popular support. It is for these

reasons that political leaders engage in NPM, not for the abstract and technical aspects of efficiency and effectiveness.

## NOTES

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<sup>1</sup> Paul J. Andrisani, Simon Hakim, and E. S. Savas, *The New Public Management: Lessons from Innovating Governors and Mayors* (Norwell, MA: Kluwer, 2002), chapter 1.

<sup>2</sup> E. S. Savas, *Privatization and Public-Private Partnerships* (Chatham House Publishers: New York 2000).

<sup>3</sup> E. S. Savas, as quoted by David Osborne and Ted Gaebler, *Reinventing Government* (New York: Addison-Wesley Publishing, 1992), 25.

<sup>4</sup> Vice President Al Gore, *Report of the National Performance Review: Creating a Government That Works Better & Costs Less* (Washington, DC: U.S. Government Printing Office, 1993), 94-104.

<sup>5</sup> George Melloan, "Pondering the 'Civil State' at the Prince of Wales," *Wall Street Journal*, March 9, 2004, p. A17.

<sup>6</sup> Peter L. Berger and Richard John Neuhaus, *To Empower People: From State to Civil Society* (Washington, DC: AEI Press, 1996); Don E. Eberly, ed., *The Essential Civil Society Reader: The Classic Essays* (New York: Rowman & Littlefield, 2000).

<sup>7</sup> Alexis de Toqueville, *Democracy in America* (New York: Washington Square Press, 1964).

<sup>8</sup> William D. Eggers and John O'Leary, *Revolution at the Roots: Making our Government Smaller, Better, and Closer to Home* (New York: The Free Press, 1995), chapter 3.

<sup>9</sup> E. S. Savas, *Privatization and Public-Private Partnerships* (Chatham House Publishers: New York 2000), 196-199.

<sup>10</sup> *Ibid.*, chapter 6; Graeme A. Hodge, *Privatization: An International Review of Performance* (Boulder, CO: Westview Press, 2000), chapter 7; Jeffrey D. Greene, *Cities and Privatization: Prospects for the New Century* (Upper Saddle River, NJ: Prentice Hall, 2002), chapter 2; Robert M. Stein, *Urban Alternatives: Public and Private Markets in the Provision of Local Services* (Pittsburg, PA: U. of Pittsburg Press, 1990), 187-188.

<sup>11</sup> John D. Donahue, "Market-Based Governance and the Architecture of Accountability," in John D. Donahue and Joseph S. Nye Jr., eds., *Market-Based Governance* (Washington, DC: Brookings Institution, 2002), 1-25.

<sup>12</sup> E. S. Savas, *Privatization: The Key to Better Government* (Chatham, NJ: Chatham House Publishers, 1987), 3.

<sup>13</sup> Savas, chapter 4.

<sup>14</sup> Steven Rathgeb Smith and Michael Lipsky, *Nonprofits for Hire: The Welfare State in the Age of Contracting* (Cambridge, MA: Harvard University Press, 1993).

<sup>15</sup> Charles H. Logan, *Private Prisons: Cons and Pros* (New York: Oxford University Press, 1990); Gary W. Bowman, Simon Hakim, and Paul Seidenstat, eds., *Privatizing the United States Justice System: Police, Adjudication, and Corrections Services from the Private Sector* (Jefferson, NC: McFarland & Co., 1992); Bowman, Hakim, and Seidenstat, eds., *Privatizing Correctional Institutions* (New Brunswick, NJ: Transaction Books, Rutgers University Press, 1993); Alexander Tabarrok, ed., *Changing the Guard: Private Prisons and the Control of Crime* (Oakland, CA: Independent Institute, 2003).

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<sup>16</sup> Bret Schundler, "Innovative Government in Jersey City," in Paul J. Andrisani, Simon Hakim, and E. S. Savas, eds., *The New Public Management: Lessons from Innovating Governors and Mayors* (Norwell, MA: Kluwer, 2002), chapter 17.

<sup>17</sup> Andrisani, Hakim, and Savas, *New Public Management*.

<sup>18</sup> David Osborne and Ted Gaebler, *Reinventing Government* (New York: Addison-Wesley Publishing, 1992), chapter 9.

<sup>19</sup> Vice President Al Gore, *Report of the National Performance Review: Creating a Government That Works Better & Costs Less* (Washington, DC: U.S. Government Printing Office, 1993), 20-25.

<sup>20</sup> Thomas G. Kessler and Patricia Kelley, *The Business of Government: Strategy, Implementation and Results* (Vienna, VA: Management Concepts, 2000).

<sup>21</sup> David Osborne and Ted Gaebler, *Reinventing Government* (New York: Addison-Wesley Publishing, 1992), chapter 5.

<sup>22</sup> Harry P. Hatry, *Performance Measurement* (Washington, DC: Urban Institute Press, 1999); Elaine Morley, Scott P. Bryant, and Harry P. Hatry, *Comparative Performance Measurement* (Washington, DC: Urban Institute Press, 2001).

<sup>23</sup> See, for example, the Mayor's Management Report of New York City, which is issued annually by the Office of the Mayor.

<sup>24</sup> Osborne and Gaebler, chapter 6.

<sup>25</sup> Kenneth Webb and Harry P. Hatry, *Obtaining Citizen Feedback: The Application of Citizen Surveys to Local Government* (Washington, DC: Urban Institute Press, 1973).

<sup>26</sup> Donald F. Kettl, *The Global Management Revolution* (Washington, DC: Brookings Institute Press, 2000), 41-44; President Bill Clinton and Vice President Al Gore, *National Performance Review: Putting Customers First '95—Standards for Serving the American People* (Washington, DC: U.S. Government Printing Office, 1995).

<sup>27</sup> William D. Eggers and John O'Leary, *Revolution at the Roots: Making our Government Smaller, Better, and Closer to Home* (New York: The Free Press, 1995).

<sup>28</sup> Ibid.