

## The Copenhagen metropolitan 'fingerplan'

A robust urban planning success based on collaborative governance

Sørensen, Eva; Torfing, Jacob

*Published in:*  
Great Policy Successes

*DOI:*  
[10.1093/oso/9780198843719.003.0012](https://doi.org/10.1093/oso/9780198843719.003.0012)

*Publication date:*  
2019

*Document Version*  
Publisher's PDF, also known as Version of record

*Citation for published version (APA):*  
Sørensen, E., & Torfing, J. (2019). The Copenhagen metropolitan 'fingerplan': A robust urban planning success based on collaborative governance. In M. Compton, & P. 't Hart (Eds.), *Great Policy Successes* (pp. 218-243). Oxford University Press. <https://doi.org/10.1093/oso/9780198843719.003.0012>

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PAUL 'T HART

# GREAT POLICY SUCCESSES

OR, a tale about why it's amazing that governments  
get so little credit for their many everyday  
and extraordinary achievements as told by  
sympathetic observers who seek to  
create space for a less relentlessly  
negative view of our pivotal  
public institutions

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# Great Policy Successes



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PAUL 'T HART

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Great Clarendon Street, Oxford, OX2 6DP,  
United Kingdom

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First Edition published in 2019

Impression: 1

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Published in the United States of America by Oxford University Press  
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data  
Data available

Library of Congress Control Number: 2019946747

ISBN 978-0-19-884371-9

Printed and bound in Great Britain by  
Clays Ltd, Elcograf S.p.A.

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# Acknowledgements

We are grateful to the case authors who displayed not only zeal and insight in crafting their case study chapters, but also proved incredibly generous and responsive to our editorial prodding, which oddly enough often urged them to be less rather than more explicitly analytical in their approach. They share our commitment to providing rich, teachable case narratives.

This project has received funding from the European Research Council (ERC) under the European Union's Horizon 2020 research and innovation programme (grant agreement no. 694266). The ERC's support for the larger Successful Public Governance (SPG) research programme of which this volume forms a part is gratefully acknowledged. This support has also enabled us to publish this book and each of the individual cases in open access form online. See [www.successfulpublicgovernance.com](http://www.successfulpublicgovernance.com) for further information about SPG's activities and outputs. We are grateful to the collegial support we have received from our SPG colleagues.

Each of the case chapters will also appear in abbreviated and modified form at the Public Impact Observatory website, an initiative from the Centre for Public Impact (CPI) that brings together hundreds of cases of public policy and public governance from across the world. We welcome the smooth cooperation with CPI, which serves to greatly increase the public and professional exposure that these cases will receive. Consult the observatory at: <https://www.centreforpublicimpact.org/observatory/>.

Finally, a 'companion' volume devoted exclusively to policy successes in Australia and New Zealand has been produced in parallel to this global volume. It has been published as Jo Luetjens, Michael Mintrom, and Paul 't Hart (eds), *Successful Public Policy: Lessons From Australia and New Zealand* (Canberra: ANU Press 2019), and it too is an open access publication, with each case individually downloadable to facilitate inclusion in syllabi and course guides (see <https://press.anu.edu.au/publications/series/anzsog/successful-public-policy>). The New Zealand economic reform and 'Marvellous Melbourne' cases appear in both volumes. Paul 't Hart would like to thank his co-editor for that project, Michael Mintrom (Australia New Zealand School of Government and Monash University) and Jo Luetjens (Utrecht University) for their exemplary collaboration. The two projects have fed off each other, and it has been a joy working on both.

*Utrecht*  
*July 2019*



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# List of Contributors

**Frederike Albrecht** is a postdoctoral researcher at the Department of Security, Strategy and Leadership at the Swedish Defence University, researcher at the Department of Earth Sciences, and research fellow at the Centre of Natural Hazards and Disaster Science, Sweden.

**Azad Singh Bali** is a Lecturer in Public Policy at the University of Melbourne, Australia.

**Armando Barrientos** is Professor in Poverty and Social Justice at the Global Development Institute at the University of Manchester, United Kingdom.

**Emma Blomkamp** is an Honorary Fellow at The University of Melbourne and Co-Design and Evaluation Lead at strategic design consultancy Paper Giant, Australia.

**Paul Cairney** is Professor of Politics and Public Policy, University of Stirling, Scotland.

**Richard F. Callahan** is a Professor in the School of Management at the University of San Francisco, United States.

**Mallory E. Compton** is a postdoctoral researcher with the School of Governance at Utrecht University, Netherlands.

**Tereza Cristina Cotta** is a permanent civil servant from the Brazilian Ministry of Economy.

**Paul 't Hart** is Professor of Public Administration at Utrecht University and Associate Dean of the Netherlands School of Public Administration (NSOB) in The Hague.

**Rainer Kattel** is Professor of Innovation and Public Governance at the Institute for Innovation and Public Purpose, University College London, and Research Professor at Ragnar Nurkse Department of Innovation and Governance, Tallinn University of Technology, Estonia.

**Jaakko Kauko** is Professor of Education Policy at the Faculty of Education and Culture, Tampere University, Finland.

**Adrian Kay** is Professor of Government in the Crawford School of Public Policy at the Australian National University.

**Jenny M. Lewis** is Professor of Public Policy in the School of Social and Political Sciences at The University of Melbourne, Australia.

**Ines Mergel** is full Professor of Public Administration in the Department of Politics and Public Administration at the University of Konstanz, Germany.

**Michael Mintrom** is Professor of Public Sector Management at Monash University, Australia.

**Camilla Bakken Øvald** is Assistant Professor at Kristiania College, Norway.

**Luis Henrique Paiva** is a permanent civil servant from the Brazilian Ministry of Economy.

**Charles F. Parker** is Associate Professor of Political Science at the Department of Government and serves as the vice-chair of the board for the Centre of Natural Hazards and Disaster Science at Uppsala University, Sweden.

**Ketil Raknes** is a PhD-candidate at Kristiania University College, Norway.

**M. Ramesh** is Professor of Public Policy and UNESCO Chair on Social Policy Design in Asia at the Lee Kuan Yew School of Public Policy, National University of Singapore.

**Eva Sørensen** is a Professor with the Department of Social Sciences and Business, Roskilde University, Denmark.

**Florian Spohr** is a postdoctoral researcher at the Chair of Comparative Politics at the Ruhr University Bochum, Germany.

**Madeline Thomas** is a research officer and research coordinator at the Australia and New Zealand School of Government.

**Jacob Torfing** is Professor in Politics and Institutions in the Department of Social Sciences and Business, Roskilde University, Denmark.

**Bent Sofus Tranøy** is Professor of Political Science at Inland Norway University of Applied Sciences and Kristiania University College, Norway.

**Arwin van Buuren** is Professor at the Department of Public Administration and Sociology of the Erasmus University Rotterdam, Netherlands.

# 1

## How to ‘See’ Great Policy Successes

### A Field Guide to Spotting Policy Successes in the Wild

*Mallory E. Compton and Paul ‘t Hart*

#### Shifting Focus

For those wanting to know how public policy is made and how it evolves from aspirations and ideas to tangible social outcomes, the 1970s produced some classic accounts, which became established in academic curriculums and part of the canon of academic research world-wide. The two best known works from this era are Pressman and Wildavsky’s *Implementation* (whose iconic epic subtitle inspired ours) and Peter Hall’s *Great Planning Disasters* (the inspiration for our book’s main title). Pressman and Wildavsky wrote a book-length intensive case study revealing how a federal employment promotion policy, which was launched with a great sense of urgency and momentum, played out on the ground with very limited effect in Oakland, California. Hall presented gripping accounts of public policy failures from around the Anglosphere: ‘positive’ planning disasters (planning projects that ran into cost escalation, underperformance, withdrawal of political support, or unintended consequences so big as to completely dwarf the intended aims), and ‘negative’ planning disasters (instances where plans made in response to pressing public problems never got off the drawing board due to political stalemate).

Taken together, these studies were emblematic of an era in which the alleged ‘ungovernability’ of Western societies and their welfare states was a dominant theme (Crozier et al. 1975; Rose 1979; Offe 1984). Having seized a much more prominent role in public life following the Second World War, Western governments were ambitious to achieve planned change, but internal complexities and vagaries of democratic political decision-making often thwarted those ambitions. Generations of public policy and public administration students were steeped in pessimistic diagnoses from these classic studies. Waves of similar studies in the 1990s (Butler et al. 1994; Bovens and ‘t Hart 1996; Gray and ‘t Hart 1998) and the 2010s (Allern and Pollack 2012; Crewe and King 2013; Light 2014; Schuck 2014; Oppermann and Spencer 2016) followed. These works further imply that governments are up to no good, incompetent, politically paralysed, and/or chronically risk overreach much of the time (e.g. Scott 1998; Schuck 2014).

And yet in many parts of the world, across many public policy domains, the bulk of public projects, programmes, and services perform not so badly at all, and sometimes even quite successfully (Goderis 2015). These realities are chronically underexposed and understudied. Major policy accomplishments, striking performance in difficult circumstances, and thousands of taken-for-granted everyday forms of effective public value creation by and through governments are not deemed newsworthy. They cannot be exploited for political gain by oppositions and critics of incumbent office-holders. Curiously, academic students of public policy have had almost nothing to say about them (cf. Bovens et al. 2001; McConnell 2010; Moore 2013), despite vigorous calls to recognize the major and often hidden and unacknowledged contributions of governments to successes claimed by and widely attributed to now revered companies like Google (Mazzucato 2013).

We cannot properly ‘see’, let alone recognize and explain, variations in government performance when media, political, and academic discourses alike are saturated with accounts of their shortcomings and failures but remain nearly silent on their achievements. Negative language dominates: public and academic discourse about government, politics, and public policy is dominated by disappointment, incompetence, failure, unintended consequences, alienation, corruption, disenchantment, and crisis (Hay 2007). On the contrary, the manner in which we look at, talk about, think, evaluate, and emotionally relate to public institutions risks creating self-fulfilling prophecies. The current ascent of ‘anti-system’ populists speaks volumes, and the message is hardly reassuring. The ‘declinist’ discourse of the current age has permeated our thinking about government and public policy. It prevents us from seeing, acknowledging, and learning from past and present instances of highly effective and highly valued public policymaking.

With this book we want to shift the focus. We aim to infuse the agenda for teaching, research, and dialogue on public policymaking with food for thought about what goes well. We do this through a series of close-up, in-depth case study accounts of the genesis and evolution of stand-out public policy accomplishments, across a range of countries, sectors, and challenges. With these accounts, we engage with the conceptual, methodological, and theoretical challenges which have plagued and constrained researchers seeking to evaluate, explain, and design successful public policy.

There are many ways to ‘get at’ these questions. Existing conceptual and comparative studies of public policy success (Bovens et al. 2001; Patashnik 2008; McConnell 2010) suggest that achieving success entails two major tasks. One entails *craft work*: devising, adopting, and implementing programmes and reforms that have a meaningful impact on the public issues giving rise to their existence. The other entails *political work*: forming and maintaining coalitions of stakeholders to persuasively propagate these programmes. This political work extends

to nurturing and protecting elite and public perceptions of the policy's/programme's ideology, intent, instruments, implementation, and impact during the often long and tenuous road from ideas to outcomes. Success must be experienced and actively communicated, or it will go unnoticed and underappreciated. In this volume, we aim to shed light on how these two fundamental tasks—programme and process design; and coalition-building and reputation management—are taken up and carried out in instances of highly successful public policymaking.

Following in the footsteps of Pressman and Wildavsky and Hall, this volume contains in-depth case studies of prominent instances of public policymaking and planning from around the world. By offering insight into occurrences of policy success across varied contexts, these case studies are designed to increase awareness that government and public policy actually work remarkably well, at least some of the time, and that we can learn from these practices. Before we get into these cases, however, it is necessary to equip readers of this book and future researchers of policy success with a guide on how to go about identifying and analysing instances of policy success. The chief purpose of this chapter is to offer researchers, policy-makers, and students a field guide to spotting great policy successes in the real world—in the wild—so that we can begin to analyse how they came about and what might be learned from them.

### **How Do We Know a 'Great Policy Success' When We See One?**

Policy successes are, like policy failures, in the eye of the beholder. They are not mere facts but stories. Undoubtedly 'events'—real impacts on real people—are a necessary condition for their occurrence. But in the end, policy successes do not so much occur as they are made. To claim that a public policy, programme, or project X is a 'success' is effectively an act of interpretation, indeed of framing. To say this in a public capacity and in a public forum makes it an inherently political act: it amounts to giving a strong vote of confidence to certain acts and practices of governance. In effect it singles them out, elevates them, validates them.

For such an act to be consequential, it needs to stick: others must be convinced of its truth and they need to emulate it. The claim 'X is a success' needs to become a more widely accepted and shared narrative. When it does, it becomes performative: X looks better and better because so many say so, so often. When the narrative endures, X becomes enshrined in society's collective memory through repeated retelling and other rituals. Examples of the latter include the conferral of awards on people or organizations associated with X, who then subsequently get invitations to come before captive audiences to spread the word; the high place that X occupies in rankings; the favourable judgements of X by official arbiters of public value in a society, such as audit agencies or watchdog bodies, not to mention the court of public opinion. Once they have achieved prominence,

success tales—no matter how selective and biased critics and soft voices may claim them to be (see Schram and Soss 2001)—come to serve as important artefacts in the construction of self-images and reputational claims of the policy-makers, governments, agencies, and societal stakeholders that credibly claim authorship of their making and preservation (Van Assche et al. 2012).

We must tread carefully in this treacherous terrain. Somehow, we need to arrive at a transparent and widely applicable conceptualization of ‘policy success’ to be deployed throughout this volume, and a basic set of research tools allowing us to spot and characterize the ‘successes’ which will be studied in detail throughout this book. To get there, we propose that *policy assessment is necessarily a multi-dimensional, multi-perspectivist, and political process*. At the most basic level we distinguish between two dimensions of assessment. First, the programmatic *performance* of a policy: success is essentially about designing smart programmes that will really have an impact on the issues they are supposed to tackle, while delivering those programmes in a manner to produce social outcomes that are valuable. There is also the political *legitimacy* of a policy: success is the extent to which both the social outcomes of policy interventions and also the manner in which they are achieved are seen as appropriate by relevant stakeholders and accountability forums in view of the systemic values in which they are embedded (Fischer 1995; Hough et al. 2010).

The relation between these two dimensions of policy evaluation is not straightforward. There can be (and often are) asymmetries: politically popular policies are not necessarily programmatically effective or efficient, and vice versa. Moreover, there is rarely one shared normative and informational basis upon which all actors in the governance processes assess performance, legitimacy, and endurance (Bovens et al. 2001). Many factors influence beliefs and practices through which people form judgements about governance. Heterogeneous stakeholders have varied vantage points, values, and interests with regard to a policy, and thus may experience and assess it differently. An appeal to ‘the facts’ does not necessarily help settle these differences. In fact, like policymaking, policy evaluation occurs in a context of multiple, often competing, cultural and political frames and narratives, each of which privileges some facts and considerations over others (Hajer and Wagenaar 2003). It is inherently political in its approach and implications, no matter how deep the espoused commitment to scientific rigour of many of its practitioners. This is not something we can get around; it is something we have to acknowledge and be mindful of without sliding into thinking that it is *all and only* political, and that therefore ‘anything goes’ when it comes assessing the success or otherwise of a policy (Bovens et al. 2006).

Building upon Bovens and ‘t Hart’s programmatic–political dichotomy, McConnell (2010) added a third perspective, process success, to produce a three-dimensional assessment map. We have adapted this three-dimensional assessment for our purposes (see also Newman 2014) and added an

additional—*temporal*—dimension. Assessing policy success in this volume thus involves checking cases against the following four criteria families:

*Programmatic assessment*—This dimension reflects the focus of 'classic' evaluation research on policy goals, the theory of change underpinning it, and the selection of the policy instruments it deploys—all culminating in judgements about the degree to which a policy achieves valuable social impacts.

*Process assessment*—The focus here is on how the processes of policy design, decision-making, and delivery are organized and managed, and whether these processes contribute to both its technical problem-solving capacity (effectiveness and efficiency) and to its social appropriateness, and in particular the sense of procedural justice among key stakeholders and the wider public (Van den Bos et al. 2014).

*Political assessment*—This dimension assesses the degree to which policy-makers and agencies involved in driving and delivering the policy are able to build and maintain supportive political coalitions, and the degree to which policy-makers' association with the policy enhances their reputations. In other words, it examines both the political requirements for policy success and the distribution of political costs/benefits among the actors involved in it.

*Endurance assessment*—The fourth dimension adds a temporal perspective. We surmise that the success or otherwise of a public policy, programme, or project should be assessed not through a one-off snapshot but as a multi-shot sequence or episodic film ascertaining how its performance and legitimacy develop over time. Contexts change, unintended consequences emerge, surprises are thrown at history: robustly successful policies are those that adapt to these dynamics through institutional learning and flexible adaptation in programme (re)design and delivery, and through political astuteness in safeguarding supporting coalitions and maintaining public reputation and legitimacy.

Taking these dimensions into account, we propose the following definition of a ('great') policy success:

*A policy is a complete success to the extent that (a) it demonstrably creates widely valued social outcomes; through (b) design, decision-making, and delivery processes that enhance both its problem-solving capacity and its political legitimacy; and (c) sustains this performance for a considerable period of time, even in the face of changing circumstances.*

Table 1.1 presents an assessment framework that integrates these building blocks. Articulating specific elements of each dimension of success—programmatic, process, political, endurance—in unambiguous and conceptually distinct terms, this framework lends a structure to both contemporaneous evaluation and dynamic consideration of policy developments over time. All contributing authors have drawn upon it in analysing their case studies in this volume.

**Table 1.1** A policy success assessment map

Programmatic assessment: Purposeful and valued action	Process assessment: Thoughtful and fair policymaking practices	Political assessment: Stakeholder and public legitimacy for the policy
<ul style="list-style-type: none"><li>• A well-developed and empirically feasible <i>public value proposition</i> and <i>theory of change</i> (in terms of ends–means relationships) underpins the policy</li><li>• <i>Achievement</i> of (or considerable momentum towards) the policy’s intended and/or other <i>beneficial social outcomes</i></li><li>• Costs/benefits associated with the policy are <i>distributed equitably in society</i></li></ul>	<ul style="list-style-type: none"><li>• The policy process allows for <i>robust deliberation</i> about <i>thoughtful consideration</i> of: the relevant values and interests; the hierarchy of goals and objectives; contextual constraints; the (mix of) policy instruments; and the institutional arrangements and capacities necessary for effective policy implementation</li><li>• Stakeholders overwhelmingly experience the making and/or the delivery of policy as <i>just and fair</i></li></ul>	<ul style="list-style-type: none"><li>• A relatively broad and deep political <i>coalition</i> supports the policy’s value proposition, instruments and current results</li><li>• Association with the policy <i>enhances the political capital</i> of the responsible policy-makers</li><li>• Association with the policy <i>enhances the organizational reputation</i> of the relevant public agencies</li></ul>
<b>Temporal Assessment</b>		
<ul style="list-style-type: none"><li>• Endurance of the <i>policy’s value proposition</i> (i.e. the proposed ‘high-level’ ends–means relationships underpinning its rationale and design, combined with the flexible adaptation of its ‘on-the-ground’ and ‘programmatic’ features to changing circumstances and in relation to performance feedback).</li><li>• Degree to which the policy’s programmatic, process, and political <i>performance is maintained</i> over time.</li><li>• Degree to which the policy confers <i>legitimacy on the broader political system</i>.</li></ul>		

**Studying Policy Success: Methodological Considerations**

Now that we have a working method of ‘seeing’ policy success in operational terms, the next step is to apply the concept in studying governance and public policymaking. Before we do so, however, it is important to point out that there are range of methods which researchers have employed in this task. These efforts can be grouped into three types of approach.

At the *macro-level*, studies of overall government performance usually take the form of cross-national and cross-regional comparison of indicators published in large datasets. Some researchers focus on the inputs and throughput side of government. A prominent example is the Quality of Government dataset that captures cross-national difference in the trustworthiness, reliability, impartiality,

incorruptibility, and competence of public institutions (Rothstein 2011). Of more direct relevance from a policy success point of view are datasets and balanced scorecard exercises focusing on aggregate governance outputs, outcomes, and productivity in specific domains of government activity, performed and propagated by e.g. the World Bank, the OECD, and many national audit offices and government think tanks (Goderis 2015).

At the *meso-level*, social problems, policy domain, and programme evaluation specialists regularly examine populations of cases to identify cases and areas of high performance. For example, common areas of focus include crime prevention programmes, adult literacy programmes, refugee settlement programmes, and early childhood education programmes. With this method, scholars examine 'what works' and assess whether these programmes or key features of them can be replicated and transferred to other contexts (e.g. Light 2002; Isaacs 2008; Lundin et al. 2015; Blunch 2017; Weisburd et al. 2017).

Finally, at the *micro-level*, researchers probe deeply into the context, design, decision-making, implementation, reception, assessment, and evolution of single or a limited number of policies or programmes. Both Hall's and Pressman and Wildavsky's seminal studies are examples of micro-level studies.

Each of these three approaches has a distinctive set of potential strengths and weaknesses. Macro studies offer a view of the big picture, with a helicopter perspective of linkages between governance activities and social outcomes. They lend insight into the social and economic consequences of institutional design and the effect of public spending patterns. This approach generally offers little or no insight into what occurs in the 'black box' in which these linkages take shape. Meso-level studies, on the other hand, drill down to the level of programmes and come closer to establishing the nature of the links between their inputs, throughputs, outputs, and outcomes. Structured and focused comparative case designs which control for institutional and contextual factors can yield richer pictures of 'what works'. A limitation of these population-level comparisons is the consequence of parsimony, which limits the depth of attention paid to context, chance, choice, communication, cooperation, and conflict within each unit in the sample. As a result, it often proves difficult for meso-level studies to convincingly answer *why* things work well or not so well.

The latter is the main potential strength of micro-level, single, or low-n case study designs. This approach offers the greatest leverage in opening the black box, and examining the stakeholder interests, institutional arrangements, power relationships, leadership and decision-making processes, and the realities of front-line service delivery involved. This gives analysts in this tradition a better shot at reconstructing the constellations of factors and social mechanisms that are at work in producing policy successes. The chief limitation of micro studies of policy success lies in the limited possibilities for controlled hypothesis testing and the impossibility of empirically generalizing their findings. This volume is set in the

micro tradition. We hope to deliver on its potential strengths while responsibly navigating not only its inherent limitations but also its methodological challenges.

### Case Selection

Conceptual definition of the outcome of interest—policy success—is just the start of the battle for valid inference. With defined concepts in hand, a researcher must next choose an appropriate sample from which to draw conclusions. If the first lesson in any undergraduate research methods course is that ‘correlation is not causation’, the second is sure to be in the spirit of ‘thou shalt not select on the dependent variable’. Though criteria for sample selection vary across the quantitative–qualitative divide (Mahoney and Goertz 2006), it is agreed that ‘the cases you choose affect the answers you get’ (Geddes 2003). The message is hammered into the minds of young scholars that, for well understood reasons, selecting cases based on the value of the dependent variable can profoundly bias statistical findings, fouling generalization and average effect estimation (Heckman 1976). And yet, how a researcher selects their cases should be principally driven by the research question. Case selection should be a deliberate and well-considered procedure tailored to the specific research question at hand and type of explanation sought (Brady and Collier 2010; King et al. 1994). There are defensible reasons to violate the dependent variable rule and select only or mostly ‘positive’ cases (Brady and Collier 2010). In this multiple-cases project, we are *not* seeking causal explanation or formal comparison. Nor do we endeavour to arrive at universal (or even external) generalizability or estimation of average effects, let alone aim to identify (probabilistic) empirical regularities. We are, instead, interested in documenting, understanding, and problematizing the actors, contexts, ideas, and institutions that interact to produce the outcome of (intrinsic and theoretical) value: successful public policy. Our case selection decisions were made with that chief goal in mind.

Our main concern was that each case be identified as a ‘great policy success’ by expert scholars in the relevant policy domain along more than one but preferably all of the four success dimensions distinguished above: procedural, programmatic, political, and endurance assessment. Complete success on all four dimensions is unusual; these are the truly exceptional accomplishments. We sought cases of *seen successes*, which are not only successful (which we might posit is a more common condition than is popularly acknowledged), but also *recognized* as such. To find these gems, we as editors consulted with experts and academics in a range of policy domains (environmental, public works or infrastructure, social welfare, healthcare, technology, and economic policy) to identify cases meeting our criteria for ‘policy success’. In the event of disagreement between experts on a case’s level of success, the case was removed from our long list.

We also paid attention to both the policy domain and diversity of national institutional context in finalizing our set of cases. Though our sample is quasi-homogeneous in terms of the 'dependent variable' (success), we explicitly aimed for variation in the factors which might play an important explanatory role—including, but not limited to problem types policy sectors/subsystems, nature and strength of political institutions, levels of economic development, and administrative capacity (Bovens et al. 2001; Lodge and Wegrich 2014). Because this research project is primarily pedagogical and exploratory rather than explanatory and predictive, we do not test hypotheses or conclude with any certainty about the causes of success. Our aim is to bring to life cases of unusual policy success and get readers to consider (a) the dimensions along which each case is most and somewhat less successful; (b) how and why success was achieved in each of these instances, taking into account the context in which they arose and evolved, and the roles of particular institutions, actors, and practices in bringing them about.

### Temporal Complexity

In assessing policy outcomes, what you see often depends upon when you look, and with what kind of temporal perspective in mind. With the passing of time, public and political perceptions of the processes and outcomes of a public can shift. A case in point is the construction of the Sydney Opera House (1954–73). During the conflict-ridden and traumatic implementation phase of this highly adventurous architectural project, it was considered a major fiasco. Construction took ten years longer than initially planned and the costs exploded from the 1954 tender of 7 million A\$ to well over 100 million A\$ upon completion in 1973. Significantly, the architect had walked out midcourse following a series of confrontations with the minister of public works whose party had won the New South Wales election that year promising to rein in the 'out of control' Opera House project. Not surprisingly, Hall dutifully included the Opera House project in his *Great Planning Disasters*, published in 1981.

This perspective of failure was short-lived, however. During the 1980s the unique design of the Opera House became a global architectural icon and tourist attraction. Its growing fame and the cash it generated eclipsed the original budget overruns, political controversies, and functional limitations of the building complex. The fact that most of the building costs had not come from the public purse but from a series of designated public lotteries, long wilfully overlooked in the political debate, made a comeback. Over time, the weight accorded to 'project management' criteria—where success is defined as delivery according to specifications, on time and within budget—receded. The dominant evaluative lens became strategic, macro-economic, and symbolic.

This is an example of how policy assessment can be fundamentally shaped by variation in time horizons and the realization of various policy effects over time. Policy objectives may vary in temporal scope (in economic policy planning, a differentiation between short-term, medium-term, and long-term policies is quite common) and temporal quality (unique/non-recurrent versus permanent/iterative policies). This affects the timing and nature of assessments of their effects. Policy-makers are in fact continuously vacillating between different time horizons in setting priorities, allocating budgets, and making decisions. At the same time, many elected officials and others subject to the vagaries of the electoral cycle will be predisposed to judge policy proposals or feedback about past policies first and foremost in terms of their short-term political implications.

Short-term effects are also more easily registered than long-term effects, which are likely to become intertwined with other phenomena in complex and often unintended ways. Moreover, short-term and long-term effects may in some cases be at odds with one another, the latter reversing or neutralizing the former. In general, the longer the time frame used for the assessment of policy outcomes, the bigger the scope for controversy about their meaning and evaluation is likely to be. Similarly, the processes and outcomes of one-off policies (such as the construction of a building, the security measures surrounding a global summit conference, or the response to a natural disaster) tend to be more easily grasped than those of policies with iterative objectives which are constantly being renegotiated and adapted by different participants and in the face of changing circumstances (such as urban planning strategies, fiscal and monetary policies, or social security policies). In evaluating efforts to significantly change the behaviour of large numbers of people (such as reducing smoking, drunk driving, or domestic violence) in particular, a limited time frame is inappropriate because it neglects both the severity of the initial administrative problems and the possibility of learning by doing. For example, US president Franklin Roosevelt's resettlement programme for black agricultural labourers failed to meet its short-term political objectives, yet it had the latent effect of generating a black middle class which later would become the backbone of the civil rights movement (Salomon 1979).

Conversely, consider the example of the American energy policy, which shows yet another way in which time horizons can considerably change the evaluation of outcomes. In many respects this policy was very successful in the 1960s. Through price controls, allocation schemes, and the non-inclusion of external costs, consumers were provided with inexpensive petroleum products. But seen from the perspective of what happened in the next decade, the picture became less sanguine: "These benefits created incentives to rely on the automobile for transportation, and oil and natural gas for heating, while ignoring mass transit and coal. The success of one policy has now led to the realisation of its harmful consequences: a nation shackled to oil and natural gas and unprepared to pay

the real costs that such dependence demands, i.e. subservience to foreign producers and the costs they impose' (Ingram and Mann 1980: 14).

And then there is what Wildavsky so aptly called the paradox of time: past successes lead to future failures. To illustrate this, he provides the example of the ironies of achieving success in public healthcare which come to haunt policy-makers a decade or so later. The essay's title reflects the sense of despair policy-makers may feel when they understand the paradox of time. It is called *Doing better, feeling worse*: 'As life expectancy increases and as formerly disabling diseases are conquered, medicine is faced with an older population those disabilities are more difficult to defeat. The cost of cure is higher, both because the easier ills have already been dealt with, and because the patients to be treated are older. Each increment of knowledge is harder won; each improvement in health is more expensive. Thus, time converts one decade's achievements into the next decade's dilemmas' (Wildavsky 1987: 283).

There is no hard and fast, universally applicable way of dealing with temporal complexity in policy evaluation. Overall, however, analysts are probably best off if they consciously employ both short-term and long-term perspectives, and empirically examine if and how the (mix of) criteria which policy-makers, stakeholders, and the public employed to ascertain the performance of a policy changed over time in the case they study. This is the principal reason for including an endurance dimension in the policy assessment framework depicted in Table 1.1.

## Outline of This Volume

Since the mid-1990s there has been a strong interest in tracking 'good/best' practices with an aim towards customizing and transplanting them to other contexts. The literature on policy transfer shows that this has met with limited success. Much of this work lacks a systematic analysis of the constructed, potentially contested, and dynamic nature of these 'best practices'. Nor has it drilled down deeply and methodically into the roles of chance and choice, structure and agency, institutions and people, politics and professions in producing these performances.

In this volume, we try to address both these limitations by offering a series of grounded, in-depth, and reflective case studies. It features cases deliberately chosen to cover a broad range of issues and policy sectors. These include cases of different modes (from top-down central steering to open, deliberative, and collaborative processes) and levels (from urban to the global) of governance. Though somewhat skewed to countries consistently ranking among the best governed in the world, the volume includes cases of federal and unitary, parliamentary and presidential, and Westminster and consensual systems of government. Short descriptions of the fifteen cases are included here.

### Great policy successes: cases in this volume

*Brazil's Bolsa Família scheme*—How Brazil built the world's largest conditional cash transfer scheme to lift millions out of extreme poverty.

*Remarkable healthcare in Singapore*—How policies have been continuously calibrated to adapt to new challenges while keeping costs low in Singapore.

*Cutting waiting times in the NHS*—How classic top-down political leadership and judicious policy analysis got Britain's revered but monolithic National Health Service to process its millions of clients much more quickly.

*The transformation of UK tobacco control*—How the UK designed and implemented innovative policies which framed tobacco as a health concern to successfully build support around the initially unpopular tobacco ban.

*The GI Bill*—How the United States provided social support to soldiers returning from the Second World War to ensure macro-economic security, and had the unintended consequence of building social capital.

*Finland's education system*—How a small nation on Europe's northern periphery built a school system that became a global brand in 'how to do public education'.

*Estonia's digital transformation*—How a post-communist state forged a global reputation as a leader in digital government.

*The Alameda rail corridor project*—How through balanced governance and a creative financing arrangement a tangled web of rail lines was transformed into a single corridor that relieved traffic congestion and reduced air and water pollution in the Los Angeles region.

*'Marvellous Melbourne'*—How the once staid and struggling state capital of Victoria, Australia, transformed itself into a cosmopolitan metropolis named 'The World's Most Liveable City' six times in a row (from 2011 to 2017) by *The Economist's* Intelligence Unit.

*The new Dutch Delta strategy*—How a nation in which two-thirds of the population live below the current sea level secures its future by reinventing its famed water management strategy so as to enable proactive and creative adaptation to the effects of climate change.

*Copenhagen's Five Finger Plan*—How the Danish capital successfully avoided urban sprawl and overly dense and chaotic urbanization through early adoption and sustained adaptation of a comprehensive urban planning regime.

*Norway's Petroleum Fund*—How Norway's policy-makers purposefully dodged the bullet of the 'resource curse' and channelled its oil revenues into what has become the world's biggest national pension fund.

*New Zealand's economic turnaround*—How a country at the brink of economic collapse in the 1980s transformed its fortunes through a radical, consistent, and impactful suite of reform strategies.

*Germany's labour market reforms*—How Europe's biggest but notoriously rigid and sluggish post-reunification economy was lifted into the economic powerhouse it has since become.

*The Montreal Protocol*—How the world managed to negotiate and implement a global regulatory regime that helped the stratospheric ozone layer recover from the damage sustained by decades' worth of ozone depleting substances.

These case studies provide readers with an insight into 'how successful the policy really was' and 'how success happened' in each of these instances. We ask readers—as we did our fellow researchers when we commissioned the case studies—to consider the following guiding questions when working their way through each case:

1. What is this case about and to what extent can it be assessed as a 'great policy success' (in terms of the definition and the assessment above)?
2. What was the social, political, and institutional context in which the policy (programme, project, initiative) was developed?
3. What specific challenges was it seeking to tackle, and what if any specific aims did it seek to achieve?
4. Who were the policy's main drivers and stewards, and how did they raise and maintain support for the policy?
5. How did the policy design process—the progression from ambitions and ideas to plans and instruments—unfold, and what (f)actors shaped it most?
6. How did the political decision-making process leading up to its adoption—the progression from proposals (bills, proposals) to commitments (laws, budgets)—unfold, and what (f)actors shaped it most?
7. How did the implementation process unfold, and what (f)actors shaped it most?
8. How did the legitimacy of the policy—the political and public support garnered—unfold, and what (f)actors shaped it most?
9. How did changes over time in the operating or political context (such as government turnover, fiscal positions, critical incidents) affect:
  - a. the policy's central features
  - b. levels of popular support, or perceived legitimacy?

10. What, overall, can policy analysts and policy actors (of different ilk) learn from this instance of policy success?
  - a. How likely is this case to remain a ‘success’ in the future? What are potential future problems with this policy case, or a similar class of cases?
  - b. What unique factors may limit how broadly the lessons from this case can be applied (in terms of political, social, or economic context, or policy domain, etc.)?

The authors of the case studies you are about to read have all worked with these conceptual tools. That said, authors have come to this project with their own preconceptions, and they have relied on textual and human sources in their research that are part of the political fray of the case at hand. We advise readers therefore not to take any of the labels and interpretations concerning a policy’s alleged ‘great success’ and its key drivers for granted, but to constantly question what frames—and whose frames—are at work here and examine by what evidence they are underpinned.

### **Exploring Policy Successes: Pointers about the Landscape Ahead**

While providing a detailed template for assessing the success or otherwise of a policy, we do *not* offer a similarly general framework to explain policy success. No such framework currently exists, and it is unlikely that one singular framework will ever be able to do so comprehensively, given the number of (f)actors involved and the complexity of their interactions (see also McConnell 2010). General frameworks of public policymaking which do exist are either primarily descriptive or are designed to explain the content and timing of policies or the occurrence of policy stability and change over time (Weible and Sabatier 2017). Progress in explaining policy success is more likely to occur through middle-range theories focused on explaining the presence and absence of policy success in specific clusters of cases, such as particular types of governance challenges and policy domains (Bovens et al. 2001; Patashnik 2008) or in particular jurisdictions (Light 2002; Scott 2014).

It may be possible to treat our fifteen cases as such a cluster and use pattern-finding techniques such as Process-Tracing and Qualitative Comparative Analysis to tease out configurations of factors that may explain common or different outcomes. This will be a complicated endeavour given the limited size of our sample and the profound temporal, sectoral, institutional, and contextual differences between the cases. In keeping with the purpose and design of this volume, we will not venture down this path. Instead we draw upon the case studies as well as existing research to offer a few themes for classroom discussion and,

possibly, more focused future research—these are our pointers about the landscape ahead.

### Opportunity and Necessity

What triggers policymaking activity may matter. Quite a few of the cases in our set were driven by the desire to move away from problems: existing or impending adversity, danger, or disadvantage. This is where the Melbourne and Singapore cases align, along with several others such as the Dutch Delta programme (preventing potentially devastating impacts of sea level rises), Brazil's *Bolsa Família* scheme (reduction of abject poverty), the German labour market reforms (reigniting a stagnant economy), and the Montreal Protocol (restoring dangerous damage to the ozone layer). By contrast, Norway's Petroleum Fund was triggered by a windfall (the discovery and subsequent exploitation of considerable oil reserves); Estonia's digital strategy was born out of zest and drive to modernize on the wings of the country's liberation from Soviet rule. Finnish education policy was quietly built not in response to some felt problem but in fulfilment of pedagogical aspirations.

### Pro-action and Re-action

The Dutch, Danish, and Norwegian cases are the exemplars of governing by foresight and for the long range. The essence of their success is about bringing about desired futures through pro-active policy planning. To some extent, the GI Bill fits this mode as well, although much of its initial time horizon was much shorter and much of its impetus was provided by the desire to avoid repetition of the failure of the country's return to peace following the end of the First World War. In contrast, some of the policy successes were fundamentally reactive, driven by events producing cumulative negative consequences that eventually created political windows of opportunity: recession-busting in New Zealand, stagnation-busting in Germany, poverty-busting in Brazil. Problems had already occurred and government responses to them were expected if not already overdue.

### Concentrated and Shared Power

The drive to reduce NHS waiting times provides a classic instance of top-down leadership, in this case provided by an activist prime minister supported by an equally activist (and controlling) group of enforcers of his will at 'Number 10'. The sheer depth and consistency of New Zealand's economic reform programme was another case of unilateral imposition by a united and institutionally unfettered

government, as were Singapore's healthcare reforms. In countries and sectors where the institutional rules of the game are predisposed towards power-sharing between multiple parties, such top-down policymaking is politically infeasible and culturally inappropriate. As the German, Dutch, Danish, and both US cases show, success in these systems is to be achieved through extensive consultation, bargaining, and negotiation: painstakingly massaging different actors' moods and stances, cobbling together societal and parliamentary coalitions for policy initiatives, and creating platforms where collaboration can be stimulated and solidified.

### Making Progress: Miles and Inches

Pacing the work of change is a fine art. Looking at the speed of policymaking, we again can identify big differences between the cases in our set. The Dutch are taking fifty years to 'climate proof' their water management arrangements. Copenhagen's urban planning regime has evolved over half a century. Britain's successful efforts to curb smoking were the product of a protracted war of attrition against the tobacco industry. The revitalization of Melbourne took shape over two decades. German governments dithered for many years before defying the unions' veto-playing propensities and finally tackling the country's ossified labour markets. The *Bolsa Família* scheme took about as long to rise up to the federal level and become the law of the land. In contrast, in institutionally simpler jurisdictions such as pre-MMP (mixed member proportional representation) New Zealand and post-communist Estonia ambitious policies were largely conceived and executed within the life of one government.

### Politicization and Depoliticization

Tony Blair's public commitment and personal resolve to reduce waiting times for NHS patients provides a clear example of politicization of the status quo in a policy domain providing momentum for change. What the system had previously normalized and expected its clients to bear, had now become exposed and problematized. Likewise, the move to comprehensive schools in Finland was not just a pedagogical endeavour but part of the Left's ideological project of a universal welfare state. The fragmented suite of conditional cash transfer programmes in Brazil could only be galvanized into the national *Bolsa Família* scheme on the wings of the Lula government's firm political commitment to the Workers' Party's long-standing but hitherto largely symbolic Zero Hunger Strategy. At the other end of the spectrum, the Dutch government turned depoliticization of a potentially fractious wicked problem—how to ensure there is still a country left to inhabit as sea levels rise and the rivers swell—into an art form by appointing and empowering a studiously

non-political authority figure to operate as a 'consensus architect'. In other cases, such as New Zealand economic reforms, the key to success lay in the firm alliance between strong political leadership by the tandem of prime minister and treasurer and equally strong policy leadership from the 'econocrats' at the Treasury.

## Inclusion and Exclusion

In consensual democracies such as Denmark and the Netherlands, creating 'big tents'—inclusive structures and processes of consultation, deliberation, and co-design—is second nature to its public policy-makers and in the cases presented here was considered a key building block to success in what otherwise could easily become political deadlocks. But even in not traditionally consultative political systems such as Australia, it was the astute incorporation of grassroots voices and initiatives into the Melbourne regeneration policy mix that enriched its substance and helped broaden its support base. In contrast, in the Alameda corridor project the 'big boys' (the cities of Los Angeles and Long Beach) took legal action to remove the veto-playing six mid-corridor cities from the Authority running the project: using hard power to narrow the decision-making arena and thus rob smaller players of their blocking power enabled the corridor's main supporters to keep the show on the road. Likewise, realpolitik in the US Congress resulted in a GI Bill whose administration was left to the states. The price paid was the exclusion of minority veterans from the pool of beneficiaries, especially in the Southern states.

If nothing else, these fifteen cases show that there are many pathways to policy success. Consider the instances where the policymaking process came close to the rational-synoptic ideal type, such as Singapore's health policy: evidence-based, meticulously designed, carefully executed, and systematically evaluated. And then consider contrasting cases where success emerged out of the synergistic confluence of a number of seemingly disparate initiatives across different domains, such as Melbourne's revitalization. The key challenge for both students and practitioners is to figure out what combinations of design practices, political strategies, and institutional arrangements are both effective and appropriate in the context at hand. We hope that the case studies presented in this book prove to be a good place to inspire their thinking.

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## Brazil's *Bolsa Família* Programme

*Luis Henrique Paiva, Tereza Cristina Cotta,  
and Armando Barrientos*

### Introduction

In October 2004, a popular television news show in Brazil reported cases of leakages and frauds in *Bolsa Família*, a cash transfer programme enacted the previous year. In subsequent weeks, several different newspapers followed the lead and published similar stories. The focus of their criticisms was not on the programme's design, but on what appeared to be significant shortcomings in its implementation (Lindert and Vincensini 2010). Exactly one year after its inauguration, *Bolsa Família* was facing a crisis of legitimacy threatening to turn it into a serious political liability for the federal government.

In October 2013, the Brazilian federal government celebrated *Bolsa Família*'s tenth anniversary, after having just accepted the Award for Outstanding Achievement in Social Security from the International Social Security Administration (*Associação Internacional de Seguridade Social*—AISS) for the programme. One year later, opinion polls conducted on the general elections (IBOPE 2014) showed that three out of four voters were 'in favour' of *Bolsa Família*. Approval was above 50 per cent across all age, sex, race, religion, school and regional groups.

In the intervening decade the programme developed its structure of governance, produced relevant policy outcomes, and overcame critical political hurdles. An interesting policy design, that initially was plagued with implementation problems became a highly successful social policy. The aim of this chapter is to explain the nature of this success.

This chapter discusses Brazil's *Bolsa Família* programme, the world's largest conditional cash transfer (CCT) in number of beneficiaries. CCTs<sup>1</sup> are anti-poverty transfer programmes defined by the following features: delivery of cash—as opposed to in-kind—transfers; a focus on households rather than on individuals; the inclusion of targeting mechanisms to limit transfers to impoverished households; and conditioning transfers to specific conditions to be fulfilled by beneficiary households (typically, school attendance by children and/or periodical health visits)—known as 'conditionalities'. They aim to reduce consumption poverty in the short term and to improve the productive capacity of low-income households in the medium and long term.

The CCT model was first implemented in Brazil in 1995, at the local level, as an innovative anti-poverty intervention. Soon, this approach to combat poverty spread to other municipalities. In 2001, a set of federal CCTs was finally launched, including the programmes *Bolsa Escola* (school grant), *Bolsa Alimentação* (food assistance), and *Auxílio Gás* (cooking gas subsidy), managed by different ministries.

In 2003, *Bolsa Família* was created to overcome the conceptual and operational fragmentation of the myriad federal cash transfer programmes. It currently reaches over 20 per cent of the Brazilian population and has achieved significant results. *Bolsa Família* is widely recognized as a major policy success.

This chapter provides an insider's discussion of the emergence and consolidation of the programme, as well as a critical assessment of its accomplishments. It comprises six sections. Section one argues that *Bolsa Família* can be considered a policy success; section two discusses the historical context of the emergence of CCTs and explains their main features; section three details the development of *Bolsa Família* and its design; section four examines the challenges faced during its implementation, from 2003 to 2018; and section five assesses the sustainability and resilience of the programme. Finally, section six reflects on the main lessons learned and concludes the chapter.

### **Why is *Bolsa Família* a Policy Success?**

*Bolsa Família* fits the definition of a success developed in Chapter 1 of this volume: it created and sustained valued outcomes through a coordinated policymaking process. It was the first social protection benefit in Brazil to reach the working-age poor population and their children. Many independent studies concluded that the programme has relatively precise targeting and produced significant impacts in terms of poverty and inequality reduction and the improvement of educational and health indicators. These valuable outcomes were achieved thanks to an inter-sectoral and decentralized structure of governance that has proven to be innovative and effective in terms of providing appropriate responses to implementation issues. These outcomes also seem to be associated with relatively high levels of public support and the resilience that the programme has been demonstrating over the last fifteen years. We will briefly examine these points.

*Bolsa Família* is by far the most progressive public transfer maintained by the federal government (see, for instance, Ipea 2012) and has proven a *programmatic success* in reducing poverty and inequality. In the absence of *Bolsa Família* transfers, extreme poverty in the country would be one-third higher (Soares et al. 2010). It accounts for just above 15 per cent of the fall in the Gini coefficient during the first decade of the twenty-first century (cf., among others, Hoffman 2013).

Two rounds of impact evaluation demonstrated positive effects on school attendance (Brazil 2007) and school progression (Brazil 2012). Several health

outcomes improved as a result of the programme, including under-5 mortality rates (Rasella et al. 2013). Finally, concerns about adverse effects on labour supply and fertility were shown to be misplaced (see, for instance, Oliveira and Soares 2012 and Simões and Soares 2012), although expectations that the programme would lead beneficiary households permanently out of poverty have proven overambitious.

These results are related to the administrative capacity that was built over the period—the programme was a *process success*. As further discussed in the following sections, the programme was kept free of political interference. Permanent civil servants occupied key administrative positions and programme implementation was impersonal and transparent. The programme also employed appropriate mechanisms of coordination between different government areas and levels. Its decentralized architecture was considered ‘innovative’, promoting ‘incentives for quality implementation’ (Lindert et al. 2007). In other words, its structure of governance became progressively more capable of responding to technical implementation challenges, which eventually led to measurable policy outcomes.

Progress towards a more effective programme was met with growing political support—the programme was a *political success*. After being attacked for problems during the first years of implementation, the programme’s administration improved and this was reflected in positive assessments from evaluation studies. Lindert and Vincensini (2010) stress the interplay between policy effectiveness and political support: technical elements that worked well—sound technical management and positive policy outcomes—fed back into political support. Positive policy outcomes led scholars and multilateral organizations to support the programme as an efficient tool in the fight against poverty in Brazil. This was relevant both domestically, where this support influenced relevant political and media sectors, and internationally, where *Bolsa Família* became an example of a highly successful policy. By mid-2014, approval rates for the programme were relatively high. There is also evidence that the programme had positive impacts on political support for incumbent candidates across three presidential elections (Zucco Jr. 2015). In the last two presidential elections, all relevant candidates declared support for the programme.

The programme has also demonstrated resilience in the face of recent political events—the *success of the policy has endured*. With the political turmoil resulting from the impeachment of President Dilma Rousseff (in August 2016) and in face of one of the most critical fiscal crises in the country’s history, rumours about the retrenchment of the programme began to surface. Nevertheless, in February 2018 there were 14.1 million beneficiary families—one of the highest figures ever—and in July 2018 benefits were adjusted at above-inflation rates.

The *Bolsa Família* programme has succeeded despite continuing to face significant operational and political challenges. Its administrative structure still suffers from some weaknesses. A few conservative politicians insist on defending

the view that the programme ‘enslaves its beneficiaries’,<sup>2</sup> perhaps based on unfounded arguments that it would generate ‘growing dependence of Brazil’s poor on income transfers’ (Hall 2012). However, the mounting evidence about its impacts and the resilience demonstrated by the programme so far suggests that it can continue to be the basic pillar of the Brazilian social protection system.

### The Emergence of CCT Programmes

The rise of CCTs in the mid-1990s in Brazil constitutes a break with the contributory, and clearly pro-elderly biased, social protection system. The first social insurance scheme was set in place in the 1920s, initially covering railroad workers and rapidly expanding to cover other professional categories.

The first semi- and non-contributory targeted social benefits in the country were adopted only in the mid-1970s, aimed at poor older people (aged 70 or older), poor people living with disabilities, and smallholder farmers (Schwarzer 2000; Brumer 2002). The 1988 Constitution, which was enacted as a result of the country’s re-democratization following a period of military dictatorship, introduced an element of universalism in the provision of social protection (public health services stopped being delivered through social insurance and became universal) and boosted the existing semi- and non-contributory pension schemes (Schwarzer and Quirino 2002). Despite these advancements, however, the model of social protection contained in the 1988 Constitution remained strongly based on social insurance (a common feature across Latin American countries) and still presented a clear pro-elderly policy bias.

Nevertheless, democratization and the new Constitution ignited far-reaching changes. First, the new Constitution established an explicit commitment to the ‘eradication of poverty’ and the ‘reduction of social inequality’. From this perspective, a new social contract reflecting an emerging consensus on the importance of addressing historically high levels of poverty and inequality would provide the underpinnings of social policy. Second, the new Constitution emphasized administrative decentralization and gave way to policy experimentation at the local level, which proved essential for the emergence of CCTs in the country (Barrientos et al. 2014). Finally, a reform of the Brazilian public service was carried out after the process of re-democratization (Brazil 1995). Among several reforms, new career paths were made available at the federal level, which eventually had an impact on the implementation of *Bolsa Família* ten years later.

Even so, the historical bias of the Brazilian social protection system towards older people had a silver lining: from the mid-1990s onwards, the country achieved nearly universal old-age coverage (Van Ginneken 2007; Ansiliero and Paiva 2008). In the first half of the 1990s, the headcount poverty rate for people aged 65 and older was 20 per cent of the headcount poverty rate of the entire

population (Paiva 2016). In no other Latin American country were older people so underrepresented among the poor (Barrientos 2006).

However, the Brazilian labour market remained highly segmented between the formal and informal sectors, as most other countries of the region (Cruz-Saco 2002). This system was unable to provide social protection to workers in the informal sector, led to low coverage levels of the working-age population, and—not by chance—was defined as a ‘radical form of conservative welfare regime’ (Barrientos 2004). By the mid-1990s, there was an increasing consensus that its success was at best ‘limited’ (Levy and Schady 2013). Health services remained an exception in a system where no other form of social protection was extended to poor working-age adults and their families.

Children were particularly affected. In the first half of the 1990s, poverty among those aged 0–15 was almost twice as high as the overall poverty rate and almost ten times the poverty rate among older people (Paiva 2016). Despite high poverty rates among children and widespread concern, policy initiatives developed at the federal level in the 1990s did not look very promising.

*Comunidade Solidária*, the main anti-poverty strategy adopted during the first term of the Fernando Henrique Cardoso administration (1995–8) was limited to the delivery of compensatory measures, such as the distribution of food baskets in regions affected by severe shocks, and the coordination of relatively sparse social initiatives conducted by local governments, civil society, and the private sector (Camargo and Ferreira 2000).

There was, in fact, a significant reduction in poverty between 1993 and 1995 (as noted by Paiva 2016). However, most of it probably took place in 1994, as a consequence of the end of hyperinflation in the country.<sup>3</sup> In the following years, poverty rates remained unchanged. By the midpoint of its second term (1999–2002), the Cardoso administration did not have much to celebrate in terms of improvements in social indicators. It was clear that better policy initiatives would be necessary to promote poverty reduction. By then, an option was already available: a new social protection benefit had been debated, developed, and implemented at the local level.

CCTs emerged from a debate in the first half of the 1990s. A group of scholars and politicians championed the discussions on how best to fight poverty in Brazil. Negative income taxes and universal basic income proposals dominated the public debate back then. A bill sponsored by former senator Eduardo Suplicy introduced a basic income programme in 1991.<sup>4</sup> Some scholars advocated cash transfers to reduce poverty and lift liquidity constraints preventing household investments in child education. Redistribution through income transfers could increase investments in human capital, but such transfers were expected to be particularly efficient if they targeted poor families. Moreover, the effectiveness of income transfers to families living in poverty could be maximized if made conditional on school attendance by school-age children<sup>5</sup> and periodic visits to health clinics.

Cash (as opposed to in-kind) transfers; targeting; the focus on households; and conditionalities—the core ideas of CCTs—had been consolidated.

The 1988 Constitution's emphasis on administrative decentralization left room for these new ideas to be initially adopted at the local level, in the municipality of Campinas and in the Federal District, both starting in January 1995 (Lindert et al. 2007). The model spread to other municipalities in the following years, but the transition to a national policy took a relatively long time, to the point where Mexico, after sending a delegation to Brazil in 1996 to study these programmes, enacted *Progresa* in 1997.<sup>6</sup>

In Brazil, the federal government had launched a programme in 1998 to co-finance the spread of local initiatives introducing CCTs, but with poor results. To improve its short-term political prospects, in 2001, just one year before the presidential election, the federal government launched two broad initiatives. The first was *Projeto Alvorada*. Its objective was to drive investments in infrastructure and human capital in municipalities with below-average human development indexes. The second initiative was a set of national-level cash transfers, including *Bolsa Escola Federal* (school grants under the purview of the Ministry of Education), *Bolsa Alimentação* (food assistance under the purview of the Ministry of Health) and *Auxílio-Gás* (a targeted, unconditional cooking-gas subsidy), all enacted in 2001. These programmes were collectively termed the Network of Social Protection (*Rede de Proteção Social*).

From a conceptual and operational perspective, the Network of Social Protection was a piecemeal initiative. The constituent programmes had different eligibility criteria and conditionalities. Although *Cadastro Único* (the Single Registry for Social Programmes) had been enacted by mid-2001, and its use made mandatory for all targeted programmes with nationwide coverage, these cash transfers were based on parallel systems of administrative records. This situation would not change until 2003, with the creation of *Bolsa Família*.

### **The Challenge in Integrating Federal Cash Transfers: The Origins of *Bolsa Família***

The fragmentation of federal cash transfer programmes was diagnosed in 2002 in a document released by President Luis Inácio Lula da Silva's campaign team before the elections. After the elections, the new administration's transition team confirmed the same assessment. Thus, expectations were high that Lula would propose the unification of the existing sectoral cash transfer programmes as the administration's core social strategy.

Surprisingly, however, this was not what happened in the beginning of 2003. The new administration opted for an alternative—the Zero Hunger Strategy

(*Estratégia Fome Zero*)—as its main social policy initiative. It was originally formulated in 1991 and was restructured several times over the following years. The concept of food and nutrition security—the basis for Zero Hunger—was part of the platform of the Workers' Party in the campaigns for the presidential elections of 1994, 1998, and 2002. The historical commitment to this agenda might explain Lula's decision to opt for the Zero Hunger Strategy and to create a new ministry, the Ministry of Food Security and Fight against Hunger—*Ministério Extraordinário de Segurança Alimentar e Combate à Fome*—MESA) to manage it. Another decision was to introduce a new cash transfer programme—the National Programme for Access to Food, known as *Cartão Alimentação*, which added to the fragmentation of cash transfers.

Very soon it became clear that this choice was a mistake. The Zero Hunger Strategy would demand unrealistically high levels of coordination across different government agencies, the three government levels, civil society and the non-profit sector. It was too complex to be viable in a timely manner or to be fully understood by the media and the general public. In early 2003, it received an avalanche of criticisms from both within and outside the federal administration.

This led to the reactivation of the Council Office for Social Policy, originally created in 1996 and reformulated in 2003 with the task of devising strategies for social policy. Its members should find ways to overcome the conceptual and operational fragmentation of federal cash transfers. However, the ministries charged with this task were the ones responsible for existing cash transfer programmes (ministries of Education, Health, Energy, Social Assistance, and MESA) and it was no accident that they failed to adopt a viable strategy to integrate them. In comparison to merging programmes into one large unified system, fragmented cash transfer programmes made more political sense for each ministry involved.

By this time, the Presidency had already decided to unify all cash transfers and created a working group drawn from the Council Office for Social Policy, with sufficient political power to enforce integration. This group worked from March to October 2003 on the design of a new, unified CCT spanning the entire national territory. The programme would be implemented in a federative context and would involve at least three government sectors (Social Assistance, Education, and Health), demanding strong coordination between different government levels and agencies.

In a continent-sized country such as Brazil, good targeting and adequate monitoring of conditionalities could only be achieved if programme design was kept as simple as possible. Capacities at the local level vary considerably and not all municipalities would be able to perform excessively complex administrative tasks. Community-based targeting mechanisms, for instance, might sound very attractive and inclusive, but they would make the practical implementation of *Bolsa Família* virtually impossible. The limited social assistance staff at the local level would also advise against the use of any other highly personnel-demanding

form of means test. Thus, the decision was made to select beneficiaries based on their self-reported income.

It was important that the value of the transfer to be received by households—with priority given to an adult woman of the family—could be easily understood by beneficiaries and the public at large. It was set as the sum of two components. The ‘basic benefit’ was to be paid to all extremely poor families (with a per capita income of up to R\$50 in 2003<sup>7</sup>). The basic benefit was set at R\$50. A ‘variable benefit’ was to be paid to both extremely poor and poor families (with a per capita income of up to R\$100), conditional on the presence of children in the household, for each child up to three (to avoid any possible fertility-increasing incentives). The amount for this additional variable benefit was set at R\$15. Therefore, beneficiary households could receive between R\$15 and R\$95, depending on the family group and poverty status.<sup>8</sup>

Monitoring conditionalities can be very demanding. An alternative option in this context might have been an unconditional cash transfer. However, the perception at the time was that conditionalities could not only increase the impact of the programme, but also contribute to its legitimacy.<sup>9</sup> The decision was to adopt a minimal set of conditionalities: school attendance for children and visits to health clinics for timely vaccination, and prenatal/postnatal care.

After a six-month deliberation period regarding these challenges, *Bolsa Família* was finally enacted<sup>10</sup> with three main objectives: (i) immediate poverty alleviation through income transfers; (ii) mid- and long-term poverty reduction, achieved by increasing the demand of households for education and health services; (iii) improved labour market prospects for adult members of beneficiary households through job training, microcredit, and other initiatives aimed at avoiding *negative dependence*.<sup>11</sup>

Political support from the Presidency was decisive in ensuring that *Bolsa Família* would be adequately funded in the following years. The decision to integrate the existing cash transfers was politically difficult but correct from a technical point of view. However, the most challenging aspect was yet to come: the actual construction of an effective programme.

### **Challenges in the Implementation of the *Bolsa Família* Programme**

The first managers of *Bolsa Família* faced the task of creating a new CCT that deviated significantly from previous nationwide programmes. The limited and fragmented scale of pre-existing programmes led to large coverage gaps while, at the same time, their different rules and administrative records allowed for overlaps (Cotta and Paiva 2010). In the same neighbourhood, it was possible to find

families with similar socio-economic conditions with markedly different access to transfers. *Bolsa Família* was meant to unify the target population, the eligibility criteria, and the administrative structure of these transfers.

When the programme emerged, it was a political imperative to rapidly increase coverage. In December 2003, 3.6 million households were already enrolled in the programme, most of them after migrating from previous CCTs. By the end of 2004, this figure climbed to 6.6 million households. Nonetheless, the programme inherited a delicate administrative situation. Several isolated administrative registries had to be merged into the Single Registry. The operational structures to be used in monitoring conditionalities were yet to be established. Effective targeting mechanisms needed to be developed. Proper arrangements between the federal, state, and local governments and across different government sectors, defining clear roles and responsibilities, were virtually non-existent. The programme faced what Lindert and Vincensini (2010) called the 'scaling-up dilemma', where expansion takes place at the same time as critical governance structures are under construction, leading to shortcomings in implementation.

At that point, *Bolsa Família* could have turned out to be either a political asset or a liability. In 2004, the programme suffered a great wave of criticism. The team heading the secretariat responsible for the programme and for the Single Registry was composed of academics and people connected with the Workers' Party. Their academic and political credentials could have been an asset during the policy formulation phase, but their lack of administrative experience was becoming a problem during implementation.

This crisis of legitimacy led to a major change in the secretariat's board of directors. The new management team was essentially composed of civil servants, most of them coming from career paths created or recovered by the administrative reform of the mid-1990s. Their job was to provide expertise related to the public policy cycle (design/formulation, implementation, and evaluation of public policies). This group of civil servants lacked the academic credentials and political connections of the first managers, but had the professional experience needed to address critical points of the programme's implementation. These included poor quality data in the Single Registry, gaps in the normative basis of *Bolsa Família* and the Single Registry, and deficits in inter-sectoral and federative coordination.

Federal and local coordination was vital for the implementation of *Bolsa Família* and the Single Registry, both dependent on the work performed at the local level.<sup>12</sup> A formal commitment between the federal and local governments, defining clear responsibilities for both sides, was signed by all 5,570 Brazilian municipalities. Executive orders were used to establish the role of different government agencies and the role of *Caixa Econômica Federal*, a state-owned bank that provided the IT platforms for registering low-income families in the Single Registry and for paying out benefits across the country.

Municipalities that had their own CCTs could continue to run them normally after the introduction of *Bolsa Família*, since no government level has a constitutional prerogative over this type of programme. However, the federal government developed an attractive option for local governments: associating their programmes with *Bolsa Família*, an agreement that could increase coordination between both levels of government and lead to lower administrative costs for the municipality, as well as higher benefit levels for beneficiary households. Local governments could take advantage of the IT platforms developed for *Bolsa Família* and the Single Registry provided by *Caixa*, whose costs would be fronted by the federal government. Although several agreements were signed, the massive presence of *Bolsa Família* eventually had a crowding-out effect and most local governments dropped their own programmes.<sup>13</sup>

Later, the federal government introduced specific incentives for municipalities to improve the quality of data in the Single Registry. These incentives were eventually turned into a performance-based transfer to co-finance activities conducted by local administrations. The Index of Decentralized Management (*Índice de Gestão Descentralizada*—IGD) is both a measure of the performance of local administrations and a weight that regulates the increase or decrease of these transfers. At the federal level, strong political commitment to *Bolsa Família* ensured an adequate budget and bureaucratic insulation from everyday politics.

The actual monitoring of conditionalities only started in 2006. The ministries of Education and Health, in close coordination with their counterparts in local governments, were responsible for verifying the compliance of households. This monitoring was electronic and did not represent any transaction costs to the households themselves. *Bolsa Família* went for a ‘soft’ approach in the monitoring of conditionalities: sanctions for non-compliance started with a warning letter and a beneficiary household could only be excluded from the programme after four rounds of non-compliant behavior.

In 2006, a more resilient *Bolsa Família* met its coverage target of reaching 11.6 million households (roughly 45 million people). Over the following years, both the programme and the Single Registry went through several improvements in their design and implementation. In 2007, for instance, the programme was expanded to cover adolescents aged 16 and 17, a critical age for school drop-outs and early entrance in the labour market. Legal and operational improvements of the Single Registry also took place during this period. A new executive order regulating the Single Registry was published in 2007 and there was a considerable increase in the number of social programmes using it. Finally, systematic cross-checks between the Single Registry and other administrative registries from the federal government started to take place, preliminarily in 2005 and periodically from 2007 onwards, to assess inconsistencies and improve the quality of the data.

In 2009 and 2010, the programme's reach was reassessed. Up to that point, the target number of beneficiary households—11 million—was based on an estimate of households living below the eligibility criteria threshold, based on the PNAD survey conducted by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*—IBGE), a general-purpose cross-section survey. However, the number of potentially eligible households in the Single Registry was becoming significantly larger than the estimates indicated. A potential explanation for this discrepancy, posited by Soares (2009), was that a cross-section survey captures those living in poverty at a given point in time—the last week of September in the case of PNAD—while a potentially large number of low-income households, which depended on very volatile labour income, could be marginally above the poverty line at the time the survey was conducted. Considering a longer period of time, using panel data from the Monthly Employment Survey (*Pesquisa Mensal de Emprego*—PME), also conducted by the IBGE, Soares showed that the number of eligible households was considerably larger than point-in-time estimates. By the end of 2010, the programme expanded to reach almost 13 million households.

Also in 2009–10, from an operational perspective, the realization that many beneficiaries experienced volatile labour income led to ensuring that participant households would receive transfers for two years, even if in the intervening two years their monthly per capita income was above the eligibility threshold. Households would be excluded from the programme only if their income remained consistently above the eligibility criteria after two years, which could be interpreted as a signal of a stable income.

Finally, a new version of the Single Registry was introduced in 2010, encompassing both a new questionnaire form, closer to those used in official household surveys, and a new IT solution. This new solution was planned to operate online with nationwide coverage, so as to avoid the inconsistencies typically found in offline solutions. The obvious challenge was to have operational internet connections across all Brazilian municipalities, including those in the Amazon. Both the new version of the Single Registry—version 7.0 or V7—and the old version coexisted until all municipalities had migrated to the new system in 2013.

From 2011 onwards, *Bolsa Família* and the Single Registry became the main instruments of a broad policy and political initiative to overcome extreme poverty in the country—the Brazil Without Extreme Poverty Plan (*Brasil sem Miséria*—BSM). The emphasis on actively reaching low-income households led to an increase in the number of households in the Single Registry: in 2014, it contained up-to-date information on 24 million households—around 40 per cent of the Brazilian population. With the new questionnaire form, it became possible to identify households from groups who frequently suffered from prejudice and cultural and linguistic barriers.

In 2011, benefits were adjusted at above-inflation rates, with substantial increases in the variable benefit paid to families with children up to 15 years old. The maximum number of children per family covered by the additional variable benefit was increased from three to five following initial evidence that the programme had no impact on fertility. These benefits were also extended to families with pregnant or breastfeeding mothers.

In 2012, the number of potential beneficiary households of the programme increased to 13.8 million and a new top-up benefit, the Benefit for Overcoming Extreme Poverty (*Benefício para Superação da Extrema Pobreza*—BSP) was introduced as part of *Bolsa Família*. During the first phase, only households with children aged from 0 to 6 years old were eligible for the BSP, but in February 2013 all extremely poor beneficiary households became eligible.

Also in 2012, monitoring of conditionalities was reoriented. The new aim of monitoring was to use data about non-compliance to ‘activate’ social assistance staff at the local level. Exclusions from the programme due to non-compliance became very rare. They could occur only after one year of monitoring by a social worker. The number of benefits cancelled for non-compliance was reduced from 17,500 in May 2012 (0.13 per cent of the beneficiary families) to 241 households in May 2014 (0.002 per cent of the beneficiary families).

Benefits and eligibility criteria were adjusted in March 2014, in June 2016, and in May 2018. In May 2018, the extreme poverty line was set at R\$89 (or US\$36.80, using the PPP conversion factor for private consumption for 2011, updated to May 2018) and the poverty line set at double the extreme poverty line (R\$178, or US\$73.60).

In October 2018, *Bolsa Família* celebrated its fifteenth anniversary, a significant achievement in the Brazilian context. In January 2018, the programme paid benefits to 14 million households, at an average level of R\$178 (or US\$74.16, using the PPP conversion factor for private consumption updated to January 2018). These households include more than 13 million students aged between 6 and 17 years old, whose school attendance is monitored. They also include 5.7 million children up to 6 years old, whose health status is also monitored. Virtually all pregnant women monitored by the programme have their prenatal schedule in order. Roughly 28 million households are covered by the Single Registry and have access to many other social programmes.

## Sustainability and Resilience

*Bolsa Família* faced two major crises of legitimacy. The first occurred early in the history of the programme, mostly driven by implementation issues. The second was a by-product of the transition to a new administration, after the impeachment of President Dilma Rousseff in 2016.

As previously mentioned, the programme faced significant challenges during 2003 and 2004. First, the unification of pre-existing federal cash transfers into *Bolsa Família* was not exactly smooth. Actors identified with these programmes resisted integration throughout the policy design phase and for some time after that. They lost power as a result of the unification of the federal cash transfers and, although this process was a clear step forward for the government and the country as a whole, from the perspective of these sectors it could be viewed as a loss of political power.

However, political resistance was not the only problem. During this period, the normative, administrative, and managerial structures of *Bolsa Família* had not been completed and several implementation problems emerged. The team responsible for the programme's administration in 2005 was successful in implementing management and policy improvements, which eventually had a positive impact on both policy indicators and on its legitimacy and political support. The programme would soon be considered a global reference case on how to implement a cash transfer in a diverse federal country of continental size. *Bolsa Família* became the largest CCT in the world and, together with Mexico's *Prospera*, has been considered a model for countries which had already adopted or are interested in adopting CCTs.

More recently, after the impeachment of President Rousseff in June 2016, the programme faced a different crisis of legitimacy. Despite its programmatic success, it was clearly associated with the administrations of the Workers' Party. After her re-election in 2014, President Rousseff rapidly lost popular support, which in turn affected the political support for the programme. Data collected by Cesar Zucco Jr., kindly shared with the authors, indicates a drop in the share of the population that approved the programme in 2015, compared with 2014. From the perspective of the new administration, criticizing aspects of the programme's design and implementation was an obvious way to attack their predecessors. Most of the criticism was directed at targeting accuracy. This was largely based on anecdotal evidence, since *Bolsa Família* continues to be one of the best targeted CCTs in Latin America (Soares et al. 2017).

This criticism led to more robust cross-checks of data from the Single Registry, including beneficiaries and non-beneficiaries, against other administrative registries available to the federal government. However, the overall strategy was not substantially different from the one adopted in 2005 and maintained systematically from 2007 onwards.

Concerns that the new administration would embark on a retrenchment of *Bolsa Família*, fuelled by rumours about the purge of millions of benefits due to budget constraints, were lifted as these cuts did not materialize. The programme remains largely the same in terms of beneficiary household eligibility and the budget remains relatively unchanged, even under very challenging fiscal conditions.

What is the source of the programme's resilience? As argued by Lindert and Vincensini (2010), there seems to be a connection between *Bolsa Família's*

increasing effectiveness and the political support that the programme eventually garnered. Its scale and positive outcomes help explain why it has been resilient, especially in recent years defined by a troubled political environment and a deep fiscal crisis.

The trajectory of *Bolsa Família* corroborates the hypothesis by Pierson (1996) about the resilience of social protection programmes in general. A significant retrenchment of a programme of this kind would only be possible in scenarios of severe fiscal crisis and under very specific political conditions. Even in such a context, governments would tend to be cautious, due to the possible political costs of decreasing benefit levels or strongly reducing the number of beneficiaries. Changes tend to be limited and incremental.

This seems to be the case for *Bolsa Família*. The country faced a severe economic downturn and underwent a fiscal crisis in 2015–16, a period during which President Rousseff, from the leftist Workers' Party, lost political support and was eventually impeached. The political group that took over the federal government can be defined as much more conservative, which raised concerns about how the programme would be conducted. However, a significant retrenchment would be difficult. With 14 million beneficiary households, any large cutbacks in the programme would come at dire political cost. This is especially true given that the World Bank (Skoufias et al. 2017) and the Organisation for Economic Co-operation and Development (OECD 2018), among other relevant international and domestic actors, are openly advocating for larger investments and the expansion of CCTs.

Therefore, after a short critical period, the new administration has started taking credit for the administrative improvements made in 2016–18, such as: adjustments in the benefit level (in 2016 and in 2018); the use of new administrative records to cross-check against the Single Registry; and the public commitment that all eligible households would immediately become beneficiaries. However, there remains some ambiguity. Given a choice, current decision-makers would probably prefer to prioritize initiatives aimed at 'teaching the poor how to fish instead of giving them a fish'. As this is not politically feasible, they have come to accept the advantages of *Bolsa Família*, while seeking to effect changes to its targeting and management.

The same analysis applies to other countries in Latin America and the Caribbean that have also experienced a shift towards more conservative administrations, while still facing the economic consequences of the 2008–9 great recession. They have adjusted their CCTs, marginally reducing their coverage from a peak of 22.7 per cent of the population in 2010 to 20.2 per cent in 2016. They have also cut the average expenditure of 0.38 per cent of gross domestic product (GDP) in 2014 to 0.33 per cent of GDP in 2015 (Cecchini and Atuesta 2017). Nonetheless, considering the economic and political contexts that these countries have experienced, our main conclusion is that these adjustments are a sign of resilience rather

than of weakness. In many of these countries, CCTs remain the only layer of social protection available to those outside the formal sector.

From a political perspective, however, *Bolsa Família* is still in a delicate position. While developed countries offer a broad range of public policies to address poverty, unemployment, and vulnerability, *Bolsa Família* bears the responsibility of being the only layer of social protection for low-income groups and for workers in the informal sector and their families. Public expectations of what the programme can accomplish are perhaps too high. The mistaken idea that it should single-handedly and permanently eradicate poverty often surfaces in the media and among policy-makers.

It is important to acknowledge the limitations of the programme in its capacity to address the multi-dimensional nature of poverty and vulnerability, including highly volatile and unequal labour market conditions. The programme will remain an imperfect tool to address the range of social risks faced by its beneficiaries. A more comprehensive and sophisticated set of redistributive policies would probably be necessary to reduce the pressures on the programme.

## Conclusion

CCTs emerged in Brazil in the mid-1990s from local governments' innovative policies and experiences. In Mexico, *Progresá* was implemented in 1997 at the federal level. These programmes have gradually become the first and only social protection layer for low-income groups and those dependent on informal employment in several countries in Latin America and the Caribbean. They represent a break from the prevailing social protection systems in these countries, which were historically based on social insurance and with a clear bias towards older people, leaving large sections of the population unprotected.

In 2003, *Bolsa Família* unified various pre-existing nationwide CCTs in Brazil, which were based on different eligibility criteria and relied on independent administrative registries. This was a substantial administrative challenge to overcome, and it speaks to the procedural success of the policy. Strong political commitment pushed the programme towards a rapid expansion, in a period when critical mechanisms of governance were still under construction (Lindert and Vincensini 2010). The programme faced a crisis of legitimacy just one year after its enactment. The main staff were replaced and a series of administrative developments followed.

Over the years, national and international experts and agencies have conducted evaluations of the programme. These evaluations have found effective targeting of low-income groups, positive effects on the reduction of poverty and inequality, and improvements in educational and health outcomes. *Bolsa Família* has very low administrative costs and in terms of transfer budgets. It has received strong

support from multilateral institutions and from social protection specialists, both domestically and abroad. Evidence points to an expressive programmatic success.

Political success emerged over time. Initial political resistance to the programme eventually abated: what worked technically eventually started working politically. In a poll conducted in August and September 2014, a strong majority of voters—75 per cent—declared to be ‘in favour’ of the programme. Across all age, sex, race, religion, education, and regional groups, approval was above 50 per cent. All the relevant candidates for that year’s presidential election also declared their support for the programme. A first important lesson to be learned relates to the interplay between policy effectiveness and political support. Effectiveness, as demonstrated by robust evaluation, though not the only factor in boosting political support, seems to be quite relevant.

More recently, with the economic downturn, the impeachment of President Rousseff and the election of Jair Bolsonaro, *Bolsa Família*—symbolically linked with the Workers’ Party—has lost some of its political support. The country’s post-impeachment political and economic context was challenging: the new administration was certainly more conservative, and the country faced one of its worst fiscal crises ever. One could fear a strong retrenchment, with a significant cut in number of beneficiaries and in the budget. However, the programme has remained strong even through this difficult period. The number of beneficiary households is at an all-time high, relevant stakeholders such as the World Bank and the OECD have reinforced their support, and the programme’s budget has been reduced only marginally in real terms.

A second lesson is that large social protection programmes tend to be resilient, even in difficult times. Pierson’s explanation for the resilience of welfare state programmes against retrenchment is that redistributive programmes are more likely to develop under left-wing administrations, with the support of strong unions, but they do not necessarily depend on them when facing adverse contexts. This is simply because, once established, they create a decisive group of supporters—their own beneficiaries. Cutting these programmes implies political costs, and even administrations inclined to adopt these cuts must reconcile their ‘policy preferences’ with their ‘electoral ambitions’ (Pierson 1996).

From a short-term political perspective at the time of writing, the election of Bolsonaro in the October 2018 presidential ballot could present a major challenge. In previous elections, viable moderate candidates have opted to declare their support for the programme, but Bolsonaro’s position is far less clear. During the campaign, he suggested that ending the programme would be inhumane, but on the other hand he also stated that the state should be less supportive of certain groups, including those who could be considered disadvantaged. There are clear political costs in producing a major change in the programme, but they might seem affordable to an unconventional politician who is also determined to rewrite the rulebook in other areas of policy.

Even if these immediate challenges are overcome, from a medium- to long-term perspective, the tendency is that the programme will remain under close scrutiny as it is the only layer of social protection for those in the informal sector. CCTs are subject to excessive expectations. Only a comprehensive and inclusive set of social policies and programmes can ensure the eradication of poverty and the reduction of vulnerability.

The good news is that the CCT model has already proven to be extremely flexible, able to fit and thrive in different regional contexts. Twenty-three years after their emergence in Brazil, CCTs have become an anti-poverty policy widely acknowledged as effective. Many countries have been developing original solutions to the many challenges faced by such programmes, from how to deliver transfers in remote areas to how to effectively target the poor without producing large exclusion errors. Sharing these international experiences has been extremely fruitful for national teams to increase the effectiveness of their own programmes.

Of course, criticisms of CCTs still persist. From the conservative side, there are those who insist that these programmes reduce labour supply and increase fertility. However, evidence from impact evaluations has to date rejected this claim, and they have not become so politically damaging as to put CCTs at risk. From the Left, some will say that targeting and conditionalities inevitably result in the exclusion of some groups from their right to social protection. Yet even these critics should recognize that CCTs are the only configuration of social protection that reaches low-income groups and workers in the informal sector and their families. Such programmes have made social protection more likely to reach these groups, not less.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

### **Notes**

1. CCTs are one of the main instruments of social safety nets (SSN)/social assistance (SA) programmes, defined as 'non-contributory interventions designed to help individuals

- and households cope with chronic poverty, destitution and vulnerability. SSN/SA programmes target the poor and vulnerable' (World Bank 2018: 5).
2. Statement from Rodrigo Maia, the Speaker of the House of Representatives, available at <https://oglobo.globo.com/brasil/maia-afirma-que-bolsa-familia-escraviza-as-pessoas-22296779>.
  3. Inflation in 1993 was upwards of 2,000 per cent per year. It dropped dramatically, from almost 50 per cent in May 1994 to 1.9 per cent in July of the same year. However, it is impossible to know exactly what happened with poverty between 1993 and 1995, since the National Household Sample Survey (*Pesquisa Nacional por Amonstragem de Domicílios*—PNAD), the main source of information regarding poverty in the country, was not conducted in 1994.
  4. Senate Bill no. 80/1991. Available at <http://www25.senado.leg.br/web/atividade/materias/-/materia/1270>. The bill was approved by the Senate but was never brought to a vote in the House of Representatives (Lindert et al. 2007; Cotta 2009).
  5. See, for instance, Buarque (1993) and Almeida and Camargo (1994).
  6. *Progesa* was later relabelled *Oportunidades* and, more recently, *Prospera*. It was initially implemented in marginalized rural areas but was later scaled up to have nationwide coverage.
  7. Or US\$45.88, using the PPP conversion factor, private consumption, 2011, adjusted for October 2003.
  8. That is, from US\$13.76 to US\$87.17, using the PPP conversion factor, private consumption, 2011, adjusted for October 2003.
  9. It seems that these perceptions were correct. There is growing evidence about the impact of conditionalities per se (cf. Baird et al. 2013 and, for the *Bolsa Família* programme specifically, Paiva et al. 2016). Zucco Jr. et al. (2016) suggest that the impact of conditionalities on the overall political support for *Bolsa Família* is modest, but 'considerably larger' among groups that are less inclined to support the programme.
  10. First as Provisional Law no. 132, from October 2003, then converted into Law no. 10,836, from January 2004.
  11. In social policy, 'negative dependence' can be defined as a situation where 'current needs are met at the cost of reducing the recipient's capacity to meet their basic needs in the future without external assistance' (Lentz et al. 2005).
  12. The 1988 Constitution bestowed the federal government, the states, and local governments in Brazil equal decision-making power.
  13. Partnerships with states were also signed, especially after 2011. Currently, a few agreements are still operational (four with states and two with municipalities). For a recent evaluation about the post-2011 agreements, see Lício et al. (2018).

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# The Remarkable Healthcare Performance in Singapore

*M. Ramesh and Azad Singh Bali*

## Introduction

Singapore's healthcare system ranks among the best in the world in terms of various commonly used criteria such as infant and maternal mortality rates, life expectancy, and disability adjusted years, prompting *Business Week* magazine to rank it as the healthiest country on the planet. What is even more remarkable is that the fine outcomes are accomplished at less than half the costs in comparable countries. Policy reformers around the world have taken note of its achievements in recent years and have explored emulating it, though most observers admit that the social and political conditions in the island state are too different to allow emulation. Yet there are lessons to be drawn from the case that would be relevant to most countries.

While the specific factors underlying the achievement of high healthcare outcomes at relatively low costs in Singapore are rooted in the country's rather unique economy and politics, it is undeniable that the government has been the main architect of the system and a key driver of the reforms. In this chapter, we will chronicle and analyse the evolution of the policy measures and their performance since Independence. For the sake of simplicity, we will classify the vast and diverse range of factors that shape the performance of the healthcare sector under three categories: socio-economic development, policy tools, and political conditions.

As will see in the chapter, there is no grand health 'policy' in Singapore. Rather, there are a range of policy tools targeting specific problems that work in tandem and need constant fine-tuning in response to policy learning and technological, demographic, and economic changes. The constant changes of varying magnitude are possible due to clarity of purpose on the part of the government, backed by strong political and administrative commitment, and the absence of a credible political opposition. Policy-makers and implementers know what they want and constantly experiment and fine-tune measures in order to achieve them. A range of heterodox policy tools working in concert, learning and being willing to change course, unhindered by political opposition, are what contribute to Singapore's health success.

In terms of assessing different dimensions of Singapore's health policy success (see Chindarkar et al. 2017; Bali et al. 2019), our analysis suggests that the government enjoys considerable success across *programmatic* and *political* dimensions. Sustained policy performance, political legitimacy, and the electoral dominance of the ruling party allowed the government to remain indifferent to *process* outcomes or inequities in the delivery of policy. For instance, Singapore stands out as one of the few high-income societies where historically more than 50 per cent of healthcare expenditure was financed without any societal risk-pooling (Table 3.1). However, increasing democratization, economic and social contestability, and a rapidly ageing population will make the ruling government sensitive to such inequities.

### Anatomy of Healthcare Success in Singapore

Ongoing debates on healthcare in many countries, particularly the United States, have precipitated unprecedented interest in Singapore's healthcare system and the reasons behind its admirable performance (Carroll and Frakt 2017; Ehrenfel 2018). This is unsurprising given its impressive headline numbers regarding healthcare. Singapore's infant mortality rate of 2.1 per 1,000 live births in 2015 ranks sixth best in the world (behind Iceland, Slovenia, Finland, Japan, and Luxembourg) while its life expectancy (83 years at birth) ranks the ninth highest in the world (behind Hong Kong, Japan, Macao, Italy, Spain, Switzerland, Iceland, and France) (World Bank 2018). Between 2003 and 2013, life expectancy increased by 3.5 years for males and 2.9 years for females, compared to the average increase of 2.5 and 2.0 years respectively for OECD countries (MOH Singapore 2016). The gain in life expectancy has been driven by declining mortality rates in cardiovascular diseases among those aged 50 years and above.

Singaporeans are not just living longer, but are also enjoying healthier life, as evident from the city's rising Healthy Life Expectancy (HALE). According to the 2013 Global Burden of Disease (GBD) study covering 188 countries, males (females) in Singapore spend the equivalent of 70.75 (73.35) years of their life free of disease and/or injury, which is the second (third) highest in the world (Murray et al. 2015).

While Singapore's health status indicators are good, it is the low cost at which they have been achieved that stands out among other high performing countries. As Table 3.1 shows, its total healthcare spending—5 per cent of GDP—is less than half of the average for high-income countries and the European Union. Another remarkable feature is the small share of the total formed by public spending: 42 per cent, compared to the average of 62 per cent for high-income countries. Not only is the private share of spending large, 55 per cent of it comes from out-of-pocket (OOP) and not private insurance. While the low total spending is

**Table 3.1** Healthcare expenditures in selected countries

		1995	2000	2005	2010	2014
Health expenditure, total (% of GDP)	European Union	8	8	9	10	10
	High income	9	10	11	12	12
	Japan	7	8	8	10	10
	<b>Singapore</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>5</b>
Health expenditure, public (% of total)	European Union	78	77	76	78	78
	High income	63	59	60	63	62
	Japan	82	81	81	82	84
	<b>Singapore</b>	<b>50</b>	<b>45</b>	<b>27</b>	<b>35</b>	<b>42</b>
Out-of-pocket health expenditure (% of total expenditure on health)	European Union	14	15	14	14	14
	High income	15	16	15	14	13
	Japan	14	16	16	14	14
	<b>Singapore</b>	<b>49</b>	<b>53</b>	<b>69</b>	<b>61</b>	<b>55</b>

desirable, the large share of OOP is a matter of ongoing concern, as we shall later in the chapter.

The international community first took notice of Singapore's high outcomes at low cost in 2000 when the World Health Organization (WHO) ranked it sixth out of 191 countries for 'overall health system performance' (WHO 2000). Such accolades became more frequent in the following decade. The Bloomberg Health-Care Efficiency Index 2014 ranked Singapore second out of fifty-five countries (Hong Kong was first). The index is a composite of 'Relative health expenditure' (total health expenditures as percentage of GDP), 'Absolute health expenditure', and 'Life expectancy' (which accounted for 60 per cent of the index). Similarly, according to the Economist Intelligence Unit's study of 166 countries, Singapore ranked second in healthcare outcomes (behind Japan) but achieved its outcomes at considerably lower costs (Economist Intelligence Unit 2014). We now turn to describing the evolution of health policy in Singapore followed by an examination of the reasons for its performance.

### **Policy History: Incremental Reforms**

The healthcare system in Singapore is rooted in Great Britain which ruled the island until 1959. Healthcare was a low priority for the colonial government and it built only a basic health system. In the final years of colonial rule, however, the government became increasingly involved in the provision of free inpatient care through public hospitals, partly reflecting the development of the National Health Service in Britain. The People's Action Party (PAP) government that took office in 1959 retained and gradually expanded the arrangements while introducing modest reforms. The expanding role of the government was reflected in its

spending: public expenditures on healthcare formed 50 per cent of total spending on health in 1965 (Lim and Lee 2012).

During the 1960s and 1970s, the government expanded public health clinics (called ‘polyclinics’)—entirely owned and operated by the government and providing basic outpatient services—throughout the island. It also expanded School Health Services and compulsory free immunization against a range of diseases. At a broader level, the government worked on improving sanitation, housing, and education which together with expanded public health measures played a major role in improving the population’s health.

The financial implications of publicly provided healthcare nearly free of charge became increasingly apparent as trends of population ageing and epidemiological transition emerged, prompting the government to search for alternative mechanisms for providing and financing healthcare (Aw and Low 1997). It was within the context of these broader changes that the government announced the National Health Care Plan in 1983 outlining a strategy for meeting the demands of a growing, ageing, and increasingly affluent population.

The 1983 plan rejected social insurance for financing on the grounds that third-party payment would lead to over-supply by producers and over-use by consumers. It instead proposed a range measures to improve the efficiency of hospitals coupled with higher user charges for patients. In 1984, the government initiated efforts to make public hospitals more efficient. Reflecting the privatization trend sweeping the world at the time, it ‘corporatized’ public hospitals as private legal entities—though fully owned by the government—and encouraged them to compete for paying patients. To enable them to compete, it granted them full autonomy in strategic and operational matters. The enhanced competition was expected to lead to greater efficiency, lower costs, and higher service quality, though in reality these effects remained elusive (Ramesh 2008).

Medisave, established in 1984, was the first of many new healthcare funding initiatives to be launched during the period. The compulsory scheme covers the entire resident workforce and requires saving between 6 and 8 per cent of individual monthly income (subject to a wage ceiling) to be used to pay for hospital care of the account-holder and their immediate family. However, it limits the range of services and the total amount that can be spent. The exclusions and ceilings are intended to allow accumulation of funds to pay for expensive inpatient care when needed. Since savings in Medisave accounts are individuals’ own money, the government expected that people would spend it cautiously.

In 1990, the government established a publicly organized but privately financed voluntary health insurance scheme called MediShield. It covered hospitalization expenses for surgery and outpatient treatment for specified ‘serious’ illnesses. Its establishment, despite the government’s opposition to social insurance, was in response to the realization that most Medisave accounts were insufficient for treatment of major illnesses. Premiums were kept low by imposing a large number

of exclusions and a cost-sharing requirement to avoid the moral hazards associated with insurance. As a result, MediShield typically paid only for a small part of the hospital bills, with the remainder paid out of pocket.

The realization that there was a segment of the population that could not afford even highly subsidized healthcare led the government to establish a public assistance scheme called the Medifund in 1993. It is an endowment trust fund built on an initial US\$59 million contribution from the government. To prevent depletion of the fund, only income from the fund is used to pay bills of those unable to afford hospital care. Under the scheme, patients in the lowest class wards at public hospitals and outpatients needing expensive services may apply for complete or partial waiver of their bills. Medifund accounts for a negligible share of total healthcare expenditure as citizens have to pass a stringent means test to receive any benefits. In 2014, S\$133 million were distributed amongst 766,000 applicants, an average of about S\$170 per applicant.

The results of the reforms—increased autonomy and competition among hospitals, and establishment of Medisave, MediShield, and Medifund—were not what government had expected. While the service quality improved, costs and fees increased rapidly. It also came to realize that Medisave, MediShield, and Medifund—collectively described as 3M—even together paid for less than 10 per cent of total health expenditure, imposing a significant burden on household finance (Asher and Nandy 2006). The government eventually established a high-level Ministerial Committee which published its report *Affordable Health Care: A White Paper* in 1993. The report stated five operating principles, of which three were notable:

- Promote *individual responsibility* for one's own health and avoid overreliance on state welfare or third-party medical insurance.
- Engage *competition and market forces* to improve service and raise efficiency.
- *Intervene directly* in the healthcare sector when necessary, where the market fails to keep healthcare costs down.

The combination of market competition and enhanced state intervention spelled out in the White Paper was audacious and counter-intuitive but displayed remarkable astuteness in recognizing the challenges that characterize the sector. Contrary to the dominant thinking in favour of the market at the time, it asserted that competition should be promoted under government stewardship, arguing that market forces alone would not suffice to hold down medical costs to the minimum and that the government had to intervene directly to structure and regulate the health system (MOH Singapore 1993: 3). It called for direct measures to control costs while promoting competition. In the following years, the government imposed controls on introducing new technology and specialist disciplines in government hospitals, introduced price caps, excluded expensive treatments from public hospitals, and tightened overall supply of doctors (Barr 2001: 714).

The direction set by the White Paper continues to frame the government's policy to this date, with reforms consisting largely of changing the specific combinations of market and state control.

While the government began to actively manage the health sector in the 1990s, senior cabinet ministers of the government routinely reminded citizens that it had no intentions of setting up a publicly funded health system or even elaborate welfare programmes. The 1998 Budget stated bluntly: 'We believe that extensive welfare programmes damage the fabric of our society as they discourage individual responsibility, self-reliance, community support and the work ethic' (cited in Tang 2000: 42). Unsurprisingly, most healthcare continued to be paid through OOP payments and yet the government was under constant political pressure to increase public spending and expand the 3M programmes.

The government was forced to act after the 2011 general elections in which the long-serving PAP received its lowest share of votes cast. It dramatically expanded the scope of MediShield, renaming it MediShield Life (ML). The revised programme is mandatory and covers all pre-existing illnesses and has no age-limit. The government has also increased public funding for hospitals, offers subsidies to cover the premiums of MediShield, and injected S\$3 billion into the Medifund endowment fund.

## **Socio-Economic Context**

Healthcare outcomes are not solely determined by health policy. They are also fundamentally shaped by conditions and actions outside the sector. Indeed, income levels, sanitation, education, and housing are important determinants. In this regard, health policy in Singapore has benefited greatly from a number of favourable conditions that promoted improvements in health status. Singapore's GDP per capita in 1960 was US\$430, which was a third of that of OECD economies, but in recent years it has been over US\$55,000 which is 50 per cent higher than the OECD average. The higher income allowed households to take better care of their health.

This economic success is in part attributed to a growth strategy that has relied on attracting foreign firms and portfolio investors and utilizing foreign workers across the skill spectrum (Asher et al. 2015). The overarching policy goal was to ensure that Singapore remained internationally attractive for businesses which meant keeping income taxes low. Such a growth strategy required an inflow of foreign workers, and a tolerance of a high level of income inequality.<sup>1</sup> Lacking political voice, it has been easy to ignore the social welfare needs of foreign workers. The government maintains a significant presence in the economy by direct participation, state-led planning, and the use of interventionist policies (Lim 2016). Government-linked and government-owned companies, and statutory

boards, play a strong role in Singapore's approach to economic management. These are pervasive across most areas of service delivery including health, education, waste management, transportation, infrastructure, etc.

While Singapore's population is ageing rapidly, the city-state has had a relatively young population for a high-income economy. For example, in the 1960s when its per capita income was about four times that of middle-income countries, its population above 65 years of age was substantially lower. More recently, its population above age 65 (11 per cent) is much lower than the average in OECD economies (17 per cent) (World Bank 2018). This is changing, however, and the population is ageing rapidly due to declining fertility rates coupled with sustained increases in longevity. This in turn has implications for health spending as consumption increases disproportionately with age.

In addition to a relatively young population, Singapore has benefited from concomitant policy efforts in housing and education. Just after a year of coming to power in 1959, the PAP set up the Housing and Development Board, a statutory body with comprehensive responsibility for public housing and urban development. In the early 1960s only 10 per cent of Singaporeans lived in public housing. In 1964 the government announced its goal of creating a 'home-owning democracy' in which 90 per cent of the population would live in homes they owned. The objective of 90 per cent home-ownership was reached in the late 1980s through subsidies, grants, and the large-scale public provision and financing of homes (Ramesh 2004). Similarly, Singapore has made significant advances in education attainment. In 1980 more than four-fifths of residents had not completed any secondary education and only 3 per cent had a university degree (Pang and Lim 2015). The highest qualification attained has since improved significantly with more than half the resident population having completed a university degree, diploma, or a professional qualification by 2015 (Waring et al. 2018).

The combined impact of a relatively young population, and conducive complementary policies—focused on improving education attainment, home ownership, and public amenities such as clean drinking water, solid waste disposal, and management systems—has shaped Singapore's public health outcomes. For instance, public housing with clean drinking water allowed the government to contain the widespread of malaria and tuberculosis (Phua 1987). Singapore's housing policy gradually transitioned households that lived in 'overcrowded pre-war shophouses, slums or tenements' in the 1950s to public housing with access to electricity, gas, clean water, and toilets, which in turn helped manage water-borne and other infectious diseases that confront most societies in their economic and epidemiological transitions (Phang and Kim 2013). In turn, Singapore's sustained economic prosperity and growth in real incomes (except for the bottom deciles of the distribution) tempered the impact of high OOP payments (the dominant instrument to finance healthcare).

## Policy Tools: Multiple Tools, Concerted Use

Conducive as the socio-economic conditions were in Singapore to improvements in health outcomes, their potential would have remained unrealized in the absence of appropriate government policy. Singapore's health policy is characterized by a range of policy tools targeting specific problems while keeping an eye on the linkages among them. To make the combination of tools work effectively, the government has had to target and guide behaviour of all key stakeholders: providers, payers, and users (Wu and Ramesh 2014; Bali and Ramesh 2017). Using Christopher Hood's NATO schema, we classify the tools into four groups as shown in Table 3.2.

*Organizational* tools work by establishing new organizations or altering existing organizations to achieve desired outcomes. Thus, instead of regulating or financing healthcare, governments can establish a new public hospital to provide desired services or, conversely, privatize an existing private facility. The purpose of *authority tools* is for the state to employ its sovereign authority to prohibit undesired behaviour and, conversely, require desired behaviour. *Treasure tools* come in a variety of forms, including direct transfers to providers or users, subsidies to the insured directly or through their insurers, tax incentives, and tax penalties. The most common fiscal tools in healthcare are fiscal transfers to providers (public or private) or the insurers or insured individuals as well as mandated savings for healthcare and retirement income. The core purpose of *nodality tools* is to reduce the information asymmetries and especially the ability of any particular agent to exploit its information advantage. The tool is particularly useful for empowering users and third-party payers vis-à-vis providers who are in an advantageous position in the presence of information asymmetry.

Not only are there a large number of policy tools available for use in healthcare, but they also need to be used coherently if they are to address complex

**Table 3.2** Policy tools in Singapore's healthcare system

<b>Organization tools</b>	<b>Treasure tools</b>
Public ownership of hospitals and polyclinics	Subsidy to public hospitals
Incorporation of public facilities as private companies	Medisave, Medifund, and MediShield
Regional clusters of hospitals	Out-of-pocket payments
	Fee for Service and Casemix payments
<b>Authority tools</b>	<b>Nodality tools</b>
Certification of all healthcare professionals	Public health campaigns
Regulation of all significant aspects of providers' and insurers' operations	Publication of median bill sizes and clinical outcomes
Regulations of drug supplies	Collection and dissemination of information on healthcare utilization

problems. Overcoming the conflicting goals and divergent interests among stakeholders amidst vast information asymmetry in the sector requires an appropriate combination of these tools. The challenge, however, remains how to harness synergies and complementarities in using these tools. Far too many reform efforts in healthcare have resulted in failures or caused more harm than good due to the inadequate or contradictory use, not to mention misuse, of these tools (Blumenthal and Hsiao 2005; Bali and Ramesh 2015; Nguyen et al. 2015; Powell-Jackson et al. 2015). In Singapore, however, the government met this challenge, and was able to develop a policy mix of tools that harnessed these synergies and complementarities (Howlett et al. 2015).

## Organizational Tools

Singapore has many of the same tools as most other countries, with certain interesting twists. Prominent agencies are discussed here. The Ministry of Health (MOH) has overall responsibility for healthcare, including needs assessment, services planning, manpower planning, system governance and financing, fee-setting, cost control, and health information technology (Liu and Haseltine 2015). The Health Promotion Board is responsible for promoting public health awareness and practices. To realize economy of scale and higher price bargaining capacity, there is the Group Purchasing Office to consolidate purchases of drugs, medical supplies, equipment, and IT services at the national level. To further enhance information effectiveness, the Agency for Care Effectiveness (ACE) was set up in 2015 to conduct research on treatments that provide the best value for money.

A unique entity in Singapore is MOH Holdings Private Limited (MOHH) which is registered as a private company though fully owned by MOH. As suggested by its name, it is a holding company which owns all of the government's healthcare assets, including all public hospitals which are also registered as separate private companies with their own separate management and CEO. As an owner of all government healthcare assets, MOHH provides systems-level strategizing and coordination, and facilitates collaboration across healthcare clusters and institutions.

A distinct feature of Singapore's health system is the extensive government ownership of hospitals and how it manages them. Public hospitals account for nearly three-quarters of all hospital beds in the country and employ three-fifths of all specialists (Lim and Lee 2012). However, public hospitals in Singapore are exposed to market competition and hospital managers are given broad autonomy in operational matters. Public ownership of what are legally private firms allows hospitals the autonomy they need to operate in a competitive environment while remaining within the government's direct reach (Ramesh 2008). As an owner, the government can shape hospitals' behaviour without having to resort to onerous

regulations or purchase negotiations that would be necessary if they were truly private firms. This has been particularly useful for controlling user charges, physicians' remunerations, and the number of hospital beds in different ward classes, for instance.

Unlike hospital care, primary care in Singapore is mostly delivered at private clinics that account for 80 per cent of outpatient visits while the remaining 20 per cent is provided by eighteen public polyclinics that provide subsidized services especially for low-income residents and the elderly. Similar to many countries, the public healthcare system in Singapore is divided into regions which have changed over the years. In 1999 two similarly sized 'clusters' of vertically integrated public hospitals and clinics were established with the purpose of promoting economy of scale, coordination and planning of resources, integration of inpatient and outpatient services, and a more effective patient referral system within each cluster. Inspired by the success of two competing clusters, and seeking to further enhance competition, in 2015 all public hospitals and associated polyclinics were reorganized as six regional clusters spread across the island. As of 2018, the six clusters were reorganized into three clusters to enhance economy of scale while maintaining regional access. MOH conducts annual surveys of patient satisfaction and expectations which indicate high favourability rating: the 2012 survey showed that 77 per cent of respondents were satisfied with services at public facilities (Liu and Haseltine 2015). The government has established a Public Acute Hospital Score-card system for assessing performance of polyclinics and community hospitals.

### Financial Tools

Singapore is unique in its heavy reliance on OOP expenditure, which forms 55 per cent of total health expenditure, compared to the average of 13 per cent for high-income countries (Table 3.1). This is the result of a deliberate policy choice inspired by the thinking that households must bear the primary responsibility for healthcare expenditures (Barr 2001; Asher and Nandy 2006). The adverse effects of OOP are in part mitigated by low levels of total spending, and lower prices at public hospitals and polyclinics which receive government subsidies and offer frugal cost-effective services. Government financing accounts for 42 per cent of total health spending in Singapore, mostly in the form of subsidies to public hospitals. Subsidies are based on the number of patients admitted to different wards. There are five classes of wards in public hospitals—A, B1, B2+, B2, and C—providing different levels of privacy, amenities, and choice. Patients in C-class wards are subsidized up to 80 per cent of the costs while those in A-class wards receive no subsidy.

There are also other schemes financed from the government's general budget. The Community Health Assistant Scheme, for instance, is an income-tested

scheme that offers additional grants to low-income households (below S\$1,800 per capita per month) for outpatient treatment. Similarly, the Pioneer Generation and Merdeka subsidies reduce insurance premiums and co-payments for select cohorts of elderly Singaporeans. There are also extensive public health campaigns fully financed by the government.

In addition to the 3M schemes—Medisave, MediShield, and Medifund (described earlier)—there are subsidies provided to hospitals. The arrangements for paying providers have also changed over the years, moving increasingly in the direction of capped payments. Until the 1980s, public hospitals had been paid a block grant based on historical precedence. In the 1990s the payment formula was changed to reflect the volume of services they provided, consistent with the fee-for-service they charged patients. Predictably, hospitals increased the quantity of services they provided. To curb rising expenditures, in 1999 the government introduced case-mix funding which paid a fixed amount depending on the illness. To prevent under-servicing—a problem that is endemic to case-mix because providers are paid a fixed amount per case regardless of the treatment costs—there is a payment component that includes the volume of services provided.

### Regulatory Tools

The use of organizational and fiscal tools in Singapore is supplemented and complemented by extensive regulations. The MOH, for example, regulates licensing of healthcare institutions, provision of unsafe or undesirable services, and advertising and marketing of healthcare products and services.

Self-regulation also exists in the form of practice guidelines and codes of ethics and conduct by professional bodies, such as the Singapore Medical Council, Singapore Dental Council, Singapore Nursing Board, and Singapore Pharmacy Board. The councils play an active role in ensuring that costs are ‘competitively priced’ and in the stewardship of the sector. There have been instances where the Medical Council has censured providers for ‘over-charging’ patients (Straits Times 2017). Such controls on provider behaviour reduce their monopoly power in the health sector, and reduce room to engage in maleficent behaviour.

The Health Sciences Authority regulates the manufacture, import, supply, presentation, and advertisement of modern and traditional medicines, health supplements, cosmetic products, medical devices, and medicinal therapies for clinical trials. The insurance industry is regulated by the Monetary Authority of Singapore as part of its financial regulatory role (Liu and Haseltine 2015). The extent of government controls over providers is higher than what is suggested by regulations. The complete ownership of public hospitals allows MOH to direct all significant aspects of their operations: the types and volume of specialized clinical services they provide, the fees they charge, the salaries they pay, and the expensive

equipment they purchase. Controls on providers are paralleled by similar curbs on users, who are subject to co-payments, deductibles, and restrictions on the use of Medisave and MediShield for consultations, treatments, and procedures. These controls discourage unnecessary doctor visits, tests, and treatments, resulting in more careful use of health system resources (Liu and Haseltine 2015).

There are also regulation-like controls exercised through fiscal tools. For instance, ML covers hospitalization only in basic hospital wards, as subsidies decline with the ward class, being zero for the highest A-class ward. Similarly, access to advanced tertiary care or diagnostic tests is rationed by waiting times if treatment is to be reimbursed by Medisave and ML. While patients have immediate access to tertiary hospitals and specialists, they do not receive subsidized prices in the absence of referrals. Restrictions on the use of Medisave as well as ceilings on the maximum amount that providers can be paid from an individual's Medisave account reduce scope for moral hazard. The MOH is known to closely monitor billing practices of hospitals and raise alarm when anomalies or excessive treatment are observed.

The government exercises light regulatory touch on private providers in order to maintain their competitiveness vis-à-vis an otherwise robust public system in the country. Private providers are seen as crucial to the objective of attracting medical tourists to the country and enhancing the quality of public hospitals by posing competition to them. Thus, public providers receive substantial subsidies from the government but are also subject to strict controls regarding the number of hospital beds and their distribution by wards, fees they charge, acquisition of technology, and expansion of specialities. Private providers, on the other hand, are lightly regulated but receive no or little subsidy. Through different regulatory regimes for public and private providers, the government is able to pursue a diverse range of goals.

## Information Tools

One of the steepest challenges faced by healthcare policy-makers is the deep information asymmetries that characterize the sector, allowing providers to be in a dominant position vis-à-vis third-party payers and users (Bali and Ramesh 2015). It is only recently that advances in information and management technologies have allowed development of tools to bridge the asymmetries by empowering users and third-party payers.

An innovative information tool the Singapore government has employed to improve service quality and lower prices is to acquire and disseminate information on hospital charges and clinical outcomes. As the Minister of Health put it:

For economics and markets to work, we must make sure that the conditions for market competition exist. That is why I published the bill sizes for the common medical treatments . . . When competition is brought to bear on these services, we

will then have the right incentives for the healthcare providers to do the right thing, to raise standards even as they reduce cost. (Khaw 2005)

Since 2003, public hospitals have been required to publish their average bill sizes and the distribution along the mean (which includes charges for room, treatment, surgery, laboratory test, etc.) for different common conditions and procedures. The collated data is subsequently published on the MOH's webpage. The hospital managers were understandably resistant to disclosing information on their charges and clinical outcomes but the government eventually prevailed over them. Private hospitals were more successful at resisting participation, but they too eventually complied due to pressures from the government and users. This exercise culminated in the MOH introducing benchmarks for medical fees jointly developed by doctors, hospitals, and other stakeholders in 2018. Such benchmarks are expected to give doctors a yardstick against which to measure their prices while giving patients a clearer idea of comparative costs.

Given the volume of data collected over the years, the MOH now maintains online calculators, which are synchronized with Medisave and ML limits. It is likely that the information made available on the webpage is used more widely by hospitals (rather than patients) who use the informative to benchmark their prices and outcomes against their competitors'. To take advantage of modern information technologies available for hospital management, the government has for more than a decade tried to make hospitals harmonize their financial, clinical, administrative, and diagnostic processes through integrated information systems. The National Electronic Health Records (NEHR) platform was established in 2011 for capturing relevant information from all providers. While public providers have participated in the platform, private hospitals and especially private clinics have resisted it for a variety of reasons. This changed in 2018 when participation in NEHR became mandatory. Providers must now contribute data regarding admission, visit history and hospital discharge; laboratory test and radiology results; history of medication, surgeries, and procedures; allergies and adverse drug reactions; immunizations; etc.

The diverse range of policy tools deployed illustrates the government's governance and managerial approach to the sector. Moreover, it has not shied away from retracing its steps and experimenting with a newer combination of tools to address a given policy goal such as reducing information asymmetry or managing moral hazard.

### **Political Conditions: Continuity and Unity of Purpose**

It is broadly acknowledged that healthcare is one of the most difficult areas for policy reform due to the diverse, powerful, and entrenched interests that constitute the sector. This general description of the politics of health applies only

partially to Singapore, however, as the government has been able to take drastic and even unpopular measures to implement policies it thinks are right. This has been possible due to the rare degree of policy autonomy that it enjoys as a result of its overwhelming dominance of politics. It is improbable that a more contested political system would allow the space necessary for comprehensive and coherent policy of the sort in Singapore.

Singapore is essentially a one-party state with a single party in power since 1959, despite free though arguably not entirely fair elections (Tan and Grofman 2016; Bertelsmann Transformation Index 2014). The PAP has won 95–100 per cent of all seats and more than 65 per cent of the votes in all elections since Independence (Tan and Grofman 2016). The reason behind its long-term dominance is not as simple or as pernicious as some critics allege. Freedom House designates Singapore elections as ‘free from irregularities and vote rigging’ (2015), though it also notes that ‘the opposition is hamstrung by a ban on political films and television programs, the threat of libel suits, strict regulations on political associations, and the PAP’s influence on the media and the courts’. While one can rightly speculate on the outcomes in the absence of the hurdles faced by opposition parties in Singapore, there is no doubt that the PAP enjoys widespread support and puts up a vigorous fight at elections.

The PAP’s electoral appeal is built on the reputation of the government in bringing peace and prosperity to the island, raising the country from ‘the third world to the first’ in one generation. For three decades since the early 1970s, Singapore enjoyed one of the fastest economic growth rates in the world, with corresponding improvements in education, healthcare, and other public services. The tangible improvements in people’s lives afforded the government, and by extension the PAP, high levels of performance legitimacy (Barr 2014). According to the Global Barometer Survey, the Prime Minister and National Government in Singapore are tied for the third most trusted institutions (behind police and military) in the country. Caplan (2009) concludes that the secret to the PAP’s success seems to lie in its electorate’s preference for a ruling party that happens to take economic reasoning seriously and that party preferences in favour of the PAP give it enough slack to impose policies that would not survive a direct popular vote.

With such a comprehensive appeal and political dominance in place throughout the history of Singapore, the government has been able to pursue policies without fear of political repercussions of unpopular choices. As Haseltine (2013: 1–2) summarizes: ‘The People’s Action Party (PAP) has been in power since independence, resulting in sustained political stability. Along with stability has come a unity and constancy of purpose and action throughout the government . . . That continuity of philosophy and approach, I believe, has made possible the ability to plan and execute over a long period of time.’

Backed by vast policy autonomy based on performance legitimacy and lack of opposition, the PAP enjoys a largely free hand in implementing its core

beliefs, which comprise a mixture of individualism and strong state intervention, characteristically reflected in its healthcare policy. As is frequently noted, Singapore's healthcare system is built on the political philosophy of individual responsibility and 'many helping hands', with the state as only one of the hands. PAP leaders routinely call upon the population—though in more muted tones in recent years—to stay clear of 'welfare state mentality' and instead look after themselves and their family. Medisave, and the principles of compulsory and individual savings on which it is built, is the clearest example of this line of thinking. Government subsidies are meant for worthy causes such as education and housing while welfare payments and subsidized healthcare are only for those in genuine need.

Healthcare subsidies in Singapore are not only meant for the needy, but also for treatments that are 'cost-effective and of proven value'. The government sees demand for healthcare as almost endless, necessitating proactive controls. As one health minister put it, 'I prefer to slightly under-supply than to over-supply as this will put pressure on ourselves to intensify usage and minimize over-consumption' (quoted in Lim and Lee 2012). The government justifies the approach on pragmatic grounds. Indeed, the government claims 'pragmatism' as its ideology. In an interview shortly before his death, Lee Kuan Yew stated: 'We don't stick to any ideology. Does it work? Let's try it and if it does work, fine, let's continue it. If it doesn't work, toss it out, try another one. We are not enamoured with any ideology' (New York Times 2016). This approach is certainly evident in the country's health policy, which is changed constantly and displays no particular pro- or anti-state ideology.

In healthcare, pragmatism has meant extracting maximum value from a given expenditure. The government explicitly states that public hospitals and government clinics provide only a basic medical package that is cost-effective and of proven value. 'But it will not provide the latest and best of everything,' it warns (quoted in Lim and Lee 2012). The MOH at one point even described its mission as building the 'World's Most Cost-Effective Health System'. Driven by cost-effectiveness, it has not shied away from making tough decisions such as denying subsidies for expensive medicines. Prescription of subsidized drugs in public hospitals is restricted to 'clinically relevant and cost-effective drugs considered as basic therapies that are essential for the management of common diseases afflicting the majority of our population' (Pwee 2009).

But even the Singapore government has not always had its own way, at least not as quickly as one would think. It took more than a decade for the government to make private hospitals disclose the size of their average bills and clinical outcomes. Similarly, it has taken more than a decade to make private general clinics contribute to the National Electronic Medical Records. While the government eventually got its way in both instances, it was not without protracted resistance, showing the power of vested interests in the healthcare sector.

Singapore's policy-makers are acutely aware of the politics of healthcare in other countries and constantly warn the population not to fall for promises of free healthcare. As a minister recently warned:

Looking around at the world, it is clear that the more politicians play with healthcare, the worse the health of the nation, because short-term popular political interests overthrow the long-term outcomes and the deep issues. Will we do the right thing or go down the route laid out for us by many other advanced economies, where the key issues in healthcare are increasingly polarised and politicised? (Puthuchearry 2018)

In a similar vein, Deputy Prime Minister Tharman explained:

There is no way of giving something to everyone... The free social services that we all like the idea of, you must realise that it is not free. The average citizen is paying for it, and paying for it big time. (Ho 2015)

More recently, Prime Minister Lee Hsien Leong stated:

It is important for the Government to present people with the full facts and the trade-offs because every dollar that we spend on healthcare is one dollar taken from taxpayers and one dollar less to be spent somewhere, whether it's on education... on housing, on defence or on the personal needs of our people.  
(En 2018)

The government is aware of the population's rising expectations and is doing its best to contain them. It is particularly concerned about voters turning to opposition parties offering 'free' or highly subsidized healthcare. It is convinced that this would be a policy disaster in the context of an ageing population.

### **A Health Policy Success? Assessment**

Singapore's healthcare system has been a subject of global attention since 2000, when the WHO ranked it as the sixth best healthcare system in the world. Most observers, both within and outside the country, focus on the country's medical savings account (Medisave) to explain the system's superior performance. While Medisave is indeed unique in being the only compulsory such scheme in the world, the actual role it plays in financial protection is rather marginal. It serves more of a symbolic purpose in highlighting the government's belief in individual responsibility for healthcare. Similarly, MediShield is designed to minimize moral hazard even though the restrictive conditions limit the scheme's usefulness as an insurance mechanism. In this chapter we have argued that Singapore's healthcare success is explained by three broad factors: its unique socio-economic environment; a diverse range of policy tools addressing different health policy challenges capably and in concert; and the sustained political legitimacy of Singapore's long-

serving regime. In this concluding section, we assess Singapore's health policy success using the four dimensions of success introduced in this book.

A *programmatic* assessment of Singapore's health policy suggests that the government was able to convincingly deliver value in healthcare: attaining excellent health outcomes at relatively low levels of societal spending. Cost containment and affordability are primary considerations that affect all aspects of Singapore's health policy. To accomplish this the government plays an active role in stewardship and marshals a diverse range of policy tools that address a range of challenges that beset the sector such as information asymmetry, moral hazard, etc. While cost containment is an overarching policy goal, the government is largely agnostic to different modes of governance or instrument preferences. The approach is buttressed by willingness to take risk with new tools and reversing choices when the effects are found to be undesirable. This is experimental governance—typically a forte of local governments (Sabel and Zeitlin 2012)—writ large at the national level. Similarly, it is politically unwedded to any distinct policy style. For instance, while earlier policy documents and government rhetoric emphasized individual responsibility and anathematic attitudes towards societal risk-pooling to pay for healthcare, the government was quick to retrace its steps and introduce social risk-pooling (through MediShield Life) in the wake of increased political competition.

As a large part of health expenditure in Singapore is financed through OOP payments, analysts argue that there are inequities in how health benefits and costs are distributed across the society (Asher and Nandy 2006). However, recent reforms have introduced principles of universalism in the policy design and are poised to increase the share of expenditure that is financed through societal risk-pooling. Moreover, issues relating to the equity of how healthcare benefits and costs are distributed across society must account for the country's public financial management practices, especially how (much) revenue is raised and what it is spent on (Blomqvist 2011; Bali 2016). Total government revenues and expenditures are relatively low in Singapore, especially when compared to other high-income societies (Asher et al. 2015).

In terms of *process* assessment, health policymaking is largely hierarchical in Singapore and there are limited mechanisms for public representation, deliberation, and inclusion (Rodan 2018). During key policy changes, the government does conduct extensive public stakeholder consultations but there is limited evidence to suggest that these exercises have shaped policy. As this chapter has catalogued, the government frequently took unpopular decisions and prioritized policy goals. Its managerial approach to health policy with many and moving parts, requires firm stewardship, a range of policy skills, and deft micro-management. Singapore's public service is widely recognized to enjoy such capabilities (Neo and Chen 2007). The capability of its bureaucracy to learn from experience and adjust accordingly is another reason why the government is able to carry out its policy intentions.

In terms of *political* assessment, there is large societal acceptance and support for Singapore's health policy. This is fuelled by the high degree of trust that the Singapore government enjoys. Moreover, the government has enjoyed an unparalleled conducive political environment that allowed it to overcome all political opposition in pursuit of measures it believes are necessary for the larger good. The absence of opposition parties that could credibly challenge the government allowed it to take tough and, if necessary, unpopular decisions without significant political risks. However, recent political trends and increasing electoral competition are stymying the government's magisterial approach. In the lead up to the 2011 general elections, issues surrounding the affordability of healthcare especially for the elderly were brought to the fore. This was amplified in the following years, and prior to the 2014 general elections the government announced extensive health subsidies for a *select* cohort of retirees. Similarly, another round of health subsidies that target a slightly younger cohort of retirees was announced in 2018. This suggests that the government will have fewer degrees of freedom, politically, in its approach to health policy.

On the *temporal* dimension, Singapore's health policy has enjoyed success. However, the unique economic and especially administrative and political conditions and capacities that exist in Singapore make it unlikely that any other country would be able to pursue goals in the manner the Singapore government does. Indeed, it is uncertain if Singapore itself will be able to continue on its current policy path. As Singapore's population ages, the government will be under increasing pressure to relax restrictions and spend more on healthcare. Indeed, following the setbacks the ruling party experienced in the 2011 general elections, the government rapidly increased the health budget (by 250 per cent over seven years) and substantially expanded the scope and depth of protection afforded by Medisave and especially MediShield. This is a far cry from the government's austere health policy stance of the past. In fact, the government leaders have themselves admitted that they expect expenditures to rise dramatically in the future.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

## Note

1. For instance at the end of 2017 nearly 40 per cent of Singapore's labour force comprised foreign workers. Between 2010 and 2016, the Gini coefficient varied between 0.458 and 0.478, and 0.402 and 0.425 after accounting for government transfers and taxes (Department of Statistics, 2018: Table 3.8).

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# Cutting the Wait—at Least for a While

## The NHS's Assault on Waiting Times

*Adrian Kay*

### Introduction

Although health policy was not an original feature of the attempt by New Labour to break from 'old' Labour politics in the UK, the alignment of political priority and policy analysis in government produced a successful period in the UK National Health Service (NHS). This chapter investigates one aspect of this, the case of the historically significant decline in waiting times for NHS services. Between 2000 and 2010, a policy mix was implemented that reduced the maximum waiting time from any referral of a patient by a general practitioner (GP) to treatment in hospital, if required, to eighteen weeks in almost all cases. This represented a significant performance improvement—equivalent waiting times in 2000 had been routinely over eighteen months.

Unlike welfare state politics generally in the UK, the NHS has always enjoyed strong political legitimacy. To those outside the UK, public attitudes to the NHS in the UK are often puzzling; typical was the bemused international reaction to parts of the opening ceremony for the 2012 London Olympics in which Oscar-winning director Danny Boyle had choreographed lines of dancing nurses and children in pyjamas jumping onto oversized hospital beds, all underneath a large 'NHS' sign. The 70th anniversary of the foundation of the NHS—5 July 2018—was widely celebrated in the manner of a significant royal birthday. One of Britain's leading poets, Owen Sheers, produced fresh work to mark the public occasion (Sheers 2018).

This deep public affection for the NHS has endured through several major reform episodes and organizational restructuring phases over the last thirty years and is an essential background condition to the case of improved waiting times between 2000 and 2010 presented in this chapter. The sources of this legitimacy are difficult to pinpoint precisely, and certainly there is no straightforward account based on output or performance legitimacy. There is something in the historical memory of immediate post-war Britain, the establishment of the NHS in 1948 as a collective endeavour by the first majority Labour government that continues to resonate. There is no mainstream political opposition to the NHS

in UK politics; policy debate instead pivots on how well one is managing the NHS and success in framing reform as the preservation of its essential qualities.

This chapter investigates how this inherited dimension of legitimacy provided a political success anchor for an initially impromptu and highly contingent reform process to achieve notable programmatic improvement in waiting times in the NHS, where previously abandoned programmes were recombined in a strong emphasis on top-down targets alongside a significant boost in public expenditure eventually agreed by a strongly resistant Chancellor of the Exchequer (Minister of Finance), Gordon Brown.

### **Improving NHS Waiting Times: Assessing Success**

The measurement of performance in a healthcare system as large and complex as the NHS is inevitably a multi-dimensional exercise, requiring different scales to capture separately each performance element. Further, attempts at creating aggregate composite indicators of performance always present a set of technical and philosophical questions. However, using the ‘3-P’ evaluative framework from the introductory chapter, we can describe the reduction in NHS waiting times between 2000 and 2010 as a success in the following terms.

#### **Political Success**

Although the improvement in waiting times was temporary and, from 2013, under the Coalition government waiting time performance began to deteriorate on several measures, it contributed to the Blair government’s electoral success (Kavanagh and Butler 2005). In electoral terms, increasing access to NHS services—reducing waiting times—was a salient issue and enjoyed widespread public support as a policy objective in the UK. The Labour government’s success in this period contributed to its re-election in 2001 and 2005; the first time the Labour Party had won three consecutive general elections in British politics.

The political success of improved NHS waiting times endured. Early in David Cameron’s tenure as leader of the opposition Conservative Party after the 2005 election, he committed to these reforms and maintaining funding levels in a big set piece speech (*The Guardian*, 4 January 2006). Even as the broader politics of public finance turned against Labour, particularly after 2008, there was bi-partisan commitment to NHS funding increases. Gordon Brown’s ‘golden rule’, introduced in 1997, that taxes and current spending should match over an economic cycle was breached as UK public finances deteriorated markedly in the run up to the 2010 general election. Whilst the opposition crafted a politically successful narrative of the imperative for urgent deficit reduction, the NHS remained protected from the UK government’s biggest post-war spending squeeze (Kmietowicz 2014).

## Process Success

Assessing the case of improvements in NHS waiting times in *process* terms is not straightforward. At least initially the process appears highly contingent on a series of personal dynamics within the Labour government; triggered after almost three years in power by an impromptu announcement of extra financial resources by the Prime Minister Tony Blair on live TV rather than based on a carefully crafted strategy developed through thoughtful deliberation. Nevertheless, as the chapter discusses, there is evidence of subsequent political and bureaucratic leadership that supports a claim of process success.

## Programmatic Success

In *programmatic* terms, success is much clearer cut. An underlying theory of NHS change was developed through a process of trial and error of different mixes of policy instruments guided consistently by top-down targets alongside allocations of substantial extra funding. This overarching programme was highly effective in marshalling the attention of the NHS around the policy issue of waiting lists. It also provided the means for discovering different policy mixes in terms of the use of incentives for improvement such as 'naming and shaming', patient choice and competition, organizational restructuring and commissioning.

The relationship between the three dimensions of success in the case is a sequence of politics to process to programme. Public demand for improved access to NHS services combined with the enduring political legitimacy of the NHS to produce conducive conditions for political leadership to prevail in lobbying for extra financial resources within government for the NHS and for waiting lists to be the central focus of reform efforts.

## Finding Money for the NHS: Political Leadership at a Critical Juncture

The political leadership of Tony Blair as PM was successful in securing extra NHS resources against the wishes of the Chancellor of the Exchequer, Gordon Brown. Brown was not only the political head of historically the most powerful department in the UK government, HM Treasury (Brittan 1969; Talbot 2008), but also widely credited as the New Labour architect of the building of voter trust in the Labour Party's ability to manage the economy after their fourth successive election defeat in 1992. Self-styled as the 'Iron Chancellor', he operated with perennial concern that a single word out of place could undermine the Party's burgeoning reputation for fiscal competence (Campbell 2007). He became notorious (at least

among Labour backbenchers) during Labour's first two years in office for sticking rigidly to spending plans inherited from the previous Conservative government.

Blair's political success in committing the Labour government to increasing NHS spending significantly ahead of Brown's fourth budget as Chancellor in March 2000 was a politically significant event and trigger for the reform process. In one of the best insider accounts of the governmental dramas of New Labour, Rawnsley (2010: 77) quotes Brown as raging at Blair: 'You've stolen my fucking budget' in response to Blair's tactics in the budgetary process.

Winter crises in the NHS are a stock drama of British politics and the 1999–2000 version contained media reports of hospitals storing bodies in a freezer lorry because the mortuary was full. Alan Milburn, the Secretary of State for Health at the time, reports being convinced by that time that without a large increase in NHS expenditure a genuine modernization of the way the service operated was impossible (Milburn and Timmins 2002).

This was a critical juncture in the waiting times policy success. In what was initially an act of transactional leadership to appease restless Labour backbenchers, Blair pledged to bring NHS spending up to the EU average by 2006, an increase in the share of the UK national income devoted to the NHS of 1.5 percentage points, which implied annual cash increases of over 5 per cent in real terms each year, compared with an average NHS increase of 3 per cent over the previous two decades (Nicholas Watt in *The Guardian*, 17 January 2000; see also Table 4.1).

Blair's commitment was made on a Sunday morning live TV programme and was apparently impromptu. The commitment to a specific spending target was the catalyst for the waiting list reform process, in which Blair displayed a more transformational leadership style. Blair had complained publicly of 'the scars on

**Table 4.1** NHS expenditure, 1999–2010 (in GBP bn, real terms using 2015 prices)

1999–00	70.4
2000–01	75.5
2001–02	82.1
2002–03	88.6
2003–04	98.2
2004–05	105.3
2005–06	111.0
2006–07	113.9
2007–08	118.2
2008–09	123.9
2009–10	130.0

Source: Institute of Fiscal Studies (2015), *Health Spending*.

my back' from trying to reform public services against the 'forces of conservatism' in his set-piece speech to the Labour Party conference in 1999 (*The Guardian*, 28 September 1999). A succession of junior health ministers had also been open with the claim that the NHS was too producer biased, organized as much for the convenience of its staff as its patients.

The commitment of substantial extra financial resources appears to have catalysed the reform process rather than the other way around. Since its election in May 1997, the Labour government had confined NHS policy to the dismantling of a suite of policy instruments introduced in the preceding Conservative government designed to create an 'internal market' in the NHS. During this period of historic increases in public expenditure, a series of policy mixes was eventually developed that were successfully implemented in terms of programmatic improvements in waiting list times.

However, as a process, the assessment of success is less clear, mainly because the financial commitment came first and then the NHS reform plans followed suit. As a reform process, this carries risks because all health systems are a mixture of financial resources and real resources of medical care. Increasing the former without productivity-enhancing reforms of the latter risks costs inflation rather than increases in the volume or quality of services provided. There is a well-known risk of healthcare inflation exceeding inflation in the rest of the economy (Baumol 2012).

Even if assessment of serendipity on the process dimension falls some way short of 'success' perhaps in the circumstances this process was the only way to link political success to programmatic success. As discussed in the next section, by 2000 there had been a decade-long reform process in the NHS characterized by significantly financially constrained environments.

The TV commitment was an early example of what came to be called 'sofa government' in the later Blair years. His 'brainstorming' style of leadership, famously telling senior civil servants to 'Call me Tony', produced informal discussions among smaller groups of advisers without a formal cabinet process. It is hard to establish quite where the financial commitments to the NHS came from. But as Milburn himself later acknowledged, there was a strong transactional element to Blair's leadership: opinion polls at the time were suggesting that people saw reducing waiting times as a critical element of health even if NHS staff did not prioritize them (Milburn and Timmins 2002). What is clear is that the commitment of extra resources focused efforts strongly on reducing the maximum waiting times for outpatient appointments and inpatient treatments.

The so-called 'war on waiting' led by Blair in a transformational style, started with the development of the eighteen-week target that subsequently directed the process of developing a policy mix that was successful in programmatic improvement terms. In Milburn's account, the senior officials at the Department of Health pushed for twelve months as the target for 2005, but the maximum wait in Europe was about three months. A close friend of Alan Milburn, who became

Secretary of State for Health in October 1999, died of a heart attack while on a waiting list to see a cardiologist; Milburn reports this as catalysing his own personal commitment to improving NHS performance on waiting times (Timmins and Milburn 2002). Quoted by Timmins in the *Financial Times* (13 March 2010), Milburn began to understand as Secretary of State ‘that for the public, waiting was the thing’. Cutting waiting times was not necessarily what staff wanted but this was what the public mood demanded.

Milburn claims success in persuading Blair to make this financial commitment. The key internal political dynamic of the Labour government was an ongoing feud between Brown and Blair (Campbell 2007; Rawnsley 2010). In this case, being bounced on TV provoked fury from Brown. However, the sustained increases in health expenditure did eventuate and this was important backdrop to the subsequent reform process.

With the money secured, the first in a series of ‘once-in-a-generation’ NHS reforms was launched in the summer of 2000, followed by similar rhetorical flourishes in reforms of 2002, 2004, and 2006. Targets came ahead of other instruments in the policy mix; the 2000 version included commitments to no more than a four-hour wait in accident and emergency, no more than a three-month wait for an outpatient appointment by 2005, and no more than six months for an inpatient operation by the same date.

### **Contexts, Challenges, and Agents of Reform**

Klein (1990: 700) refers to the relationship between the government and the medical profession in the UK in NHS policy as the ‘politics of the double bed’—the government secured an electorally popular and important public service in exchange for the medical profession securing favourable terms and conditions (most notably in terms of pay).

There were two ‘rules of the game’ that underpinned the institution of the NHS double bed between 1948 and the mid-1980s. The first was that each actor should trust the other on both the process and substance of policymaking. Wistow (1992) talks of trust becoming ‘embedded’ in the NHS policy community. This trust supported a consensus on how business was to be conducted, as Jordan and Richardson (1987: 101) describe it: ‘the process by which and the atmosphere within which policy-making is decided’. In particular, this meant the exclusion of other potential interests in healthcare policy, for example, public opinion, Parliament, the rest of Whitehall, and hospital managers. Ham (1992), Webster (1988), and Klein (2005) describe how this exclusion became heavily institutionalized after 1948. The British Medical Association (BMA) had privileged access and a central role at every stage of the policymaking process.

The second rule was to be bound by the implicit contract (Wistow 1992; Klein 2005) between the government and the medical profession. The contract was that the former respected clinical autonomy in how to use resources but the latter accepted that the decision on the overall level of resources, the budgetary constraint, was a matter for the government. It was on the basis of the observance of these two rules that the healthcare policymaking in the UK has been described as a policy community.

It is the breakdown of this policy community that created the context conducive the waiting list reforms of New Labour. The Conservative government of John Major had introduced a range of NHS reforms in April 1991, the outcome of an extended and bitter reform process initiated by Margaret Thatcher after winning a third general election in June 1987. There is a consensus in the historical commentary on the NHS that these were the first significant reforms in its history (Webster 1998; Ham 1999; Klein 2005). They were designed to improve performance, including on waiting times, by addressing long identified weaknesses in its centralized management structure. As Wistow (1992: 59) put it, resource allocation within the NHS was 'determined largely by the sum of the individualistic behaviour of individual doctors rather than through a hierarchical process of resource management'.

The two 'rules of the game' of the healthcare policy community were not observed in this reform process. First, the trust between the government and the BMA on how business was to be conducted broke down. Second, the 'implicit contract' between the government and the BMA that set out the areas in which it was appropriate for each to take political action was not respected.

New Labour policy mixes on waiting lists strongly echo, and in most cases, are the direct descendants of the attempts by the Major government to compensate for the lack of 'the right economic signals' by introducing new incentive structures. The Major reforms were designed to encourage provider units and NHS staff to meet the 'limitless demand' for state-funded healthcare within a cash-limited, public budget (Thatcher 1993: 606). To this end, the reforms introduced an 'internal market' for NHS services, which separated the purchasing and provision of healthcare interventions, and allowed GPs to elect to hold a cash-limited budget for the purchase of a limited range of secondary care, staffing and pharmaceutical services (GP fundholding).

The NHS internal market, including the GP fundholding element, was abolished by the Labour government elected in May 1997 and marked the extent of its ambition on health policy reform until 2000. Nevertheless, the experience of NHS reform in the early 1990s was a key contextual factor in which waiting list policy developed after 2000. Notably the policy ideas around commissioning which emerged after 2002 have their direct origins in GP fundholding.

The internal market had been introduced and abolished without policy-makers having any useful evidence of its effects (Kay 2001). For example, the GP

fundholding scheme was abolished despite 57 per cent of GPs having opted to be fundholders by 1997/98. This figure had increased in every year of the scheme and was a proxy for the increasing acceptance of the scheme among GPs.

The Conservative government had decided against any appraisal, early evaluation, or piloting of the internal market, partly due to fears that the medical profession would sabotage such an enterprise in the aftermath of the very public battles with the BMA in the process of introducing the NHS internal market. Throughout the period 1991–7 the Labour Party, as the official opposition, maintained its commitment to abolish the internal market if elected to power. In a variety of contexts, it consistently made the claim that the GP fundholding scheme had created a ‘two-tier’ NHS. The accusation that fundholders had preferential access to secondary care, whilst it may have been true, was never actually substantiated. The major fundholding literature reviews (Petchey 1995; Baines et al. 1997; Gosden and Torgenson 1997; Smith et al 1997; Loudon et al. 1998; Smith and Wilton 1998; Ham 1999) suggested that the evidence on the desirability and effectiveness of the scheme was both limited and equivocal when fundholding was abolished by the Labour government. Instead, the motivating factor for abolition seems to have been the history of fundholding as a political issue.

The Labour government’s first Secretary of State for Health, Frank Dobson, suspended entry into the fundholding scheme in May 1997 and instructed hospitals to introduce common waiting lists for fundholding and non-fundholding patients. Six months later, the government published a white paper, *The New NHS: Modern, Dependable*, with proposals for a replacement. The 1998 National Health Service Act abolished the key elements of the internal market, and introduced Primary Care Groups (PCGs). Despite this being the zenith of commitments to evidence-based policymaking in UK government, there was no provision for: (i) the piloting of PCGs before their implementation; or (ii) a systematic evaluation of the fundholding scheme before its replacement.

Although Labour’s plans allowed GP fundholding to be abolished without, in principle, discarding the effective aspects of the scheme, the absence of a systematic evaluation has meant that conclusive evidence on what aspects of the initiative worked was not available to the government or to PCGs. In the absence of clear evidence, many of the main policy mixes of the internal market, including fundholding recast as ‘world class’ commissioning after 2002, were never completely abandoned. Their redundancy was temporary and they were reintroduced into the NHS policy agenda in different ways and forms from the summer of 2000 onwards.

Evidence-based policymaking requires a degree of trust to exist between policy-makers and the part of society that is the subject of policy. In the case of the NHS internal market, there was an absence of trust in the relationship between the BMA and the government. Two main reasons account for this. First, the

scheme was the subject of strong party political opposition and the Conservative government had a long-held suspicion that the BMA had been working in 'unspoken alliance' with the Labour Party. Second, the scheme itself was deliberately divisive of GPs; it produced two groups, the fundholders and the non-fundholders. In a climate without trust, any evidence would inevitably be the subject of political manipulation, or in the current terminology, 'spin'.

As Hunter (1998: 133) puts it, in the UK 'Health policy has been driven by a mix of ideology, fashion and pragmatism but never by evidence.' The internal market episode illustrates the process problems associated with attempting to formulate health policy in the absence of reliable data on the effects and cost-effectiveness of new initiatives and those already in place. Policy-makers may have no means of identifying the strengths and weaknesses of the policy initiatives that they introduce, or determining what elements of existing policies should be incorporated into future schemes. Of course, what is required for a more evidence-based approach to policymaking is a detailed analysis or model of the significant motors of change in NHS general practice. However, to produce such work requires a commitment by government to systematic policy evaluation and a period of policy stability not observed in the NHS since the mid-1980s.

In political assessment terms, the major consequence of the internal market was a changed political context of NHS reform. Smith (1993: 165) suggests that: 'for most of the postwar period, the relationship between the government and the doctors can be characterised as a closed policy community'.

The NHS policy community between 1948 and the end of the 1980s favoured incremental and limited change because radical change threatened the consensus on which the community was based. These marginal adjustments to policy were developed through high level, closed, and routine relations with senior civil servants who shared a commitment to that policy. Within the healthcare policy community, 'conventional wisdom has emphasized the dominant nature of professional rather than political or managerial influences' (Wistow 1992: 51). This led Rhodes (1988: 78) to label the situation as a particular type of policy community, a 'professionalised network'. The medical profession enjoyed a large pool of political resources: notably control of technical and specialist knowledge. The perception of the medical profession as apolitical (in party political terms at least) helped give the views of the BMA a moral authority and make them, potentially, highly influential in public opinion (Klein 2005).

The institutional context also helps explain the political strength of the medical profession in Britain. The NHS is a publicly funded healthcare system, with publicly owned hospitals. From 1948, successive governments had relied on doctors to deliver healthcare policy. For this reason the healthcare policy community came to be highly institutionalized after 1948 with the medical profession having a central role at every stage of the policymaking process (Webster 1988; Ham 1992; Klein 2005).

Klein (2005), Smith (1993), and Wistow (1992) all suggest that the enactment of the 1991 NHS reforms, and GP fundholding in particular, unsettled the policy community in healthcare. The style of both the NHS Review and the subsequent enactment of the NHS and Community Care Act provided the threat. Kay (2001) argues that development of GP fundholding is the first observable indication of the breakup of the NHS healthcare policy community. Further, the development of the GP fundholding scheme was not based on evidence but rather guided by a 'folk theorems'; and this lack of an evidence-based approach was a consequence of the collapse of the healthcare policy community and has become typical of health policy reform in the UK over the subsequent quarter of a century.

The decision by the incoming New Labour government to abolish the internal market did not solve the problems of the NHS. Indeed, the salient challenge of waiting lists continued as queues grew unabated. As Alan Milburn observed, staff working in NHS wrestled with the consequences of significant ongoing organization changes from the introduction and abolition of the internal market and did not see waiting lists as the highest policy priority (Timmins 2010).

### **Reform Design and Choice**

Despite Gordon Brown's initial strong resistance to Tony Blair's January 2000 financial pledge, the outturn was an unprecedented rate of growth in NHS spending of almost 7.5 per cent annually in real terms in the subsequent six years. This was the context to the policy design process on NHS waiting time reduction. The extra funding served to increase NHS capacity, something which was acknowledged in the publication of the Wanless Report (Wanless 2002) to the Treasury. The report set out detailed empirical analysis of the chronic underfunding of the NHS both comparatively but also in terms of pressures that changing health needs of the population placed upon the service. The conversion of financial resources into extra capacity to provide medical care facilitated policy design options that had not been previously available. However, politically, it had the effect of reinforcing internal pressure in the government for the NHS to deliver meaningful improvements in waiting times. The mantra that a 'step change in resources must mean a step change in reform' was repeated publicly by the Prime Minister, Chancellor of the Exchequer, and the Secretary of State.

The additional money and attendant politics put the NHS on an unexpected policy reform path three years after Labour taking office in 1997. The internal market and GP fundholding had been abolished in 1998 with a stress on cooperation replacing competition in the 1997 White Paper. Yet, importantly for the policy design process after 2000, the split between providers and purchasers (commissioning as it came to be known) remained in place. The idea of fundholding as a policy instrument endured in the PCGs, which soon evolved into

Primary Care Trusts (PCTs) and were to be responsible for commissioning the care needed by their populations. The 1997 NHS White Paper had argued that this represented 'a "third way" between stifling top down command and control on the one hand, and random and wasteful grass roots free-for-all on the other' (quoted in Klein 2007: 41).

However, it was command and control—or targets and terror—that dominated initially in the policy design process after 2000. Klein (2007) reports that NHS managers estimated they had to meet 300-plus targets at one point. There was a highly-developed system of rewards and punishments for performance on the targets for reducing waiting lists. The 2000 NHS White Paper, *The NHS Plan*, was clear that the extra resources would mean reduced waiting times, bring an end to the postcode lottery in access to drugs, and lead to a more 'patient-centred' NHS.

The strength of the political commitment to an aggressive target-based policy to reduce the very long waiting lists for non-emergency care in the NHS was a change from 1997. Maximum waiting times, rather than total numbers waiting, were set on an annual basis, monitored monthly, and reduced each year. The 2000 NHS reform imposed the target on NHS hospitals in England of no patients waiting for inpatient treatment for more than eighteen months by the end of March 2001. The target was then scheduled to decrease annually by three months until the maximum waiting time was six months by the end of 2005.

Performance against targets was published widely and used as the basis for direct sanctions and rewards. Managers of poorly performing hospitals could be fired, while managers of high performing hospitals were granted greater autonomy in how they managed their hospitals and the freedom to keep certain surpluses. In policy design process terms, there were several distinctive features of this target-driven performance regime in the NHS. First, the targets were set over several years and scheduled to increase over time. Second, the penalties for failure to achieve these targets were judged by some experts as strong enough for the epithet 'targets and terror' and compared to the targets set for managers of state enterprises in pre-reform Soviet Russia (Bevan and Hood 2006).

Despite the visible political commitment from the Prime Minister to the targets in the 2000 NHS Plan, in policy design terms it arguably represents continuity from the 1997 White Paper—a shift to more highly powered incentives for performance improvement rather than fundamental change in the NHS. In the policy design process, the controversial ideas of patient choice and competition only came two years later when the government published its third major White Paper of its then five-year tenure, *Delivering the NHS Plan* (Department of Health 2002). Milburn and Timmins (2002) report this as the critical juncture in their understanding of the reform design process, where Milburn—as Secretary of State for Health—accepted the limitations of the command and control system that he and his predecessor had developed steadily since 1997. By the summer of 2001, while the very longest waits were beginning to be eliminated, it appeared

that the extra financial resources allocated to the NHS were still not producing a significant increase in activity, in terms of the number of patients who were being seen and treated.

The centralized approach to managing the NHS from Whitehall was being questioned inside and outside the Labour government (Greener et al. 2014). The policy design process began to involve the development of options for other policy instruments to complement top-down targets and tough performance management. Policy ideas were revived from the abandoned inheritance from the Conservative government internal market reform efforts in the 1990s.

A recognition of the limits of top-down approaches to an organization on the scale of NHS England in the party which introduced the NHS is significant. It touched on a perennial theme in NHS policy and politics of devolving power, and arguably touched on big questions of decentralization of the UK state more broadly. The oft-quoted dictum of the Labour cabinet minister who led the introduction of the NHS in 1948, Aneurin Bevan, was that if a hospital bedpan is dropped in a hospital corridor in Tredegar (his South Wales constituency), the reverberations should echo around Whitehall. As described below, any deviation from this was controversial in Old Labour circles as a seeming abandonment of principles of territorial equity and tantamount to surrendering democratic control in favour of unaccountable hospital managers, still further the thin end of the wedge of full-scale privatization of the NHS. Decentralization in the NHS remains an important and ongoing agenda of 2018 health policy discussion in the UK.

The 2002 White Paper set out the main NHS policy trajectories for the rest of the New Labour period in office: a devolved NHS, a diversity of providers competing, payment by results, and patient choice as the central value to be represented in policy. In doing so, the balance of political power within the NHS was tilted: for example, in the concept of Foundation Trust status to reward efficient NHS primary care and secondary care organizations by granting them autonomy. Practice-based commissioning—GP fundholding in 1990s terminology—and national standards against which the performance of trusts would be assessed were also introduced.

In terms of the policy design to reduce NHS waiting times, the central policy instrument for performance management was a system of star ratings. This was applied to hospitals from 2001; each organization being evaluated was given a score on a scale of 0 to 3 stars based on performance on a limited range of key targets as well as against a wider range of targets and indicators on a balanced scorecard. Six of the nine key targets concerned waiting lists and one of the three domains, patient focus, in the balanced scorecard was dominated by data reported against waiting time targets. Hospitals that failed to achieve key targets were rated zero and publicly ‘named and shamed’ as failing. The possible sanction on hospital chief executives was losing their jobs. Timmins (2010) reports that among chief executives of NHS hospitals, the waiting time goals were better known as P45

targets. In the UK, a P45 is the tax form given to an employee when they stop working for an organization. It is used colloquially to mean being sacked. Six of the twelve chief executives of hospital trusts given zero rating in 2001 were sacked. Organizations that performed well on both the key targets and the balanced scorecard, and achieved the highest rating of three stars, were rewarded by being publicly celebrated for being high performing and ceded various forms of earned autonomy (Bevan and Hood 2006).

Following Labour's initial success with its literacy and numeracy strategy, Blair had created a Delivery Unit in Number 10 headed by Michael Barber. Its purpose was to drive through his key public sector reforms, not just for health, but for education, crime, and transport. The unit tracked progress on waiting times almost daily. Barber (2007) reports that critical to progress on waiting times through top-down targets was that Blair held scheduled monthly meetings with Milburn to take stock of progress on waiting times using real time data. Milburn then pressed the department's civil servants who in turn pushed hospital chief executives on performance problems. Some of these executives report getting weekly phone calls from the government; when they struggled to redesign services to reduce waiting times, specialist teams were assigned 'to help them'. For both Barber and Milburn (Barber 2007; Milburn and Timmins 2002) the scheduled monthly attention of the Prime Minister on waiting times really mattered in terms of performance. For these two key actors, the 'brutal' performance management regime (Bevan and Hood 2006) represented the first time in NHS history that there was a clear line of sight in accountability terms from the Prime Minister down to hospital chief executives in charge of delivery of medical care at the street-level.

From 2002 onwards, the policy design process took a highly controversial turn. The 2002 White Paper signalled a series of policy instruments to promote competition and choice in the NHS. Although presented as the next phases in the 'war on waiting' (Harrison and Appleby 2005), the introduction of privately run surgical units, known as independent sector treatment centres, to treat NHS patients was bitterly contested. Further controversy followed with the creation of Foundation Trusts—free-standing hospitals no longer directly answerable to Whitehall and run autonomously as businesses with ultimate responsibility for their own performance. And finally, patients were given the right to choose where they were treated, initially within the NHS, but then at any private hospital prepared to take them at the NHS price. After a very slow start, the numbers of people taking advantage of this right began to grow.

This was deeply unpopular within parts of the NHS and, even in 2018, this period of reform is sometimes regarded by critics of New Labour as the beginning of the privatization of the NHS. The BMA referred to the 'commercialization' of the NHS and saw this as the slippery slope idea that private companies should make profits out of healthcare. It was also unpopular with many Labour

backbenchers. However, most of these choice and competition reforms could be achieved through existing ministerial powers rather than requiring new legislation. With Blair committed to a more market-like approach to reforming public services more generally, successive secretaries of state for health continued to implement internal market type reforms. The significant policy design for which primary legislation was needed—the creation of Foundation Trusts—produced some of the biggest backbench rebellions of Blair’s time as Prime Minister. There were nine rebellions during the passage of the Health and Social Care (Community Health and Standards) Act that established Foundation Hospital Trusts.

This mix of policy instruments made the difference in reducing waiting times to the shortest in the NHS’s sixty-year history by 2010. The extra spending went throughout the NHS and large pay rises. There is no available estimate on how much specifically went on waiting lists for elective surgery (which accounts for about 12 per cent of total expenditure) but it was clearly focused.

### **Delivery, Legitimacy, and Endurance of the Waiting Times Reduction Effort**

In 1997, Sir Michael Barber was the key figure in setting the recently elected Labour government’s initial targets on literacy standards as Head of the Standards and Effectiveness Unit under David Blunkett at the Department for Education and Employment. He became head of the Prime Minister’s Delivery Unit in the second term of Tony Blair but left government for a consultancy career after Blair’s third election victory in 2005. He was the New Labour face of a whole set of implementation routines in Whitehall and credited with introducing a widely-lampooned bureaucratic vocabulary: New Labour ministers talked in terms of trajectories of travel, stocktakes, delivery reports, and traffic light systems. The term ‘deliverology’, initially a pejorative term coined by senior civil servants for Barber’s endeavours and personal style, became a firmly established neologism in the administrative history of this period of UK government.

Barber (2007) gave an insider account of the use of targets for programmatic success even if, politically, the UK media was wont to ignore successes against target and instead concentrated exclusively on the manipulation of statistics in the presentation of performance and the outright failures. He explains in his personal account of this period that there was relatively little attention given to the accuracy or validity of performance data on which the target system was based. Many experts highlighted the problems reconciling and/or linking administrative and survey data on health service waiting times (Bevan and Hood 2006). However, for Barber, the targets focused attention with a clear success definition, expressed political priority, and forced honest and sometimes uncomfortable conversations about bad news and surprises. Routine oversight was the priority over measurement accuracy.

The devolution process launched by Blair's government immediately after election has been avoided hitherto in the chapter. It is part of the waiting times story. Following referenda in Scotland and Wales in September 1997, the Scottish Parliament and National Assembly for Wales were established with management of the delivery of healthcare devolved such that analysts talked of four NHSs (Greer 2004). As such, devolution in the UK offers some potential for a natural experiment to reveal some evidence that the 'targets and terror' of New Labour (England) was successful in programmatic terms.

The analysis presented by Propper et al. (2008, 2010) shows waiting times having fallen far faster in England than in either Wales and Scotland in the decade after devolution. Both devolved administrations received broadly similar increases in NHS spending in real terms as England though a mixture of bureaucratic by-passes of the Barnett formula and local decisions over the allocation of block funds. Both Scotland and Wales had higher NHS expenditure per capita baselines in 2000. All three adopted similar waiting time targets. However, only in England were these accompanied by the strong top-down performance management and 'naming and shaming' described above.

In the literature that looks at Scottish and Welsh devolution in the NHS, there is a seam of research looking at differential impacts of waiting times targets. Alvarez-Rosete et al. (2005) and Bevan and Hood (2006) examined trends at the England, Scotland, and Wales level. Hauck and Street (2007) undertook a detailed analysis across three English hospital trusts and one Welsh hospital trust close to the border between Wales and England. Propper et al. (2008) looked at differences between England and Scotland and estimated difference-in-difference models of the proportion of people on the waiting list at three points in the waiting times distribution (the proportion who waited over 6, 9, and 12 months). Besley et al. (2008) compared waiting times for hospitals in Wales with those in England.

Each of these peer-reviewed publications suggests that the waiting times targets and associated performance regime did reduce waiting times in England. Propper et al. (2008) estimate the effect of the English target regime for waiting times by a comparative analysis with Scotland, which did not adopt the target regime. They report that the 'targets and terror' regime after 2000 in England lowered the proportion of people waiting for elective treatment relative to Scotland. In a follow-up study as a natural experiment, Propper et al. (2010) examined whether the falls in waiting times had been the result of gaming and diversion of activity or had produced adverse effects on the quality of medical care. Their finding was unequivocal: the use of targets as a policy instrument backed by performance management succeeded in meeting the goals of reducing waiting times without diverting activity from other less well monitored aspects of healthcare and without decreasing patient health on exit from hospital.

In Scotland, in contrast, the Scottish Executive (responsible for health policy) had chosen not to adopt this target regime. Instead, from devolution in 1999, it

focused on the abolition of the 1990s internal market and the re-introduction of a professionally-led, integrated system based on concepts such as managed clinical networks (Alvarez-Rosete et al. 2005). Targets played little role. In Wales, not using NHS targets and performance management was celebrated as a highly visible demonstration of ‘clear red water’ between Welsh First Minister, Rhodri Morgan and Tony Blair. Instead, the Old Labour approach of top-down organizational restructures were the preferred policy instrument in Wales.

How far competition and choice—which the Scots and Welsh also eschewed—made a difference in waiting time performance is more debated (Greener et al. 2014). The number of NHS operations carried out by the independent sector treatment centres and private hospitals is very small compared with the NHS’s own activity. The existing published studies on the question—Propper et al. (2008); Harrison and Appleby (2005, 2009); Bevan and Skellern (2011); Cooper et al. (2012); Miller et al. (2012)—are inconclusive on the nature and scale of the role patient choice and competition plays in the policy mix. There is some limited evidence to suggest that competition between hospitals may improve the quality of care (Propper et al. 2008, 2010).

Anecdotal, there is expert opinion from NHS insiders that choice and competition produced a fear that hospitals would lose patients and affected performance. Duncan Selbie, the NHS performance director for much of the 2000s was quoted in the *Local Government Chronicle* (20 September 2012) suggesting that this was an important part of the policy mix. Timmins (2010) reports further anecdotal evidence to back up this view. For example, Mike Parish, chief executive of Care UK, one of the independent sector treatment centre providers, recalls a conversation with an NHS hospital chief. ‘I asked him why his activity and productivity had gone up. “Well,” he said, “we don’t want one of those bloody ISTCs on our doorstep”.’

### **Governing the NHS by Performance Targets: Analysis and Conclusions**

As a tax-funded service, the NHS had always been more centralized than other healthcare systems. Bevan’s dictum about bedpans in the South Wales valleys being monitored in Whitehall, as a guide for governing and public administration, was never practical, and never achieved practically. But over the decade before 2000, waiting lists had emerged as a public issue as did the gaps in performance between the most efficient and the least efficient providers. In political assessment terms, ministers were answerable for every dropped bedpan in the NHS or each individual case on the waiting list: there was a centralization of blame.

The NHS has endured as a cherished British institution despite repeated concerns about its actual performance in delivering healthcare to UK citizens. The chapter investigates how the pattern of political success relative to policy

performance catalysed a reform process and, in the case of NHS waiting times, produced significant programmatic success in improved access to NHS services over the decade from 2000. The waiting times case has been presented a sequenced pattern of policy success; from politics to process to programme. The sequence in the case is highly contingent, with various reform processes only being triggered in the context of an unprecedentedly quick redistribution of national income towards healthcare provision—a fiscal decision itself made apparently off the cuff on a UK television show.

The use of top-down performance targets fell out of fashion long before the electoral defeat of the Labour government in 2010; one Labour Health Secretary, John Reid, introduced the much-ridiculed target for reducing targets. However, the evidence suggests that targets and aggressive performance management did play an important part in the policy mix to reduce waiting times without negative side effects on patient health.

There are several reasons for this programmatic success. First, because long waiting lists were seen as a problem by most of society, and were salient in Westminster politics terms, the targets may have acted as a mission for NHS employees, inducing additional effort at no cost. Second, the fact that the targets were announced in advance and were escalating may have meant that production was reorganized on a long-term basis, so increasing productivity over the long term, rather than simply resulting in short-term fixes to a one-off policy. Finally, the policy was accompanied by extra resources. While we have established that our results are robust to controls for resources, it is probably easier to engage in extensive service reorganization in a time of generous resources.

The case of NHS waiting times indicates programmatic success but also reveals an unexpected capacity for bricolage in the UK leading to process success. Labour strongly opposed the Conservatives' internal market reforms in the 1990s but came to adopt and adapt them after several years of policy inertia after 1997. Whilst Whitehall is littered with policy failures, a number of unsung successes in NHS policy do seem to have been remembered in the reform process that developed the waiting times policy mix.

Thinking about any NHS policy reform as a distinct period with an end, a plaque or ribbon cutting moment is misguided. Health reform is a hardy perennial of British politics. This means new reform initiatives, problem definitions, and options for change all become temporally fused with implementation. In policy cycle terms, whilst there is feedback and possibly lessons to be extracted because the cycle is spinning at a cadence of major reforms per two years, the implementation of a specific reform though a distinct activity is not a distinct period. Indeed, in several implementation programmes, interim evaluations of pilot projects were starting just as the policy under which they had been initiated was being abolished.

The temporal compression of NHS reform processes has meant that folk theorems, anecdotes, and ad hoc hunches have often driven policy, rather than

considered evidence bases. Implementing major healthcare reforms takes a lot of time and consistent direction; whilst obvious points in the abstract, time and consistent political commitment have often been difficult to detect in most NHS reforms of the last twenty-five years or so. This backdrop makes the assessment of policy success in this chapter notable.

Of course, NHS reform is never a one-shot game but rather a repeated political game. The inherent features of NHS politics continue to apply after any policy instrument is introduced or policy mix designed; the gap between policy as designed and policy as executed is always at the centre of academic study of implementation. As new models in the process are implemented, they coexist with the command-and-control structure built up in earlier years. The NHS landscape therefore represents an often confusing mix of different, overlapping policy strata. Healthcare reform never starts from a *tabula rasa*; instead policy is 'layered' to use a term from academic literature on institutions.

To overcome tensions and difficulties of implementation requires consistent prime ministerial attention, and arguably from a prime minister in the ascendant politically, in order overcome the potential for bureaucratic inertia, resistance, transition/switching costs, and transaction costs between old and new elements in the system that all come into play in the implementation. The pre-Iraq War Tony Blair appears in retrospect to have been good at keeping the guiding principles of NHS reform alive. His mantra that 'I have no reverse gear' (*The Guardian*, 1 October 2003) did serve to push the Labour Party in a reform direction which subsequently has been not just abandoned but thoroughly repudiated.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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# The Transformation of UK Tobacco Control

*Paul Cairney*

## Introduction

The UK has one of the most comprehensive set of tobacco controls in the world. The scale of its policy development puts it at the forefront of a global model for tobacco policy led by the World Health Organization, and at the top of the European league table for tobacco control (Mamudu et al. 2015). It has gone from 'laggard' to 'leader' over three decades.

The success of the UK tobacco control case is clearest when seen through the eyes of public health advocates, who identify tobacco as one of the world's largest public health problems and causes of preventable death, and who seek an 'evidence-based' theory of change (Cairney 2016). In this context, 'comprehensive' tobacco control relates strongly to preventing non-communicable diseases (NCDs) and early death by regulating the sale and use of tobacco and promoting healthier behaviour. In this case, long-term *programmatic success* in terms of encouraging smoking reduction and 'denormalization' of tobacco, was achieved through an incremental adoption of several evidence-informed policy instruments. It was the cumulative weight of measures dealing with price, promotion, education and health warnings, plain packaging, and the regulation of ingredients, sales, who can smoke and where they can smoke that led to such successful programmatic outcomes. To some extent, this approach is based on a pragmatic response to uncertainty: if the relative impacts of each policy solution on the population are uncertain, a combination of all known effective interventions can produce an effect greater than the sum of their parts. This approach to tobacco control serves as a model for countries around the world, as well as other public health measures within the UK (including alcohol and food policies—Cairney and Studlar 2014).

The main explanation for this comprehensive policy change is how policy-makers reframed tobacco—from an economic good to a public health epidemic—and managed the policymaking environment to produce conditions conducive to policy change. Policy changed markedly when public health actors used new scientific evidence to reframe tobacco from an economic good to a public health

epidemic, and when policy-maker attention shifted from ‘*should we act?*’ to ‘*how should we act?*’ The health department became the key player, with rules on evidence gathering and network formation favouring public health over industry cooperation. Further, socio-economic changes—including reductions in smoking, tobacco tax revenue, and opposition to tobacco controls—reduced the political costs of policy change. This trajectory highlights how a conducive environment and socio-economic context allowed interested entrepreneurs and motivated policy-makers a ‘window of opportunity’ for policy change (Kingdon 1984; Cairney and Yamazaki 2018).

The UK’s ban on smoking in almost all public places is symbolic of a long-term shift from minimal policy intervention in the 1980s to comprehensive policy by the mid-2000s. If seen through the eyes of public health advocates, this measure demonstrates *process success*, following high public attention and widespread political deliberation, and *political success*, as indicated by the perception among policy-makers that they enjoy unequivocal support by key stakeholders and diminishing opposition to tobacco control among the public. Although tobacco control is not exactly popular in the UK, the government has used a ‘permissive consensus’ among the public, or a level of reduced—and comparatively low—opposition that has proved conducive to policy innovation in this field (Key 1961; Cairney et al. 2012: 120).

Focusing alternatively on overall and individual policy changes provides different indicators of legitimacy and endurance. The trajectory towards comprehensive change in a series of incremental steps from the 1980s suggests that the overall project endured and is now almost taken for granted, even though each new instrument faced new challenges. A process of denormalizing smoking has become normalized. A focus on the smoking ban shows that its design—to punish the building owner, and prioritize enforcement by environmental health bodies—mattered, and that popular support for the ban became more apparent after policy change. The ban on smoking in public places is a remarkable implementation success—it is flouted by almost no one—and it opened the door for more restrictive measures such as a ban on smoking in cars with children present.

In the analysis and conclusion of this chapter, I draw lessons relevant to a dominant theme in public health research and beyond: a desire for ‘evidence-based policymaking’. By focusing on the conditions under which evidence ‘won the day’, it becomes apparent how important context, power, and politics are in explaining the outcomes of this policy. This conclusion matters primarily for tobacco control’s future success as a model of change for tobacco in other countries, but also for other public health initiatives in the UK. Therefore, attributing success primarily to the production of scientific evidence would provide an incomplete and misleading story on which to build new strategies to emulate UK success.

## UK Tobacco Control: A Great Policy Success?

The UK's tobacco success is mainly *programmatic*, in terms of the social behavioural (and economic) outcomes produced by the policy reforms. Key criteria for programmatic success are an unusually well-developed and empirically feasible public value proposition and theory of change (see Chapter 1 in this volume). Tobacco control's claim to provide public value and beneficial social outcomes relates to smoking (and now environmental tobacco smoke) as 'the number one preventable cause of premature death and disease in the world' (Cairney et al. 2012: 1). The theory of change, to reduce smoking and ill health, is empirically feasible and based on global efforts to identify and share best practice. The policy has fulfilled its main aim by making a major and measurable contribution to reduced smoking prevalence (Feliu et al. 2018), albeit with benefits distributed unequally, since smoking remains a major cause of health inequalities. Programmatic success has also endured for the long term, with tobacco control increasing in scope and intensity over several decades, and minimal evidence of any policy reversals or reductions.

The *process* and *political* elements of this case are more difficult to assess, particularly since stakeholder assessments about adequate deliberation and popularity relate strongly to their own support or opposition to policy change. However, key measures have received widespread consultation and public attention and there is now public support for measures—such as a ban in smoking in public places—that would have seemed unimaginable until the mid-2000s. Further, although most policy change happened under the control of one party (Labour), it was reinforced by the other (Conservative) to produce a strong sense of policy commitment and *endurance*. Overall, this paradigmatic policy change is here to stay.

### Programmatic Success

The UK is one of very few countries at the forefront of the global tobacco control agenda. Programmatic success equates to progress towards 'comprehensive' tobacco control via the adoption of a collection of the most evidence-informed policy instruments. Comprehensiveness is measured according to criteria derived from the WHO Framework Convention for Tobacco Control (FCTC), which provides a list of measures to which 181 'parties' (covering 90 per cent of the global population) have committed (WHO 2017). The measures include:

- Tobacco taxation policy—price and tax measures to reduce demand for tobacco
- Smoke-free policy—protection from exposure to second-hand smoke

- Tobacco product regulation—regulation of contents of products (toxic ingredients)
- Ingredient disclosure—regulation of public tobacco product disclosures
- Health warning labels—at least 30 per cent of the package of tobacco products should be a health warning
- Education and advocacy—to improve health education, communication, training, and public awareness
- Banning tobacco advertising, promotion, and sponsorship
- Smoking cessation services
- Prohibiting the illicit trade in tobacco products
- Banning tobacco sales to minors (under 18)
- Litigation against tobacco companies
- Research to monitor and evaluate tobacco control
- Support for economically viable alternatives to tobacco growing. (Mamudu et al, 2015: 860)

If this list represents indicators of comprehensive policy change, the UK is a key leader within a group of only nine countries demonstrating the most significant adoption and implementation of such measures. Although almost every country has committed to the FCTC in writing, very few have successfully turned that commitment into meaningful policy change on the ground (Mamudu et al. 2015: 865). Self-reported progress by each country highlights very uneven global implementation, and expert assessment highlights very limited change in most countries in key areas such as the regulation of products and illegal sales. Further, very few countries have matched the UK's intensity, including relatively high taxation and a ban on smoking in public places with almost no exceptions (Mamudu et al. 2015: 867–9; Warner and Tam 2012).

A further measure of success comes from the UK's shifting position from laggard to leader. In the 1980s, the UK oversaw minimal control, with little prospect of policy change (Taylor 1984; Read 1996). Baggott (1988: 5) compared the UK unfavourably to Norway. While both entertained the same measures, Norway's had statutory weight while the UK relied on ineffective voluntary measures favoured by the tobacco industry. The UK was, in many respects, closer to countries like the Netherlands and Japan, in which tobacco companies had a major presence and preferred non-statutory measures (Willemsen 2018: 81; Cairney and Yamazaki 2018). By 2007, the UK had left such countries behind *and* leapfrogged Norway to reach the top of the first 'tobacco control scale' (TCS) (Joossens and Raw 2007, 2017) which measures 'the implementation of a comprehensive set of control measures in Europe' (Cairney and Yamazaki 2018: 255). The scale uses the top six policy instruments deemed most important by the

World Bank and assigns percentage points to reflect their importance: price (30), bans on smoking in public places (22), health education (15), advertising bans (13), health warnings on products (10), and smoking cessation treatment services (10) (Joossens and Raw 2017: 8). It then asks country experts to assign scores according to policy intent and delivery. In each ranking, from 2007–16, the UK has been ranked first.

This shift of status reflected a shift from voluntary to statutory measures combined with relatively high commitment to important non-legislative policy instruments. Key policy changes included: legislation to ban tobacco advertising (2002), a ban on smoking in almost all public places (2006), an increase in the minimum age for the sale of cigarettes from 16 to 18 (2007), the introduction of plain packaging for tobacco products (2015), a ban on smoking in private cars with children present (2015), high levels of taxation designed to reduce smoking demand (from the 1980s) coupled with greater customs enforcement, higher spending on smoking cessation services, and a shift towards unequivocal health education (Joossens and Raw 2017: 3; Cairney et al. 2012: 101–2).

For public health advocates, the UK's experience is an 'evidence-based' model for future tobacco control across the globe (Cairney and Yamazaki 2018). Smoking is an urgent domestic and global problem, initiatives such as the tobacco control scale and FCTC help us identify the most technically feasible responses, and the UK was one of the fastest and most intense responders, at the forefront of processing politically feasible options. Further, tobacco control contributed strongly to reductions in smoking prevalence, such as from 35/31 per cent in men/women in 1986 to 17/13 per cent in 2017 (ASH 2018). As Feliu et al. (2018) report in their comparison and quantitative assessment of EU member state tobacco control, 'countries with higher scores in the TCS, which indicates higher tobacco control efforts, have lower prevalence of smokers, higher quit ratios and higher relative decreases in their prevalence rates of smokers over the last decade'. As a leader in adopting and implementing precisely those policy instruments which are empirically linked to the primary goals of tobacco control, the UK case is an example of programmatic success.

### Process Success

The *process* assessment of tobacco control is more difficult to determine because the divisions between pro- and anti-smoking coalitions (Cairney 2007a: 57) necessarily produced winners and losers. This division reduced the possibility that all stakeholders could see policy deliberation and action, during policy design and choice, as 'just and fair'. Indeed, the history of UK tobacco policy is of one coalition being privileged to the exclusion of another. From the early post-war

period, and over several decades, medical and public health groups complained of exclusion from a close-knit policy community between treasury and trade departments and the tobacco industry, which had gained a patriotic reputation during the Second World War and had the resources to maintain its insider position (Read 1996). Now, becoming a party to the FCTC commits countries to excluding tobacco companies from formal consultation on policy. This position gives industry stakeholders their turn to describe the policy process as exclusionary (Cairney et al. 2012: 214), while public health stakeholders would see the exclusion as good policy and policymaking. In a field with such clear winners and losers, it is difficult to incorporate the role of consensus-seeking or collaborative policymaking as an indicator of success.

There is, however, more evidence of the ‘robust deliberation’ of process assessment, at least in relation to key instruments. For example, the UK government was initially guided strongly by survey opinion which favoured a ban on smoking in public places but with exemptions for pubs and clubs, and policy only became more restrictive following wide deliberation and a ‘free vote’ for MPs in Westminster (Cairney 2009: 478). In Scotland, in which some tobacco control is devolved to the Scottish Parliament—the smoking ban represented policy innovation within the UK and it became the ‘big idea’ used by the government (led at the time by a Labour–Liberal Democrat coalition) to legitimize Scottish devolution and enhance the ‘political capital’ of Scottish politicians (Cairney 2007b: 86). The Scottish government oversaw a mass consultation in which most respondents favoured major policy change.

### Political Success

The same divisions which clouded procedural success limited the policy’s *political success*. There are clearly pro- and anti-smoking coalitions, but over time the former diminished and the latter grew in importance. Tobacco control in the UK is not popular per se, but there has been growing citizen acceptance which allows (a) public health coalitions to push for more tobacco control in line with the FCTC aims, and (b) governments to show leadership, while confident that the measures will be accepted over time. Similarly, association with tobacco control does not exactly ‘enhance the political capital’ of policy-makers, but the UK Labour government from 1997–2010 was willing to use much of its new capital—after a landslide electoral victory—to reform, introduce, or accelerate tobacco control measures (Cairney and Yamazaki 2018: 255). Indeed, the UK government’s narrative of policy change was ‘deliberately incremental, with measures to influence, but not get ahead of, public opinion’ (Cairney 2007a: 50). Further, the Scottish government was careful not to go *too far* ahead of opinion without the support of its consultation

exercise, while acting on the correct assumption that public opinion for tobacco control becomes more supportive after policy change (Cairney 2011: 170).

The policy's political success can also be linked to its longevity. Tobacco control, including the smoking ban, has proved to be highly durable. There is no equivalent to the Dutch partial reversal of smoking in public places and there were few implementation problems. Enforcement came largely under the purview of environmental health officers who made it an initial priority, but seemed to face minimal opposition, partly because—based on learning from Ireland—the legislation placed the onus on premises owners to enforce customer behaviour on the government's behalf (Cairney 2009: 482).

### **Contexts, Challenges, Agents: The Conditions Conducive to Policy Change**

Policy theories shed insight on the contexts and challenges shaping the success of tobacco control in the UK (John 2003; Cairney et al. 2012; Cairney 2016; Cairney and Weible 2017; Heikkilä and Cairney 2018; compare with McConnell 2010). Five key factors or concepts help identify the constituent parts of the policymaking 'environments' which provide the conditions conducive to policy change:

1. *Actors.* There are many actors—policy makers and influencers—operating in many 'venues' (arenas in which authoritative decisions are made) across many levels and types of government.
2. *Institutions.* Each venue has developed its own rules, from the formal rules which are often written down and well understood, to the informal rules which are often not well known and communicated in ways that are difficult to identify from the outside. Institutions also help create a sense of 'path dependence' when choices made in the past make it relatively expensive to change course (Pierson 2000).
3. *Networks.* Such rules can relate to the ways in which policy-makers interact with other actors, based for example on levels of trust built through regular contact and exchanges of information.
4. *Ideas.* One way of thinking about the world, or a policy problem, can be taken for granted or dominate discussion for extended periods of time. Such dominance—expressed with reference to terms such as paradigms, hegemonies, or core beliefs—provides the context for discussion of potential policy solutions.
5. *Context and events.* Policy-makers face socio-economic conditions and events over which they have limited control but can interpret and respond to them in different ways.

In the UK before the 1980s—and in most countries to the present day—the tobacco policymaking environment was not conducive to policy change (Cairney et al. 2012). ‘Critical junctures’, that can be traced back to the Second World War, helped produce a series of decisions to produce conditions conducive to tobacco production and consumption for decades (Cairney et al. 2012: 220). Policymaking power was concentrated primarily in treasury and trade departments in this era. Those departments tended to reproduce rules which minimized tobacco control. Their closest networks were with a small number tobacco companies, built initially on the patriotic image of companies providing cigarettes to aid the war effort in the Second World War, and reinforced by tobacco strategies to influence the production and dissemination of science and work closely with policy-makers to produce largely-voluntary responses to potential smoking harms. Throughout, the dominant image of tobacco was as an economic good, providing export revenue, tax revenue, and jobs, with health as a secondary concern addressed primarily with reference to personal responsibility for healthy behaviour. Socio-economic conditions were largely supportive of this position, particularly when tobacco prevalence and taxation was high and public support for policy change seemed low (albeit in the absence of routine polling, which meant that elected policy-maker *perceptions* of attitudes were key).

In this context, paradigmatic policy change would be remarkable, even if it took place over decades. As Table 5.1 shows, this is what happened in the UK. In terms

**Table 5.1** A shift of policy towards comprehensive tobacco control

	High Level Abstraction	Programme Level Operationalization	Specific On-the Ground Measures
<i>Policy Ends or Aims</i>	A shift in <i>goals</i> , from an economic towards an epidemic frame (let’s support production versus let’s eradicate the epidemic).	A shift in <i>objectives</i> , from maximizing revenue and economic activity, towards preventing NCDs and premature death.	On-the-ground requirements include a tipping point of pricing (to prompt people to quit smoking) and a growing sense that smoking is not a normal part of social life.
<i>Policy Means or Tools</i>	A shift in <i>instrumental logic</i> , from voluntary measures and exhortation towards more coercive instruments.	A shift in <i>policy instruments</i> from voluntary agreements with the tobacco industry towards legislation and regulation, taxes to discourage consumption, limit promotion, and provide unequivocal health messages.	For example, tax rises are calibrated in line with the potential for illegal imports and counterfeit cigarettes (a public health disaster); the smoking ban extends to almost all public places, and individual choice is a less convincing narrative in the UK.

adapted from Howlett and Cashore (2009) and Cashore and Howlett (2007), policy change is associated with a shift in policy ends *and* means. Past tobacco control policy was based on a political economy frame, which emphasized the economic benefits of the industry and the freedom to make choices such as to smoke. Contemporary UK tobacco policy is now premised on a public health frame in which smoking is an epidemic and the challenge is to tackle preventable NCDs and early mortality by combining a wide range of policy instruments.

There is some debate on how to describe such profound but incremental change in the absence of a ‘big bang’ event associated with ‘punctuated equilibrium’ accounts of institutional change (Hay 2002: 163; Palier 2005: 129; Streeck and Thelen 2005: 9; Studlar and Cairney 2014: 519). It is also difficult to provide a highly specific and definitive account of the causal mechanisms of this change process, or the policy’s main drivers and stewards, since many factors reinforced one another and each cause of change was necessary but insufficient. However, we can describe key elements of each change and relate them to the actors and conditions which produced a policymaking environment far more conducive to control.

First, scientific evidence was key to long-term policy development. It has been the main driver in shifts of practitioner, public, media, and policy-maker understanding, by identifying a clear causal link between smoking (and ‘passive smoking’), NCDs, and premature death (Cairney et al. 2012: 67). The UK was a key player in producing early key evidence (e.g. Doll and Hill 1950) and disseminating it to doctors and policy-makers. The production and effective use of new scientific evidence helped actors reframe tobacco as an urgent public health epidemic (also producing economic harms), and shift the question from ‘should we control tobacco?’ to ‘how should we control tobacco?’ (Feldman and Bayer 2004).

However, we can also see in the UK a lag of twenty to thirty years between the production of the evidence and a proportionate response, from the evidence of smoking harm in the 1950s (major policy change began from the 1980s) to newer evidence on environmental smoke effects from the 1980s (the smoking bans began from 2005). To some extent, the lag reflected early debate on the causal connection between smoking and illness until unequivocal statements by the UK Royal College of Physicians in 1962 and US Surgeon General in 1964 (Pearl and Mackenzie 2018: 167–9). However, the lag also reflected a wider policy environmental problem in which the evidence alone would not disrupt path dependence.

During this transition, we can see a slow process of change in other key factors. For example, the evidence of harm encouraged behavioural and attitudinal change. Socio-economic conditions changed gradually over time, including reductions in smoking and tax revenue, while reduced opposition to regulations reduced the perceived political cost of policy change. The effective use of scientific evidence in persuasion strategies also helped reframe tobacco’s policy image, which gave health departments more relevance, which increased demand for

public health evidence, and so on. However, during this long transition, opponents of tobacco control were able to influence the production and interpretation of evidence (by commissioning research and hiring scientists to undermine other research) and to promote less radical solutions—such as to foster individual choice and trust the industry to regulate its own activities—‘to make it look like the problem had been solved’ (Cairney et al. 2012: 68). Indeed, a shifting frame to incorporate addiction over choice only took off from the 1980s, while the new moniker ‘Big Tobacco’—to describe high power and low credibility—only took off when industry chief executives were exposed as giving misleading testimony to US Congress in 1994 (Cairney et al. 2012: 132).

Second, policymaking responsibility shifted from treasury and trade towards departments of health. The department of health became a key player which was increasingly likely to consult with the medical and public health groups who shared their understanding of the problem and were the routine sources of evidence on possible solutions. While the Treasury was still involved, its role changed under the Labour government, when it took responsibility for reducing health inequalities and therefore reframed its definition of tobacco from an economic good to describe smoking as ‘the single most significant causal factor for the socio-economic differences in the incidence of cancer and heart disease’ (HM Treasury and Department of Health 2002; Cairney 2007a).

Third, the role of interest groups is now key, but their strategies took decades to consolidate and come to fruition. Action on Smoking and Health (ASH) was often working on a shoestring budget, the British Medical Association (BMA) was not as focused on public health campaigns as it is now, and cancer charities such as Cancer Research UK have only become overtly politically active since the early 2000s (Baggott 1988: 15; Cairney 2007a). Further, some groups have, in the past, entertained the idea of policy change through incremental steps, and their unequivocal stance on health education, policy change, and relationships with the industry seem to have hardened *after* policy change began from the 1980s. On the other hand, their role seems particularly important in a comparative context. For example, the lack of a public campaigning role of public health groups in Japan is one factor in its relatively slow policy change (Cairney and Yamazaki 2018), and the inability of NGOs to organize in any comparable way in China (at least until 2009) puts the role of UK interest groups in a new perspective (Cairney et al. 2012: 176).

Finally, the party in government mattered for policy innovation. The main impact occurred when Labour accelerated policy change from 1997, making policy for the UK in some cases, and providing the conditions for devolved government policy innovation. It also represented the removal of UK government opposition to European Union pressure in key areas (with a temporary exception in advertising—Duina and Kurzer 2004: 67), and the UK generally went far beyond minimum European Union standards (Cairney and Yamazaki 2018).

## Design and Choice: The Window of Opportunity for a Smoking Ban

A focus on the policymaking environment largely describes conditions conducive to policy change. In addition, to provide a more detailed and convincing account of the drivers for policy design, we need to explain the different ways in which different policy instruments came to exist. Each instrument has its own story relating to the motive to propose and design policy in a more or less ambitious way, the measure of success, and the role of key actors. To demonstrate, I draw briefly on MSA to provide a more detailed explanation of the design and choice of the ban on smoking in public places in the UK. MSA invites us to focus on the need for three ‘streams’ to come together during a ‘window of opportunity’ for policy change (Kingdon 1984; Cairney and Jones 2016; Jones et al. 2016):

- *Problem stream—attention lurches to a policy problem.* There are no objective indicators to determine which problems deserve attention, and perceptions of problems can change quickly. In some cases, issues receive attention because of a crisis or change in the scale of the problem, but the emphasis of MSA is on the more or less successful framing strategies of participants competing for policy-maker attention. Getting attention to one way of looking at a problem is a major achievement which must be acted upon quickly, before attention shifts elsewhere.
- *Policy stream—a solution to that problem is available.* While attention lurches quickly from issue to issue, viable solutions involving major policy change take time to develop. Kingdon describes ideas in a ‘policy primeval soup’, evolving as they are proposed by one actor then reconsidered and modified by a large number of participants.
- *Politics stream—policy-makers have the motive and opportunity to turn it into policy.* They have to pay attention to the problem, and be receptive to the proposed solution, perhaps because it is consistent with their beliefs, fits the ‘national mood’, or represents a way to address the feedback they receive from interest groups and political parties.

MSA also emphasizes the role of key actors—‘policy entrepreneurs’—with the skills, tenacity, and connections to know how to frame policy, propose solutions, influence policy-maker receptivity, and therefore help exploit those windows of opportunity (Cairney 2018). In particular, they help develop technically and politically feasible solutions in anticipation of future attention to problems, then find the right time to exploit attention.

In this case, there were actually four separate windows of opportunity in the UK because there were four relevant governments from 1999: the UK, making public health policy primarily for England (and legislating to allow Wales and Northern

Ireland to act), the Scottish Parliament with legislative powers, the National Assembly for Wales which showed the earliest interest but did not possess sufficient powers, and the Northern Ireland Assembly as the last to pay attention to this issue during the suspension of devolution (Cairney 2009; Cairney and Yamazaki 2018). All three devolved governments relied on direct support from the UK government to pursue their aims, but their actions also influenced the Westminster debate and subsequent vote for a full ban (Cairney 2009: 476–7). Although they produced similar policy choices and outcomes, the timing and content of debate differed, and some comparisons help us clarify the relationship between conducive conditions and key actors/interventions. Described initially in terms of the three ‘streams’ (see Cairney 2009: 477) we see:

- *The problem stream.* Policy-makers in each territory paid high attention to the issue from the early 2000s and paid greater attention to the need to restrict smoking in public places, but framed evidence (such as on public opinion) differently.
- *The policy stream.* The UK government was learning primarily from US experience, in which key states introduced partial and incremental bans. The Irish experience of a complete ban in 2004 had a greater influence on the devolved agenda.
- *The politics stream.* The party of government mattered, with Labour in office in the UK, Scotland (in coalition), and Wales, and generally more in favour of tobacco control than the Conservative Party (in Northern Ireland, there was cross-party support for tobacco control to emulate Ireland).

In the UK, Health Secretary John Reid (2003–5) played an unusual role as a major player whose actions provided direct and indirect support for other entrepreneurs. Crucially, as a senior member of the government, he ensured that the Department of Health was central to policy, allowing actors in favour of tobacco control, such as the Chief Medical Officer, to set the agenda at the expense of tobacco companies. However, Reid also opposed a full ban on smoking in public places (a position reflected in Labour’s 2005 general election manifesto), so the Department of Health described survey opinion (correctly) as in favour of a partial ban which exempted pubs and clubs and pursued the relatively incremental strategy to limit smoking in stages. The full ban only took shape after Reid’s replacement as Health Secretary in 2005 by Patricia Hewitt, who opposed it but less vigorously. In the lead up to passing the legislation in 2006, several actions were key:

- Health Select Committee chair Kevin Barron, and All-Party Parliamentary Group on Smoking and Health chair David Taylor persuaded Prime Minister Tony Blair to allow a ‘free vote’ on the legislation.

- The BMA (and local doctors) and ASH pursued an intense lobbying campaign in many MP constituencies.
- Groups like Cancer Research UK (lobbying government in this way for the first time) and the Chartered Institute of Environmental Health highlighted major problems with a partial ban.
- When the government appeared to strengthen its ban, and only exempt private clubs, the British Beer and Pub Association reversed its economically-driven opposition to exemptions (in other words, it was not part of a well-coordinated action built on other concerns, such as a libertarian argument—Cairney 2007a: 58).

Overall, policy-maker and public attention to the proposed legislation was high, multiple solutions (including a full or partial ban) existed, the free vote gave Labour MPs the opportunity to vote for a full ban, and lobbying campaigns in favour of legislation reinforced their motive (Cairney 2007a).

In Scotland, the process played out differently (Cairney 2007b). Early legislation took shape from the early 2000s, via a Member's Bill developed by a cross-party group including the BMA Scotland and ASH Scotland, taken forward by Scottish National Party (SNP) MSP Stewart Maxwell in 2003. This bill was relatively unopposed by a tobacco industry that did not take devolution particularly seriously (Cairney 2009: 481). The bill proposed a smoking ban in areas such as government buildings, partly to reflect (a) Maxwell's perceived limits to Scottish Parliament powers and (b) wider politician uncertainty about public opinion in the early 2000s. Several factors then contributed to the Scottish government's decision to introduce a full ban in 2005:

- The Scottish Parliament Health Committee signalled to Scottish ministers that they would support Maxwell's bill after scrutiny.
- The BMA and ASH Scotland had agreed to participate in a press conference lauding Maxwell and criticizing government inaction.
- Ireland had produced comprehensive legislation.
- Some key actors—including Deputy Health Minister Tom McCabe and the Scottish Government's Chief Medical Officer—had already signalled internal support for more action and began to see their chance to act more intensely.

First Minister Jack McConnell was able to use these conditions to sell policy change, with reference to committee activity, McCabe, the CMO, and the Irish experience. Indeed, the smoking ban legislation gave the Scottish government the 'big idea' that it sought to justify the cost of Scottish devolution (Cairney 2007b: 86), emphasizing the scope for policy innovation within the UK, three-party support (Labour and Liberal Democrat in government, and the SNP as the main party outside of government) and the popularity of the move in relation to a

massive public consultation to demonstrate majority support for a full ban akin to that in Ireland (Cairney 2009: 478–9).

In each case, the main point is that we can identify a policymaking environment conducive to policy change, but politics and perceptions of public opinion really mattered. Throughout this period, there was a strong element of contingency, and the possibility of an extreme range of results, from no legislation at all (up to 2003) to a partial ban (2003–4) and the realistic prospect of a comprehensive ban on smoking in public places (from 2004). Perhaps the strongest indicator of contingency is the surprise expressed by participants that the issue rose so quickly on the agenda, and a full ban became politically feasible, after such a long period of legislative hesitancy (Cairney 2007a, 2007b). For example, devolution occurred in 1999, the first Scottish government initially favoured voluntary measures—agreed with industry stakeholders—to give premises the choice to allow smoking or not, the BMA expressed frustration in 2003 that policy-makers would not even discuss the issue, and yet the full ban was government policy by 2004 (Cairney 2007b). Similarly, Scotland's Chief Medical Officer would not propose a full ban because it 'was utterly opposed by so many that a full ban would happen but not in their lifetime' (Cairney 2009: 480). Even by 2004, the Scottish Government was expressing caution:

Much progress has been made in smoke-free environments in public places in Scotland through voluntary action ... in our view statutory controls would only be truly effective—and ultimately enforceable—if they take place in an environment in which the legislation reflects rather than attempts to force public opinion on what remains essentially an issue of personal behaviour.

(Scottish Executive 2004: 25)

Although it subsequently went ahead of public opinion, the Scottish government only decided to do so when ministers 'sensed a shifting public mood' and predicted that public opinion would—as in Ireland—shift after policy change (Cairney 2007b: 84).

The UK government had been even more reluctant to get ahead of opinion. For example, John Reid expressed concern in public that tobacco control would be seen as a punishment for the working classes (an argument expressed over several decades by Labour politicians—Cairney 2007a: 62). The UK government maintained a commitment to incremental change before its position was quickly overtaken by events and choices in Westminster (Cairney 2007a). In that context, the sense among Labour MPs that public opinion was changing—and would change after legislation—combined with BMA and ASH pressure, and scientific evidence on the harms of passive smoking, to produce policy change during a window of opportunity (Cairney 2009: 480).

## **Delivery, Legitimacy, and Endurance: Smoking Denormalization**

The long-term legitimacy of tobacco control is best indicated by four main factors. First, there has been no significant public debate or pressure to reverse or reduce the smoking ban since its introduction (unlike the Netherlands, in which a partial reversal is apparent—Willemsen 2018). Instead, UK public opinion has shown majority support for the ban after its implementation (Cairney et al. 2012: 117).

Second, the delivery or implementation of the smoking ban appears to be one of the most impressive cases of its type, in which it is difficult to find any evidence of a breach of policy in any public places (with the exception of very few bars, in which this illegality would be low on the list of government priorities). In part, successful implementation resulted from: (a) the high priority given to enforcement by environmental health officers (signalled in the run up to enactment), (b) the onus on premise owners, not customers, to enforce (producing vivid stories of bar owners using baseball bats to discourage high fines), and (c) the socio-economic conditions, in which bars and restaurants were relatively able to accommodate policy change via beer gardens and on-street smoking (in Japan, the relative infeasibility of enforcement—and potential to affect small business—is a factor in limited change; Cairney and Yamazaki 2018: 264).

Third, since the acceleration of tobacco control took place during Labour's term, a key test of the endurance of tobacco control came with the election of a Conservative-led coalition (2010–15) and single party government (from 2015). The Conservative government did not reverse, *and often reinforced*, strong public health measures. For example, it banned smoking in cars with children in 2015 and obliged plain packaging for tobacco products by 2017 (the packets are sludge green, with large and vivid anti-smoking messages). These measures would have seemed unimaginable even during Labour's government.

Fourth, the endurance of comprehensive tobacco control in the UK is best evidenced by the continuous accumulation of policy change. The process to 'denormalize' smoking—largely by making it harder to buy and find places to smoke—has become a normal part of UK policy. Each successful policy measure *reflects and reinforces* an environment conducive to policy change. It began slowly in the 1980s under a Conservative government which proved to be relatively in favour of the status quo, experimenting with voluntary measures in areas such as advertising and promotion, coupled with health education and high taxation (Cairney et al. 2012: 104). The election of a Labour government in 1997 prompted a major acceleration of policy change, including new measures and more intensity in most others (Cairney et al. 2012: 104). Further, policy change has continued in earnest to this day.

In global terms, the UK is one of a very small number of countries in which the implementation of key measures is relatively consistent and meaningful (Mamudu et al. 2015: 866). In many cases, implementation success is highly visible: there are media bans on smoking advertising, combined with plain packaging, health warnings, and education campaigns; the rate of tax is comparatively high; and there is demonstrable funding for smoking cessation services through the National Health Service (albeit with some debate on the role of e-cigarettes in cessation). Only in some cases is implementation success difficult to gauge: the success of customs and excise bodies in limiting illegal imports and counterfeit products (the existence of which limits the impact of tax rises); and the ability to restrict sales to over 18s (a policy that is not enforced well in most countries).

### **Analysis and Conclusions: A Success Story for ‘Evidence-Based Policymaking’?**

The UK success story tends to be used as a model for others to emulate. Tobacco control advocates across the globe seek lessons to import, and UK public health actors seek lessons for alcohol and sugar, salt, and obesity policies. Tobacco represents a totemic example for the wider effort to regulate behaviour, and promote healthy behaviour, to reduce preventable NCDs.

In this context, it is common to view this process through the lens of contemporary debates on ‘evidence-based policymaking’ (Cairney 2016), particularly since policy success seems to relate the relatively strong and clear association between smoking and ill health (although with alcohol and food, it is not as possible to make the argument about no safe or beneficial level of consumption—see Studlar and Cairney 2019). However, it would be a mistake to place so much emphasis on the role of evidence, since it would suggest that the UK’s experience can be replicated in a straightforward way without considering the role of temporal politics (windows of opportunity) and the conducive conditions that developed over decades. Evidence of the unhealthy effects of smoking is available to all countries, but policy actors may use information as a resource in very different ways in each political system.

To understand how (or if) to replicate UK tobacco control success, a wider perspective is needed. Scientific evidence was pivotal, but the extent to which it ‘won the day’ should be situated within the context of the multiple contingencies involved. Successful use of evidence relies on policy framing, a policymaking environment more or less conducive to policy change, and the sense of serendipity that accompanies discussions of windows of opportunity. We can summarize these factors with reference to three main conditions (Cairney 2019).

*First, actors were able to use scientific evidence to persuade policy-makers to pay attention to, and shift their understanding of, policy problems.* In leading countries like the UK, it took decades to command attention to the health effects of smoking, reframe tobacco primarily as a public health epidemic (not an economic good), and generate support for the most effective evidence-based solutions. To do so, influential groups such as the BMA and ASH had to find ways to frame the evidence successfully in relation to the language of NCD epidemics (and that language developed via global efforts led increasingly by the WHO).

*Second, the policy environment became conducive to policy change.* A new and dominant frame helps give health departments a greater role; health departments foster networks with public health and medical groups at the expense of the tobacco industry; and they emphasize the socio-economic conditions supportive of tobacco control: reductions in (a) smoking prevalence, (b) opposition to tobacco control, and (c) economic benefits to tobacco. When policy-makers in health departments took primary responsibility, they were able to support key health actors to take forward the policy agenda, in cooperation with public health groups and to the exclusion of anti-tobacco groups.

*Third, actors exploited 'windows of opportunity' successfully.* A supportive frame and policy environment maximizes the chances of high attention to a public health epidemic and provides the motive and opportunity of policy-makers to select relatively restrictive policy instruments. However, the smoking ban example highlights contingency, particularly in relation to the relationship between shifting levels of public opinion and the willingness and ability of policy-makers to get ahead of and shape opinion.

Scientific evidence is a necessary but insufficient condition for major policy change and enduring success following implementation. Key actors do not simply respond to new evidence. They use it as a resource to further their aims, frame policy problems in ways that will generate policy-maker attention and underpin technically and politically feasible solutions that policy-makers will have the motive and opportunity to select. This remains true even when the evidence now seems unequivocal and when countries have signed up to an international agreement, the FCTC, which commits them to major policy change. Such commitments can only be fulfilled over the long term, when actors help change the policy environment in which these decisions are made and implemented, to produce the conditions conducive to policy change.

We know that politics matters because there was a major gap between the production of evidence and policy in the UK, and it is far wider in most countries across the globe. So far, successful paradigmatic policy change has not occurred in most countries or, in other aspects of public health in the UK. Therefore, it would be a mistake to treat this policy success as inevitable or the emulation of policy success as straightforward.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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## 6

# The 'Social Warfare State'

## Americans' Making of a Civic Generation

*Mallory E. Compton*

### Introduction: An Historic Achievement

The GI bill gave generations of veterans a chance to get an education, to build strong families and good lives, and to build the Nation's strongest economy ever, to change the face of America, and with it, to enable us to change the face of the world. The GI bill helped to unleash a prosperity never before known.

—President William J. Clinton, 12 April 1995

On the 22 June 1944, just weeks after D-Day in France, President Franklin D. Roosevelt signed into law the Serviceman's Readjustment Act (U.S. Senate 1944). Supported by a bi-partisan coalition, this package of benefits for soldiers returning from the Second World War was the most expansive social policy ever offered by the US federal government. Buoyed by both an economic boom and a sense of social solidarity, the American public was able and willing to expend resources on a group perceived as worthy and deserving. Veterans were offered training vouchers, family stipends, up to a year's worth of transitional unemployment payments, and low-interest, federally guaranteed loans for homes, farms, and businesses. By the mid-1950s, nearly 8 million ex-servicemen and women would take advantage of at least one programme. GI Bill benefits became a part of the typical American household, and the policy would soon become a cherished and respected institution in American society. So powerful is the reputation of this programme, that to this day compensation to wartime veterans retains the same moniker as the law passed more than seventy years ago: the GI Bill.

Programmatic success of the GI Bill, also known as the 'New Deal for Veterans', was not an accident, though political success of the policy exceeded expectations. Having learned from the administrative failings of veteran's support following the Civil War and the political debacle of First World War benefit payments, policy-makers wanted to ensure that assistance to Second World War soldiers would be more successful. With the war still underway, elected lawmakers initially approached veterans' compensation as a macro-economic policy. With the risk of

post-war unemployment and economic depression in mind, many feared populist uprisings among dissatisfied discharged soldiers. Both sides of the aisle agreed that something must be done to help veterans readjust to civilian life, but Republicans and Democrats disagreed on the most appropriate policy instruments. While Democrats sought to integrate veteran's compensation into their broader progressive federal social policy agenda, Republicans sought to limit the scope of government and curtail federal interference in local affairs. In a compromise to forge bi-partisan support, it was decided that programme benefits would be paid out of federal funds directly to individual veterans, through state and local administrative apparatuses. One consequence of this political compromise—that payments go directly into the pockets of veterans and their families—was to make policy benefits clearly visible to millions of American households, thereby promoting the policy's political success. Another consequence of this compromise, however, was to allow racial and gender biases to subvert administrative procedures, especially in the Southern states. Although the federal law was written to be inclusive, with universal eligibility for all veterans, decentralized administration gave local public and private institutions the opportunity to discriminate (especially in education, see Herbold 1994; Dynarski 2002; Turner and Bound 2003; Mettler 2005b; Katznelson and Mettler 2008; Woods II 2013).

Now several decades after the bill was signed into law with benefit eligibility long ago expired, empirical evidence supports the policy's programmatic and political achievements and points to some procedural shortcomings. Not only was the GI Bill successful in its original aims—to ease the economic transition of veterans back into the labour force—it also boosted educational attainment and social mobility, expanded social rights, set precedent for federal voucher programmes, and spurred civic participation for a generation (Skocpol 1997 Mettler and Welch 2004; Mettler 2005b; Nesbit and Reingold 2011). Programme benefits were generous, administration was efficient (though not without problem), and political success was unprecedented. In this chapter, I unpack the social and political consequences of the GI Bill by tracing the chain of events leading to the final version of the law and the critical stages of implementation. I assess the 'success' of this policy in programmatic, process, and political terms across time and explore what factors may have played a pivotal role in producing the pattern of outcomes observed. Finally, I examine what lessons may be drawn from this case.

### **Prelude to the Bill**

The GI Bill followed nearly two centuries of ad hoc attempts to reward American soldiers for their service. Special compensation for war veterans dates back to the Revolutionary War (1775–83). Though support for disabled veterans enjoyed broad support in the Continental Congress, the regular service pensions

advocated by George Washington in 1781 were primarily an incentive to prevent mass desertion (Teipe 2002). The goal was to improve retention among the ranks. Officers were promised half-pay for life, an offer which was almost immediately recognized as an impossible promise. After a near-coup by officers who were convinced the government could not meet the obligation, a compromise was made to pay full wages for five years, in the form of a bond (Teipe 2002). Enlisted soldiers, however, had less success in negotiation. At the end of the war, non-officers faced challenges in simply claiming back-pay, which was due to them since the government had stopped paying wages in 1777. According to Teipe's (2002) account, Revolutionary War veterans constituted a very small portion of the population at the time and were unable to effectively organize a political coalition. It wasn't until the Civil War, nearly a century later, that widespread compensation for soldiers was effectively paid.

From 1861 to 1865, 12 per cent of the Union (North) population served in the Civil War, which remains the deadliest war in American history, with roughly 13 per cent of Union service members returning home wounded (Department of Veterans Affairs 2017).<sup>1</sup> Disabled Union veterans were offered financial and medical assistance, and most service members were eligible for a general pension. The federal program, however, allowed broad local discretion in the distribution of payments. Funds were funnelled through local politicians for disbursement, leading to widespread corruption and patronage (Mettler 2005b). Additional pensions for surviving wives and mothers were offered by scattered state-level programs, and the federal Sheppard Towner program provided subsidies for some women's healthcare (Skocpol 1992).

Decades after the war ended, the federal government extended the existing pension programme for Civil War veterans with the Dependent Pension Act of 1890. In what would become a fundamental shift in American social policy, widows and the children of Union soldiers were made eligible beneficiaries (Skocpol 1992). Remarkably, as of 2017, a full 152 years after the end of the war, the last remaining dependant (daughter) of an American Civil War veteran continued to collect a monthly pension of \$73.13 from the U.S. Department of Veterans Affairs (Department of Veterans Affairs 2017; the same case was also reported on by Frizell 2014). Though far more generous than any federal social policy ever before, eligibility for Civil War pensions and health services was not universal. First, administration through local politicians meant widespread discrimination and misuse of funds. Although African Americans and other religions or ethnic minorities were officially eligible for federal programmes, they found it difficult or impossible to gain access to the benefits (Skocpol 1992). Second, the programmes were only available to soldiers who had served for the North. All federal post-war programmes were limited to Union (Northern) veterans and excluded all Confederate (Southern) veterans. Each former Confederate (Southern) state was responsible for organizing and funding their own pension programmes.

Assistance to Civil War veterans and their dependants may have been imperfectly administered, but at the time it was by far the most generous and comprehensive provision of social assistance that had ever been offered to American wage-earners and families.

The next major turn in veterans' policy came with the end of the First World War. Motivated by fears of corrupt administration and the economic 'waste' of disabled or out-of-work (i.e. unproductive) veterans, Progressive Era reformers designed a very different package of veteran benefits than had been offered in the past (Linker 2011). The ideological emphasis of post-First World War policy-makers was on rehabilitating veterans and restoring their economic independence—the goal was a speedy return to productivity in the labour market (Linker 2011). Upon discharge, healthy veterans were welcomed back with a separation payment of \$60 and a train ticket home (Peeps 1984). Only disabled veterans were eligible for some (limited) reimbursement of tuition and costs for rehabilitative or vocational training. Later, in 1924, the Adjustment Compensation Act promised a deferred interest-bearing certificate payable in 1945 or, at death, to the veteran's beneficiaries (Ortiz 2012). Also keen to avoid past experiences of corrupt local administration, post-First World War policy-makers ensured heavy federal (centralized) control.

Compared to what Civil War veterans had received, First World War veterans' programmes were far less generous. The policy was scorned by veterans' organizations for offering too little too late, with discontent focused directly on Congress and the President. With the onset of the Great Depression in the 1930s, dissatisfaction grew. Many veterans in dire economic need sought relief with early payment of their meagre pensions at a depreciated amount, or in taking loans against later pension payments. Supporting their cause, the Veterans of Foreign Wars (VFW) organized a nationwide campaign culminating in a march on Washington, DC, in May 1932 (Ortiz 2012). More than 20,000 veterans and their families marched into the city. This 'Bonus Army' settled into camps along the Anacostia river and remained there until 28 July, when they were forcefully removed by the Army. The violent eviction—tanks, cavalry, and torches were used to raze the encampments—coupled with the government's failure to produce legislation spelled the end of President Hoover's political legitimacy (Ortiz 2012). The bitter disappointment of the era spurred First World War veterans' organizations to professionalize lobbying efforts and expand membership (Ortiz 2009; Hindley 2014). The VFW and the American Legion have since become powerful institutions in American society and politics.

Months after the 'Bonus Army' debacle, Franklin D. Roosevelt (FDR) was elected president. His successful bid was aided by the VFW's mobilization. Once in office, FDR's administration quickly set about enacting the Democrats' progressive 'New Deal' plan. Two years into the term, still in the midst of the Great Depression, Congress passed the first federal social policy available to all

Americans: the Social Security Act (SSA) (Derthick 1979; Weir et al. 1988). A public pension (Social Security), unemployment insurance, and medical care for the elderly and blind were the largest programmes in the bill. Whereas social assistance before had been limited to special groups (i.e. veterans), the SSA social insurance programmes covered any man or woman. Subject to contribution requirements or means-tested eligibility, these programmes were available to any citizen. Democrats advanced their policy of economic assistance further by growing federal employment. The Civilian Conservation Corps, the Works Progress Administration, and the Federal Emergency Relief Administration were created with this aim of boosting employment and economic security. This economic and social policy agenda was extremely popular, demonstrated by the fact that Roosevelt was re-elected three times (a record in US history, and the reason for the 22nd Amendment to the Constitution, which now puts a two-term limit on the presidency).

Roosevelt continued to advocate a progressive and universal social policy agenda throughout his term(s) as president. FDR personally believed that no group should be eligible for benefits based on special status. True to this belief, FDR went so far as to issue an executive order scaling back veterans benefits in 1935 (Skocpol 1997), preferring instead legislation that would serve both veterans and non-veterans in economic need (Mettler 2005b). Yet, with the Second World War underway, it would become an important task of FDR's administration to work with Congress, government committees, and veterans' organizations to craft what is now known as the GI Bill.

### **Drafting and Negotiating the GI Bill**

Politics surrounding Second World War veterans' policies reflect lessons learned from previous post-war eras, as well as contemporary ideas about social programmes serving economic aims. Colouring debate about readjustment policy in both Congress and the administration was also an acute awareness of the political and economic threats posed by mass post-war unemployment. The end of the Second World War meant discharging 15 million soldiers into a 60-million-person labour force, in an economy adapting from wartime to peacetime production (Cogan 2017). Europe's experience following the First World War with public unrest driven by economic depression, which had opened the doors for dictatorial populism, weighed heavily on American policy-makers' minds when designing social policy during and after the Second World War. Neither had lawmakers forgotten the political failure of veterans' compensation at home, and the 'Bonus March' just a decade earlier. First and foremost, the Serviceman's Readjustment Act was meant as a tool to prevent economic depression and widespread unemployment among young men returning from war (Wynn 1996; Skocpol 1997; Cogan

2017). The altruistic goal of 'rewarding' soldiers for service or expanding social rights was secondary to these macro-economic concerns (Olson 1973). Ultimately, the legacy of Second World War veterans' policy would be the institutionalization of social policy principles in American society and a boom in civic participation. These outcomes may be heralded as successful legacies, but it is important to emphasize that these were the unintended consequences of political compromises in administrative design.

FDR's view was that veterans' compensation should be folded into existing (or new) universal social programmes. Under his plan, veterans and non-veterans alike would be provided labour-market assistance through universal programmes. Articulating this view, the President's Executive Conference on Post-War Readjustments of Civilian and Military Personnel proposed only a small package of higher education benefits for veterans, contingent on competitive exams and limited to studies deemed relevant to economic needs. An even more exclusive proposal was advocated by the fiscally conservative Armed Forces Committee on Postwar Educational Opportunities for Service Personnel. This plan offered only unusually talented veterans higher educational services for just one year (Mettler 2005b). Late in 1943, FDR's administration supported this plan with a bill in Congress, proposing only narrowly-targeted education benefits.

Despite holding a majority in both houses of Congress, however, FDR's New Deal Democrats could not rally the support needed to pass the bill. While five months passed with little legislative progress, the anti-statist conservative American Legion took action by drafting an omnibus bill it called the 'GI Bill of Rights'. Known in the post-First World War era as a veterans' organization promoting patriotism and community service, the American Legion had traditionally focused its efforts on local voluntary aid for ex-soldiers, eschewing federal assistance (Mettler 2005b; Ortiz 2009). In contrast to the VFW organization, the politically active and influential Legion had not fully endorsed the 'Bonus Army' movement in the 1930s (Ortiz 2009). And yet, in 1944 it was the American Legion which drafted and lobbied for a bill with unprecedentedly generous and broad benefits to veterans—both able-bodied and disabled (Skocpol 1997).

Composed mostly of First World War veterans, the Legion's policy position was motivated by their own memories of financial and social difficulties with readjusting to civilian life (Mettler 2005c). Whereas the President and many members of Congress emphasized economic goals, the Legion's position advocated society's obligation to servicemen. Harry W. Colmery—a First World War veteran and Legion member who personally drafted the GI Bill in longhand on hotel stationery—testified to Congress that veterans 'should be aided in reaching that place, position, or status which they had normally expected to achieve and probably would have achieved, had their war service not interrupted their careers' (as cited in Cogan 2017: 129). The organization's policy position had changed since the last war, while their political strength had grown. In breaking with the

tradition of creating new veterans' organizations following each war, the Legion had decided to expand their membership and mission to include Second World War veterans. This decision incorporated a new generation of veterans into an already organized and professional organization, thereby growing their strength in numbers and political influence. Not only did the Legion speedily draft the bill, it also lobbied intensely and it coordinated a persuasive media campaign with Hearst Newspapers (Cogan 2017). Other veterans' groups were more suspicious of the bill, however. The VFW and other veterans' organizations worried that such a large expansion of benefits might disadvantage disabled veterans in accessing the services they needed if resources were shared with able-bodied veterans (Hindley 2014). But in the end, the Legion's grass-roots organizational power prevailed—members across the country mobilized to contact their congressmen in support of the bill (Skocpol 1997).

Though it had popular momentum when proposed to Congress in early 1944, compromises were necessary to shore up the votes needed to pass the Legion's GI Bill of Rights. Conservative Republicans' negotiation was driven by several fears. There was first a concern that the Roosevelt administration and Democrats would use the legislation to advance a broader (New Deal) social policy agenda (Cogan 2017). To satisfy Republicans and prevent programme overreach, key administrative tasks were assigned to state and local institutions. Unemployment insurance eligibility rules were set by the federal government and capped at one year, but it was left to state workforce agencies to certify eligibility, issue checks, and provide job-finding services. Home, business, and farm loans would be guaranteed by the federal government, but only if a (local) bank approved the veterans' application.

There was also widespread Republican concern about growing executive power and federal interference with states' rights, especially in education administration (Skocpol 1997; Cogan 2017). Some Republican congressmen were distrustful of higher education, fearing it would spread a leftist ideology. The chair of the House Committee on World War Veterans' Legislation, John E. Rankin of Mississippi, said in a hearing in January 1944 that he 'would rather send [his] child to a red schoolhouse than to a red school teacher' (as quoted in Mettler 2005a: 22). So, it was negotiated that subsidies and benefits would be funnelled directly to individuals, who could then enrol in any education or training institution of their choosing. Importantly, it was ultimately up to the university, college, or technical school to evaluate applications for enrolment. Also, states retained control over certifying schools and training programmes, with no federal oversight of institutional qualifications or curricula. Applicants would file for benefits directly with the federal Veterans Administration, which had authority only to certify veterans' eligibility and to issue vouchers.

The final version of the GI Bill stipulated that upon discharge (including administrative discharges and excluding dishonourable discharges), all servicemen and servicewomen under the age of 25 (with some exceptions made) who had served at least ninety days would be eligible for programme benefits for a period of

nine years. Any veteran could attend college or vocational school tuition-free for four years (up to \$500, which was enough to cover tuition at elite colleges like Yale or Harvard at the time), while also receiving a cost of living stipend determined by family size. If veterans opted to re-enter the workforce, the bill included a \$20 weekly unemployment benefit for a maximum of one year, as well as job counselling and work placement services. Further, the government guaranteed (co-signed) loans for veterans approved to purchase a home, business, or farm, with no down payment. Finally, specialized medical care was provided and new hospitals under the management of the Veterans Administration were opened.

The bill's passage through the Senate was helped by Senator J. Bennet Clark, the chairman of the responsible committee. Senator Clark also happened to be one of the American Legion's founders (Cogan 2017: 129). Passage through the House was less smooth, with more debate, but it eventually passed with an overwhelming majority. Only in the final stage of reconciling the House and Senate versions of the bill was there any cause for concern. Congressman John Gibson had left Washington for his home in rural Georgia before the final bill was out of conference committee. When the reconciliation committee chairman refused to acknowledge Gibson's designated proxy, panic ensued. Being rural war-time Georgia, all attempts to reach Gibson by phone failed, so radio stations ran news alerts and state police were ordered to search for the congressman. Georgia police eventually found Gibson playing poker in a truckstop and immediately escorted him 150 miles to Jacksonville, Florida, to catch a commercial flight waiting on the tarmac to fly him to DC. It was only with the coordination of the American Legion that the 2 a.m. commercial flight was discovered and deliberately delayed for the senator—the pilot's supervisor was an active Legion member (Cogan 2017). After Gibson's dramatic final-hour vote, the bill easily passed the final votes and the Serviceman's Readjustment Act was signed by President Roosevelt on 22 June 1944, making the GI Bill law.

The next year, just weeks before VE Day, FDR passed away and the monumental task of managing mass discharge and administering the Serviceman's Readjustment Act fell to his successor, former vice-president Harry Truman. Nevertheless, the GI Bill, as well as the SSA, would become centrepieces of FDR's presidential legacy. In offering a range of educational and financial services, the GI Bill fundamentally changed the US government's approach to veterans' support and, in doing so, reflected lessons learned from the past. First, learning from the First World War, the GI Bill was intended as an economic instrument. Policy-makers feared discontent among veterans struggling to reintegrate with civilian life, and therefore promised every veteran the education, training, unemployment or job assistance necessary for gainful employment. Secured loans for homes, businesses, or farms further ensured economic health. This approach was a clear departure from the history of wartime veterans' legislation and benefits as a recruitment tool or means to compensate insured or killed servicemen (Cogan 2017). Second, the memory of post-Civil War patronage and

corruption from local politicians' distribution of benefits was reflected in the distribution of benefits directly to soldiers. Veterans would be free to pick and choose the services they needed or wanted and could choose any institution of higher education or training anywhere in the country. This was novel for American veterans' policy, but it also meant that the GI Bill was the first large-scale federal voucher programme (Cogan 2017). Design of the policy also reflected political compromises. Although benefits would be disbursed by the federal government, state and local institutions retained some administrative responsibility.

### Delivering the Policy

The original objective of Second World War veterans' readjustment programmes was to stave off widespread unemployment and economic depression. In remarks delivered to the 1944 Annual Convention of the American Legion, the Head of the Veteran's Administration (VA) said of the recently passed GI Bill that 'our present high level of employment and national income, and the maintenance of a sound economy, should be our goal' (Frank 1944). In the process of implementation, as millions of soldiers (80 per cent of Second World War veterans) and their families took advantage of the array of programmes available in the following decade, that focus shifted from macro-economy to the household-economy. By 1956, according to President Eisenhower's Commission on Veterans' Pensions, the objective of compensation 'should be to return veterans as nearly as possible to the status they would have achieved had they not been in military service', with priority given to disabled soldiers (Bradley et al. 1956: 4). The same Commission concluded that a fundamental change had transpired since the initial passing of the 'New Deal for Veterans': 'These programs have . . . become an important factor not to just a small minority, but to our society as a whole. Veterans' benefits are now a significant force in our economy' (Bradley et al. 1956: 24). The policy had become a significant influence in millions of ordinary households. Veterans who took advantage of the programmes overwhelmingly viewed the educational or guaranteed loan programmes as a turning-point, changing the course of their lives for the better (Mettler 2005b). To understand how this happened, how and to what degree veterans were helped, how household well-being was improved, and why *this* policy, above all previous veterans' assistance programmes, came to be so revered, it is important to evaluate its programmatic, process, and political impacts.

### Assessing the GI Bill

Each of the GI Bill's key programmes largely achieved their aims—the policy was a programmatic success. In her analysis of both archival primary sources and

hundreds of in-depth interviews with surviving veterans, Suzanne Mettler (2005a) distinguishes between the first- and second-order policy impacts. The first-order programmatic successes of the bill have been greater higher education (college) enrolment and attainment among programme recipients (Bound and Turner 1989, 2002), better jobs among beneficiaries (Mettler 2005b), and greater economic security (Bradley et al. 1956; Angrist 1993; Gabriel 2017). Overall, veterans who took advantage of the education and vocational training programmes found themselves in positions of better employment and income (Bradley et al. 1956; Nam 1964; Olson 1973; Bound and Turner 1989, 2002; Stanley 2003; Gabriel 2017). Some have even argued that the influx of veterans into higher education, which doubled enrolment at some universities, had a lasting impact on American academic culture by normalizing non-traditional student life (i.e. part-time students and students with families). University officials were initially concerned about the aptitude of veterans and their ability to keep up in the classroom (McDonagh 1947; Olson 1973; Clark 1998). However, opinions among academics and administrators changed, with evidence suggesting that veterans were more focused and diligent students than nonveterans (Carpenter and Glick 1946; Olson 1973; Peeps 1984; Clark 1998; Mettler 2005b).

The second-order success of the bill concerns its impact on civic participation and volunteering among GI Bill beneficiaries. Statistical analyses reveal that holding income, education, occupation, age, gender, and many other observable characteristics constant, veterans who used the education benefits of the GI Bill reported greater participation in civic and political activities over the course of their lifetimes compared to both veterans who did not use programme benefits and to non-veterans (Mettler 2005b; Nesbit and Reingold 2011). Improved economic security provides the resources needed to participate in politics and civic organization, but the effect documented by Mettler suggests something stronger than this. Upon return from war, veterans received help from the federal government through administrative procedures largely seen as fair and respectful. The message sent to veterans through the process of applying for and receiving GI Bill assistance was that they were not only compensated for their service, but that they were valued and respected by their government and country, and they felt more a part of their communities and politics as a result (Mettler 2005b). The visibility of education benefits especially contributed to this feedback effect. Social policies like the GI Bill have this 'interpretive effect' by shaping attitudes and behaviours (Pierson 1993). Policies which distribute benefits while including participants in administrative processes can leave beneficiaries feeling incorporated into the political system, which promotes civic norms and increases political and civic involvement (Pierson 1993; Campbell 2002, 2012; Mettler 2002, 2005b; Mettler and Soss 2004; Mettler and Welch 2004). There is overwhelming evidence that the GI Bill had this effect on the Second World War generation.

While the programmatic aims of the policy—to help veterans readjust to civilian society—were successfully met, the programmes suffered from procedural shortcomings. In short, administrative procedures failed to ensure equal treatment of all eligible veterans. These problems were largely due to state and local institutions' discretion, which introduced prejudice into the implementation process. This was especially true in the South, where a combination of racial discrimination and poor (local) administration prevented many black Second World War veterans from using GI Bill programme benefits to improve their socio-economic status (Onkst 1998; Mettler 2005b).

First, local offices of state-level agencies had authority to decide individuals' eligibility for unemployment benefits and re-employment services. Perhaps unsurprisingly, many black and minority veterans faced discrimination and were denied fair treatment by their local workforce agency offices. Accounts retell how these veterans were routinely wrongfully deemed ineligible for benefits, or were directed only to low-status employment despite having valuable technical skills gained during service (Mettler 2005b). Related to this problem was the experience of prejudice in the home, business, and farm loan guarantee programme. The policy relied on local and private banks to approve veterans' applications, which meant that even with a guarantee by the federal government, black veterans found it nearly impossible to obtain loans (Woods II 2013).

Next, state governments were responsible for certifying institutions of higher education and vocational training. Most states did not require site-visits or documentation for technical schools to be certified to receive veterans' vouchers. As a result, opportunistic businesses exploited the system. These 'fly-by-night' institutions would admit students, accept tuition vouchers, and offer little or no value in skill or education in return (Mettler 2005b). In short, many veterans who enrolled in vocational programmes received little of value for their tuition vouchers. This problem was exacerbated in Southern states, where institutionalized segregation in higher education prevented black veterans from enrolling in most universities (Olson 1973; Onkst 1998; Mettler 2005a).

Two other problems have been cited with administration of the policy. First, only a small fraction of veteran women applied for GI Bill benefits. Many eligible women opted not to take advantage of the programmes because doing so would interfere with the typical family life at the time (Skocpol 1997; Mettler 2005b). It was inconvenient or less acceptable for women with families and children to take advantage of higher education, especially if their husbands were going to school as well. But also, some women were not informed of their eligibility for veterans' benefits when discharged from service (Mettler 2005b). As a consequence, men had greater access to education vouchers and they enrolled at higher rates than women. In the decade following the war, women were underrepresented in higher education, though ratios returned to near parity as the cohort aged out (Larsen et al. 2015). Although the absolute number of women enrolled in college

did not decline, it was the relative representation that diminished (Olson 1973; Skocpol 1997).

The last concern with administration of the GI Bill was raised in a government report published in 1956 by a presidential commission, known as the Bradley Report (Bradley et al. 1956). This report highlighted rehabilitation challenges unique to disabled veterans, which continued even a decade after returning home. It was argued specifically that healthcare provided by the Veterans Administration was insufficient in quality and efficiency to rehabilitate disabled veterans. To resolve these and other problems within the Veterans Administration, the report recommended greater resources be put towards 'more adequate facilities for research, planning, and program analysis, so that the needs of veterans and the effectiveness of veterans' programs will be analysed on a continuing basis' (Bradley et al. 1956: 5). Despite these procedural problems across all levels of administration—state, local, and federal—the GI bill is remembered as an historic success.

### An Enduring Commitment and Its Legacy

In July 1956, *The New York Times* ran an article titled 'GI Bill, Expiring After Twelve Years, Has Been, It Is Agreed, an Outstanding Success'. At that point, the total cost of the bill to the US government had exceeded 14 billion dollars (just shy of 130 trillion dollars in today's currency) (Fine 1956). One half of the American public was a serviceman, veteran, or a related family member, according to the Bradley report (Bradley et al. 1956). This means that roughly half of the US population was likely affected by one or more federal educational, mortgage, unemployment, disability, or veterans' health programme. Implementation of the GI Bill made federal social programmes an ordinary part of working-age Americans' lives, without stigma.

A unique constellation of players and incentives led lawmakers in 1944 to pass an anti-depression economic policy in the form of direct payments and vouchers to service members. The lasting impact of this decision on veterans' policy in the United States was twofold. First, the perception became ingrained that government should assist *individual* service members with a range of social programmes. Second, this assistance should be made available *immediately* upon return home to transition into normal life. This differed from the past policy of offering deferred pensions to veterans. A broader impact on politics was to solidify a coalition of veteran beneficiaries (and their families), a politically influential group which cross-cut class and race. It was not only families who came to value the bill, however. Service providers who benefited from the bill's provisions gained a vested financial interest in the programme (universities received tuition and increased enrolment, bankers benefited from secured insured loans, etc.)

(Cogan 2017). Direct in-kind benefits on this scale had never before been offered by the government. The GI Bill was a new kind of entitlement from the federal government, and it set an historically significant precedent for subsequent veterans' legislation, and social welfare policy more broadly. A lasting impact of the bill on policymaking more broadly was to normalize and destigmatize social assistance.

Following the Second World War, Congress has renewed or revised the GI Bill several times to incorporate new veteran cohorts. Without a permanent authorization, each version/revision of the GI Bill has been subject to political debate. At the heart of these debates, especially in the 1960s, was the deservingness of veterans to receive benefits. A particular point of contention is whether servicemen during peacetime had 'earned the right for benefits' (Ortiz 2012: 256). Despite these debates, however, subsequent bills have maintained the same approach to securing veterans' economic stability through individual and direct assistance, though benefits have become less diverse and more narrowly targeted at education (Mattila 1978; Skocpol 1997). The instrumental logic and choice of policy tools have changed little over the years, though the enduring emphasis on education vouchers for veterans suggests this instrument of the policy has been the most politically successful. Although the instrumental logic behind compensation for veterans has stayed much the same, the principal aim of the policy has evolved since the debate between FDR and Congress in the early 1940s. Insured home loans and education vouchers for veterans have evolved from economic instruments into in-kind reparation. Macro-economic stability has been replaced as the central goal of veteran's policy; today the central aim is to compensate service members' sacrifice by enabling individuals with education and economic assistance.

Why the policy was such a political success is in part due to the bill's programmatic success—it did what it was intended to do. But also, political success is explained by popular perceptions of the Second World War relative to military conflicts since. The Second World War was (and still is) heralded as a legitimate war and prided for evidencing the superiority of American military strength and foreign policy (Wynn 1996), and veterans from this era were awarded a level of respect unique in modern history. Later wars are not viewed in the same way, a fact reflected in debates about later veterans' deservingness of benefits (Ortiz 2012). The Korean War has largely escaped America's collective memory and the Vietnam War is haunted by the stigma of disastrous foreign policy, defeat, shocking casualties, and domestic discord (Wynn 1996). More recent military conflicts including the first and second Gulf wars and the war in Afghanistan are similarly tainted by domestic disagreement and the absence of decisive wins. Members of the armed services in these wars experienced less of the popular reverence for the victories of the Second World War that was associated with those veterans. Support for public assistance programmes is closely associated with the perceived worthiness and deservingness of the recipient group (Applebaum 2001; Barrilleaux and Bernick 2003; van Oorschot 2006). The

deservingness of the targeted population confers legitimacy on public policy, and there is perhaps no group collectively viewed as more deserving of assistance in the United States than Second World War veterans (Mettler 2005b). The political success of the GI Bill was shaped by the perceived legitimacy of the war itself, and the associated deservingness of its veterans. The contribution of programmatic success to political success may be a lesson for future policy, but the translation of reverence for Second World War veterans into political success of the GI Bill may lead one to 'a pessimistic conclusion about the possibilities for recapitulating its best features' (Skocpol 1997: 114).

Little has changed in veterans' policy since 1944. The central features of the original GI Bill remain intact. On 16 August 2017, President Trump signed the most recent update to the law: the Harry W. Colmery Veterans Educational Assistance Act. Colmery was the American Legion commander who originally drafted the 1944 bill. The 2017 law, commonly called the 'Forever GI Bill', had the support of both parties, as well as the VFW and the American Legion. Although the Forever GI Bill was the most substantial amendment to veterans' policy in a decade, the underlying aims and choice of instruments are unchanged. In the terminology of Howlett and Cashore (2009), the 2017 legislation merely calibrates benefit and eligibility criteria of existing programmes to increase generosity, but does not reflect fundamental change in aims or tools. Education benefits were expanded by, among other things, permanently extending breadth and duration of eligibility. The window for enrolment is increased up to fifteen years for all veterans, including previously excluded groups like the National Guard. Other programmatic changes make it easier for Purple Heart recipients to qualify for benefits, allow benefits to be transferred to dependants in the case of death, and grant surviving family members greater financial assistance. Living stipends during education, however, were decreased. On the procedural side, all school officials responsible for verifying veteran enrolment are required to undergo training. Overall, relatively minor adjustments were made to existing benefits, and it is a testament to the political success of the GI bill that current legislation, passed in 2017, honours the original author of the 1944 proposal.

## Conclusion

Politically, the GI Bill was a spectacular success. In programmatic terms, the policy is also a sound success. Procedurally, it is now recognized that there were deficiencies, as racial biases and historical legacies limited the benefits available to some (black and women) veterans. Administrative procedures could have overcome these limitations to ensure greater equity.

*Programmatic success* was advantaged by the economic boom of the war and post-war era, spurred by public spending. Economic growth made funding of a

generous social policy feasible and enabled veterans to use the benefits—to buy houses and land, for example. As discussed above, many of the programmes funded by the federal policy had a significant impact on the targeted outcome. Education, training, and income support all promoted social mobility and economic security. The programmes were successful not only in their economic goals, but also exceeded policy-makers' aims by promoting civic and political participation.

*Process success* of the policy was more limited because administrative rules and procedures produced inequities in the availability of GI Bill benefits to veterans. State and local authorities were responsible for key administrative decisions. Consequently, especially in Southern states, biased (racist) de facto implementation denied many black and minority veterans the benefits and services to which they were entitled. Also, insufficient oversight of vocational institutions meant that veterans opting for job training instead of higher education often found themselves wasting their vouchers on tuition to exploitative enterprises. Despite these administrative shortcomings, the GI Bill has endured as an historic *political success*. This is in part due to the policy's programmatic success—the policy did what it was meant to do, and more. The historical political success of this, however, is also due to perceptions of the legitimacy of the war itself.

History will surely (continue to) remember public policies supporting Second World War veterans as a landmark policy achievement. In 1995, President Clinton claimed Roosevelt's 'most enduring legacy' was a post-Second World War 'generation prepared to meet the future, a vision most clearly embodied in the G.I. Bill' (Clinton 1995). This reputation is likely to endure, since the legislation itself is long expired and all first-order outcomes were realized long ago and yet current policy is still named to honour the original 1944 bill author. Opportunities to build solidarity with social policy were unusually large in the post-Second World War era, uniquely advantaging the GI Bill in generating social capital. This should not detract from the programmatic performance of the policy, but it makes replicating the broader social outcomes a challenge.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

## Note

1. The rate of surviving wounded soldiers in the Confederate (Southern) army is unknown (Department of Veterans Affairs 2017).

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# The Finnish Comprehensive School

## Conflicts, Compromises, and Institutional Robustness

*Jaakko Kauko*

### Introduction

The aforementioned evaluations of industrial and societal development and their requirements for the school show that all young people, independently of the focus or level of their talents and other personality traits, must be educated as efficiently as possible to exploit the current and future potential for mental and material growth.

—Hallituksen esitys 44/1967, 5 [Government Bill  
on Comprehensive Education]

The comprehensive school system in Finland (*peruskoulu*) is widely recognized as a case of policy success. A comprehensive school is a nine-year school for all children, divided into six lower classes (ages 7–13) and three upper classes (ages 13–16). In the lower classes the children generally stay with the same teacher most of the time; in the upper classes they have subject-specific teachers. The great majority of schools are run locally. Primary responsibility for providing education lies with each of the more than 300 Finnish municipalities, which have considerable autonomy. There are also a few independent education providers, and even fewer state-provided (usually special education) comprehensives. The municipal autonomy ensured by the constitution and the decentralized education system mean that the state has little statutory power over schooling. The national core curriculum frames teaching, but there are no mandatory standardized tests for entire age cohorts or inspections to enforce curriculum implementation, and the municipalities and teachers have degrees of independence in interpreting the curriculum. Municipalities are responsible for monitoring the quality of the education they provide, while the state only provides non-binding guidelines. The strongest steering mechanism for the state's support of municipally provided education is financial. This is largely limited to the non-earmarked lump sum distributed to municipalities, as well as some project-based additional funding. The comprehensive school and its institutional set-up differs from education systems in many parts of the world, including in some Nordic counterparts (Dovemark et al. 2018). An interesting and

important question, then, is to what extent the public policies establishing and supporting these education institutions can be seen as a success.

The quote introducing this chapter described the main ideological motive behind comprehensive school reform: an alliance between industrial development and harnessing all potential with the promotion of equal education opportunities. The political process leading to the complete reorganization of the formerly bipartite school system and the establishment of the comprehensive school and its implementation took more than three decades—and even longer if we track the origin of some of its constitutive ideas. The process was advanced by different government coalitions in an unstable parliamentary situation, included the squaring of differing political views, and led to several dead ends. Incremental advances eventually resulted in a critical juncture in which the comprehensive school was created in the late 1960s. Despite repeated criticism, its institutional frame survived and is now a recognized and almost unchallenged part of the Finnish education landscape. The aim of this chapter is to evaluate the degree and type of success observed in the case of comprehensive school policy in Finland.

### Assessing Comprehensive Education's Success

With respect to *programmatic success*, assessment of this case relates to how comprehensive education has contributed to its goal: harnessing the age cohorts' full potential. This can be reduced to two factors: economic growth aided by human resources; and the possibilities of upward social mobility education affords. In relation to the first, Kokkinen (2012) points out that Finland has been one of the few countries that have been able to catch up with its wealthier counterparts during the twentieth century, and that this growth has drawn on human (an educated workforce and technological innovation) and fixed capital. In relation to the second factor, programmatic success is seen in the achievement of upward social mobility for many. Kivinen et al. (2012) examine how the odds ratio for a child from an academic family in contrast to a non-academic family for participating in higher education has changed during the comprehensive school period and the massification of higher education. They interpret this as indicating better possibilities for non-academic families' children: for the 1946 age cohort the odds ratio was 19.1 favouring academic families' offspring; for children born in 1986 it was only 6.8. Pekkala Kerr and Rinne (2012: 322) also indicate that the education rate boosted the post-war generations. Comprehensive education policy has produced a well-educated and more prosperous Finnish population.

Evaluating the model's second dimension—the *success of the process* leading to the adoption of comprehensive education—is more complex. The policy underwent a period of long and thorough deliberation, in which a range of options were considered. Much of this work was conducted in committees. At the time

of deliberation, support for the ideas of 'scientific' planning meant that the committee system was especially powerful in Finland. Committees worked as a forum for the deliberation of different interests and research. However, the committee work was not straightforward: it was variously constituted and was not always unanimous. In addition to these broad-based ad hoc committees, the permanent parliamentary standing committees played an important role. A parliamentary resolution of 1963 which delegated preparatory work to standing committees was carried forward later by a government consisting of Left and Centre parties. This would be the single most important impetus. Throughout the debates, opinion divided along the Left–Right spectrum concerning private grammar schools, and this escalated during the implementation phase into what the Right termed 'school wars' (Okkonen 2017). The policy process could be seen as fair in the sense that the opinions of the opposition were considered and deliberated in the committee work and in parliamentary decision-making. However, disputes arose during the implementation phase concerning what had actually been agreed to in the policy.

Finally, the *political success* of the comprehensive school policy is also multifaceted. The situation was exceptional in Finland during the Cold War. The centre-right National Coalition Party was with very few exceptions consistently excluded from government, because at the time the main political parties saw their inclusion as difficult due to the sensitive foreign policy relations with the Soviet Union. Researchers largely agree that the long process leading to the birth of the comprehensive school resulted in a lasting compromise on which different parties and political interests could eventually agree (Ahonen 2012; Kettunen et al. 2012; Simola et al. 2017; see Okkonen 2017). The forging of this lasting compromise may also be due to the embedded features of the political system, which supported continuation, and the strength of the committee system in preparing decisions. Continuation was embedded in the formation of coalition governments, which nearly always entailed some parties in the previous administration continuing in the new government.

It is fair to say that as part of a universal welfare state, comprehensive schooling benefits the majority of the population and that it has been key in increasing both upward social mobility and economic growth. As Okkonen (2017) observes, the comprehensive school project was part of a larger ideological shift towards the Left that the Right considered a threat. The disappointed stakeholders, in addition to the right-wing opposition, were the private grammar school organizations, the grammar school teachers' labour union, and conservative right-wing civic organizations. Industrial interests supported the criticism. The right-wing criticism emerged immediately after the comprehensive reform in the 1970s and resurfaced in the 1990s but was then replaced by the success-story narrative after the popularity of the international large-scale assessments (Simola et al. 2017). In the following two decades the Finnish education system has basked in international glory, being called one of the best in the world. This reputation is largely due to the successful performance of Finnish teenagers in the Programme for

International Student Achievement (PISA), run by the Organisation for Economic Co-operation and Development (OECD).

Indeed, education performance is usually measured by results in large-scale assessments. This is not the case in the Finnish comprehensive education performance, because national assessments are sample-based, and school-specific results are not made public (see Simola et al. 2017). However, since the turn of the millennium, Finland has participated in many international assessments. Compared with OECD countries and some other regions,<sup>1</sup> Finland was first in PISA in reading (2001), mathematics (2003), and science (2006) and then dipped slightly in reading to second (2009), in science to fifth (2015), and more dramatically in mathematics to twelfth (2012) (OECD 2002, 2004, 2006, 2010, 2014, 2016). In the large-scale assessments operated by the International Association for the Evaluation of Educational Achievement (IEA), the Trends in International Mathematics and Science Study (TIMSS) and the Progress in International Reading Literacy Study (PIRLS), Finland's performance has been good, but more modest when compared with PISA. Eighth graders have ranked fourteenth (1999) and eighth (2011) in mathematics and tenth in science (1999) in TIMSS. Fourth graders ranked eighth (2011) and seventeenth (2015) in mathematics and seventh (2015) in science (Mullis et al. 2000, 2012a, 2016; Martin et al. 2000, 2016).<sup>2</sup> However, Finland occupied third (2011) and fifth (2016) places (Mullis et al. 2012b, 2017) in PIRLS reading tests for fourth graders. These tests differ in that the OECD tests rely on its own definition of what constitutes necessary skills, whereas the IEA tests attempt to use the content of the national curriculum. Both tests indicate little variance between schools, which supports the notion that the education system has created equal starting points for pupils across the country. The international large-scale assessments have their deficiencies, not least in their disregard for the socio-historical context in which teaching takes place (Mulford 2002; Simola 2005), but we can certainly conclude that Finnish comprehensive school pupils consistently perform well in various international tests compared with their peers in other countries.

In sum, Finnish comprehensive school policy is a success: it has delivered programmatic goals and widely valued impacts; the basic set-up of schooling enjoys broad legitimacy among political actors and parents; and it has gained international recognition in performance. The case story affords a more complex view.

### **Setting the Scene: The Main Actors and the Political Landscape**

The early years of education in Finland can be described as a process of the secularization and institutionalization of education. Finland belonged to the Swedish Empire between the thirteenth and nineteenth centuries. Education

during this period was church-led, and teachers served as lower ranking clergy. With the eighteenth century, Enlightenment humanism and philanthropy began to gain ground. Between 1809 and 1917 Finland was an archduchy of Russia. Under Russian rule the state took more control over education and contributed to both the institutionalization and secularization of education (Joutsivuo 2010). As the state needed a larger workforce during Finland's late industrialization from the latter half of the nineteenth century, responsibility for education provision was eventually transferred from the church to the state and municipalities (Leino-Kaukiainen and Heikkinen 2011). Between 1860 and 1870 the school system was reorganized into elementary schools (*kansakoulu*, literally 'folk schools'), and grammar schools (*oppikoulu*, literally 'learning schools').

In the first three decades following independence from Russia in 1917, the country faced a series of internal and international conflicts. Although it succeeded in preserving its independence in this period, it was on the losing side of the Second World War and was subjected to war reparations and land cessions to the Soviet Union. The economy was predominantly agricultural, and Finland's urbanization and industrialization was late. This was also reflected in the late decision to make education compulsory in 1921 (Laki oppivelvollisuudesta 101/1921). It was not until the 1940s that elementary schools began to reach the country's more remote areas (Simola 2002).

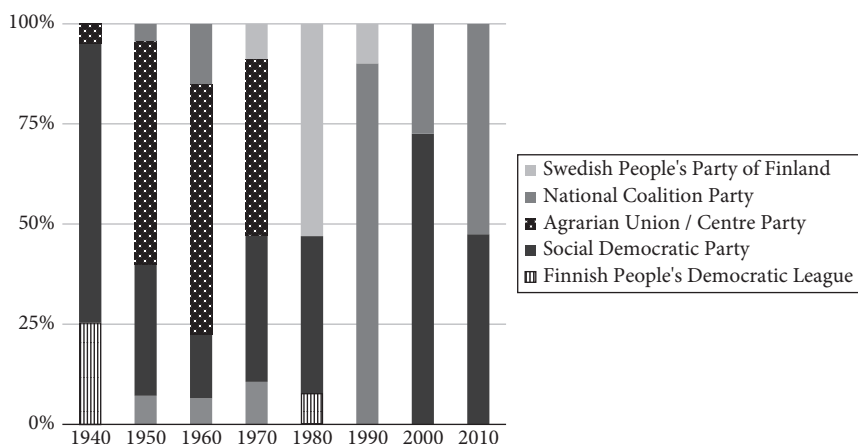
In the post-war period societal conditions were conducive to supporting change. The coming of age of the baby-boomer generation in the 1950s produced an urgent need for widespread education, and the rapid transformation into a more industrialized and service-based economy at the end of the 1960s also stimulated demand for a more educated workforce (Kettunen et al. 2012). This need is explicitly stated in the first sentences of a government bill (Hallituksen esitys 44/1967), which eventually became law on comprehensive schools in 1968, but there were many twists and turns in the political process to get to this point.

Throughout the half century of its existence the radical original reform concept of the common school has endured in the institutional structure of the comprehensive school, and it has been able to resist the most radical global trends towards a more marketized approach to schooling (Simola et al. 2017). There are various ways of periodizing the phases of the Finnish comprehensive school (e.g. Lampinen 1998: 30–79; Puhakka 2006: 9; Ahonen 2012: 153; Kettunen et al. 2012: 37–41). For the most part, the first ideas were introduced immediately after the Second World War. Political decisions were taken and further planning took place in the 1960s, and the reform was undertaken in the 1970s. An important contextual change happened during the 1980s and 1990s, generally as a result of a swing to the Right, when the degree of municipal autonomy was radically increased and there was also a gradual weakening of state control in

education. A result of the changes in the political climate was a moderate liberalization of school choice in the 1990s. These periods are roughly followed in the following the rest of this chapter.

Positions of key stakeholders varied during the critical years between the late 1950s and the late 1960s, when the comprehensive school was designed. A key feature was the changing balance of parties in parliament. Because governments in this era were weaker than they are today, parliamentary initiatives played an important role. From a constitutional perspective, parliament's instability was the result of the semi-presidential system, and the President's power was strengthened because there was only one incumbent between 1956 and 1982, Urho Kekkonen (Agrarian Union, *Maalaisliitto*). The continuity and political colour of not only the Minister of Education but also the key civil servants in directing the National Board of Education were contributing factors. Directors were the heads of the main committees that designed the principles of education and could create continuity between unstable governments. Trade unions and industry-funded interest groups were involved in the project's opinion forming and criticism.

The main drivers of change were the political parties, which could eventually compromise in piecing together differing interests. During the key years of education reform, the Finnish parliament (*Eduskunta*) was dominated by three parties: the Agrarian Union, which changed its name to the Centre Party (*Keskustapuolue*) in 1965; the Social Democratic Party (*Suomen Sosialidemokraattinen Puolue*); and the left-wing Finnish People's Democratic League (*Suomen Kansan Demokraattinen Liitto*). Most of the 200 seats in parliament were held by these parties or their predecessors or successors from independence in 1917 until 2007. Although they did not necessarily form coalitions or even share interests (not always even internally), this triad generally reflected the voters' preferences during this period. Every post-war majority or minority government (apart from those consisting entirely of civil servants) was led by one of these parties, although the Finnish People's Democratic League headed the government only once. The largest party of the Right was the National Coalition Party (*Kansallinen kokoomus*), which, having spent decades mostly in opposition, became stronger only during the 1990s. The centre-right Swedish People's Party of Finland (*Suomen Ruotsalainen Kansanpuolue*) was occasionally involved in government and held the Ministry of Education during the 1980s and 1990s. These shifts in the balance of power and their relationship with education policy are illustrated by the number of days Ministers of Education were in office. Figure 7.1 shows that the post was largely shared between the Centre and Left parties between the 1950s and 1970s, whereas since the 1980s it has been shared between the Left and Right parties, with the exception of the 1990s, when right-wing parties were dominant.



**Figure 7.1** Percentage of days in office of Ministers of Education in the post-war era (1944–2018) in Finnish governments

Source: Valtioneuvosto [Finnish Government] (2018).

### A Critical Juncture: The Creation of the Legislative Framework

The establishment of the comprehensive system was a rather long process in which committees were used extensively. These independent, broadly politically representative, and expert-based committees served as ad hoc organs in producing reports and drafting laws. Interestingly, decision-making in committees was often not unanimous, and many members wrote dissenting opinions on particular aspects of their reports. Such dissent reflected the larger political differences occurring during the decision-making process.

In 1946 the left-centre government headed by Mauno Pekkala, historically the only far-left Finnish People's Democratic League Prime Minister, assigned a committee to work on a general plan for reform of the education system and to determine the extent of compulsory education. The committee was led by the director of the National Board of Education, Yrjö Ruutu, who was then affiliated with the Finnish People's Democratic League. The Committee (1/1948) Report proposed the first comprehensive eight-year school model in Finland. However, the government soon collapsed due to internal conflicts between the Left parties before a bill was introduced. The impetus was lost: following the 1948 parliamentary elections, the proposed comprehensive system had lost sufficient support in parliament (Ahonen 2003: 127; Kettunen et al. 2012: 37).

Left parties continued to demand a comprehensive system in parliament, and the debate intensified with the establishment of a new committee by the coalition government of K.-A. Fagerholm (composed of the Social Democratic Party, Agrarian Union, and some minor parties). It was tasked to draft a reform programme for the

near future for schools (Kettunen et al. 2012: 37). The committee (1956–9) was led by Ruutu's successor, R. H. Oittinen (Social Democrat), who was to become one of the main figures in the comprehensive school project. The committee consisted of six civil servants, an academic, two politically active teachers, two members of parliament (from the Agrarian Union and the Finnish People's Democratic League), and a clerk (Ahonen 2003: 127). The Committee recognized several 'shortcomings and flaws' in the school system. It also envisioned that many contextual factors would support an exhaustive education reform, among them an increased birth rate and the need to increase the length of compulsory education to avoid youth unemployment (Committee 1959: 8–9). The report stated that the workforce needed more skills, which could be achieved through better education. In practice, this would entail a nine-year comprehensive system administered by the municipalities which should be free of direct and indirect costs to pupils (Committee 1959: 83–4, 177). The report's views were not shared by all the committee's members. In a dissenting opinion, half of the committee members disagreed with the abolition of private middle schools and expressed doubts concerning the possibility of the provision of free education. Sirkka Ahonen (2003: 130–1) argues that the strong opinions of the committee's chair, R. H. Oittinen, influenced the report's radical main message supporting a comprehensive system, despite the dissensions. He had opposed the bipartite system for a decade.

It is indicative of the instability of the period that Oittinen's committee outlived five governments, and the sixth, which received its report, resigned little more than a month later. This instability prompted parliament to act. Four MPs sponsored petitionary motions concerning comprehensive education (Eduskunta 2018). The Standing Committee for Education, led by the MP Anna-Liisa Tiekso (Finnish People's Democratic League), started to work on these petitionary motions, with the motion of the MP Olavi Lahtela (Agrarian Union) as a base text (Kettunen et al. 2012: 37). Following the Standing Committee's work and parliamentary debates, parliament approved a resolution by 122 votes to 68 on 22 November 1963, urging the government to act based on Oittinen's committee report of 1959 (Eduskunta 2018). While some elements were shared across parties, key to the resolution's approval was its support by the Agrarian Union, whose votes tipped the balance between the pro-comprehensive Left and the doubtful, grammar-school-defending Right (Eduskunta 2018). The Agrarian Union's support was motivated by urbanization and a desire to support rural areas. The National Coalition Party again calculated that it was easier to support the interests of grammar schools from within the process (Okkonen 2017: 93).

The next move was to come from a centre-right government. A coalition government led by Johannes Virolainen of the Centre Party (before 1965 the Agrarian Union), and in which the National Coalition Party held the Minister of Education's post, established a committee under Oittinen to draft the legislation for the creation of a comprehensive system. The Comprehensive School Committee

(1964–7) formulated the basis of the current system of nine-year schooling, with six lower grades (primary) and three upper (lower secondary) grades. Political representation was broader than in the previous committees (Ahonen 2003: 142). The committee's first report (Committee 1965) was used almost verbatim as the Government Bill (Hallituksen esitys 44/1967). It outlined the basic principles of the comprehensive school. These included principles of uniformity of content and teaching, compulsory nine-year schooling for all, the reforming of previous school types into one comprehensive school, allowing some optional subjects, a class teacher for the first six years and a subject teacher for the last three years, free schooling and social benefits, and the idea of non-private municipal education (Hallituksen esitys 44/1967: 6–7; Committee 1965: 11–13). There were other committees, but this committee was central in outlining the most important aspects of the comprehensive school policy framework.

The process was not without critique, however, and the parliamentary process was criticized in the debates for being opaque and confusing (Okkonen 2017: 120). Okkonen (2017: 82–4) maintains that the debate's starting point was difficult because the majority in parliament wanted municipal comprehensive schools, which were difficult to reconcile with the private (grammar) schools. This was resolved in the work of the Standing Committee, when it was agreed to utilize the private schools in the new system. However, it later became clear that the Left and Right interpreted this differently (Okkonen 2017: 93–114). The question of the private schools was to escalate during the implementation phase, but it was now settled for the legislative phase.

The Paasio (Social Democrat) government (1966–8), a coalition of the Finnish People's Democratic League, the Social Democratic Party, and the Centre Party, with Oittinen as the Minister of Education, presented the Government Bill (Hallituksen esitys 44/1967), which was overwhelmingly approved by parliament as the Act on the Foundation of the School System (Laki koulujärjestelmän perusteista 467/1968), creating the comprehensive school.

The final legislation was a compromise between competing interests, and different actors gained different things. The left-wing parties supported a state-run municipal system which could provide free education for working-class children. The centre, more specifically the Agrarian Union/Centre Party, could agree to this aim and was also able to couple the vibrancy of the different rural areas to the comprehensive system's aim of regional equality. Part of the compromise for the right-wing parties, and especially the teachers of the soon-to-be-abolished grammar schools, was a streaming system which retained some aspects of the former school structure. It divided the students into groups in mathematics and foreign languages, based on aptitude. Importantly, some groups did not entitle their members to continue into general upper secondary education, the main avenue to universities. The legitimization the comprehensive school gained during these years, despite the original right-wing doubts, is indicated by the fact

that only six MPs opposed the preceding law to abolish streaming in 1982. The system came to its end in 1984, when a new national core curriculum came into force (Ahonen 2012; Kettunen et al. 2012; Simola et al. 2015: 88; see Okkonen 2017: 122).

Labour unions also played a role in the policymaking process. Unions were divided along the old bipartite lines, where grammar school teachers and elementary school teachers had their own organizations. Both the grammar school teachers and their trade union opposed the idea of having one school for all students, because of their concern about the profession's declining status. After the comprehensive reform was complete, opposition became futile and the two trade unions sought to improve their relations and finally merged in 1974 into an entity which also included vocational teachers (Jauhiainen and Rinne 2012: 111–12).

The professional status of teachers went through an interesting interlude during the comprehensive school reform. Teachers in Finland now enjoy a high professional status, but this is because they have been successful in bolstering their position by arguing that teaching is an academic and research-based profession (Säntti and Salminen 2015; Säntti and Kauko 2019). The most radical thesis suggests that the transfer of teacher training to the universities, with the requirement of a master's degree, was a contingent historical event. Hannu Simola and Risto Rinne (2010) point out that the work of the Committee (1972) for Degrees in Philosophy and Social Sciences expanded to include all academic degrees and that this contingent event was the key element resulting in master-level teacher training. However, the committee did conclude that 'teacher education was an appropriate example of academic education as it had a concrete professional basis' (Committee 1972, quoted in Säntti and Kauko, 2019).

## Implementation Disputes

After the policy framework was established, some adjustments were made to the comprehensive school system in the initial phase of implementation. Later, in the 1980s and 1990s, adjustments were related more to how the general frames around the comprehensive school had started to change. However, the common feature here is that all reforms since the creation of the comprehensive school have occurred either within or outside the set frame, without changing it. This means that in the last fifty years there has been no initiative to change the fundamental principles of the original policy establishing the comprehensive school system (Kauko et al. 2015; Simola et al. 2017).

The comprehensive school reform was implemented between 1972 and 1977, beginning first in the northern and north-eastern areas of Finland and continuing towards the south. The state supported municipalities in constructing new schools. While this resulted in the closure of some smaller rural schools, the

state supported regional diversity by emphasizing the importance to children of the local school (Ahonen 2012: 153).

The private school question, considered settled during the legislative process, was re-politicized in the first stages of implementation. Okkonen (2017) argues that the Right was anxious about a loss of political hegemony and reopened the question of municipal education, which had already been agreed during the legislative process. When the city of Kemi and the Ylitornio municipality decided to exclude private schools from the comprehensive system, conflict between Left and Right culminated in opposing constitutional interpretations. The Right, with the support of the organization of private grammar schools (*Yksityisoppikoulujen liitto*), claimed that comprehensive reform was an unconstitutional ruse to abolish private schools. The Chancellor of Justice agreed that unless there were grave reasons, private schools should not be integrated into the municipal systems (Okkonen 2017: 172–3). This dispute resulted in a legislative amendment in 1974, which clearly left it to the municipalities to decide whether to accept private schools into the comprehensive school systems (Ahonen 2012: 153). This resulted in the end of private schools in the traditional sense, and they were largely incorporated into the comprehensive system.

There was thus a growing concern on the Right about leftist tendencies and personnel in the Ministry of Education, the National Board of Education, and the universities. The Free Education Support Foundation (*Vapaan koulutuksen tukisäätiö*) was established in 1973 to oppose the Left's policies, combining political, cultural, and economic powers sympathetic to the cause. The Foundation functioned especially as a channel for industrial interests (Suutarinen 2008; Okkonen 2017: 176). The Right's criticism was fuelled by a heated discussion before the 1975 elections about the state-funded municipal curriculum experiment in Pirkkala (Okkonen 2017). The experiment produced teaching material with a Soviet bias which had not passed national textbook reviews. This created fear of a left-wing conspiracy on the Right (Leskinen 2016; see Seuri 2016), and it circled the wagons (Okkonen 2017: 280). Comprehensive schools only felt the effects of this rightwards push in the following decades, when the political situation changed, and the National Coalition Party found its way into government: key civil servants were now influenced by New Public Management ideas.

### **Deregulating Equality: The Discourse and Policy Change of the 1990s**

The political landscape started to change during the 1980s and 1990s. The collapse of the Soviet Union and the strengthening of parliament during the presidency of Mauno Koivisto (1982–94, Social Democratic Party) created a new stability in the government's work and opened more possibilities for right-wing parties. Criticism

of right-leaning interest groups intensified during the 1980s. The education committee of the Confederation of Finnish Industries published a series of pamphlets supporting science and mathematics education, freedom of choice in subjects, and entrepreneurialism (Varjo 2007: 93–4). These were echoed in a speech by Prime Minister Harri Holkeri (National Coalition Party) in 1987, in which he promoted the right of every child to receive an education that supported their talents in favour of one system designed for everyone. This represented an historic shift in discourse after the creation of the comprehensive system (Simola et al. 2010). The Holkeri government programme outlined the broad legislative reform, but its implementation only started under the government which followed, when the Ministry of Education started a working group, led by Permanent Secretary Jaakko Numminen who later described the work at this stage as technical, to evaluate the legal corpus and offer suggestions for its simplification (Varjo 2007: 121). A committee led by Permanent Secretary Vilho Hirvi (National Coalition Party) continued the work. It prepared more detailed suggestions for legislative change (Varjo 2007: 127–32). The working groups and committees set deregulatory and more individually oriented policies that changed some of the features of the comprehensive school. These changes were connected with increased municipal autonomy, the role of private schools, and the question of school choice.

A radical change came with the decentralization and deregulation of governance during the 1990s, influenced by New Public Management trends. These ideas also enabled the transfer of unpopular budgetary cuts to the local level in a period of economic crisis. Reforming the organizational structure and funding had the effect of significantly increasing the autonomy of municipalities as the main providers of comprehensive education (Laki peruskoululain muuttamisesta 707/1992; Kuntalaki 365/1995). The state lost many means of exerting control at local level: school inspections, for example, were gradually abolished during the 1980s and 1990s (Varjo et al. 2016); and financial control was lost as decisions were delegated locally. Municipalities gained more power piecemeal in freeing school choice locally (Seppänen 2006: 71). As a result, school districts were abolished, making choice possible, and the only legislative restriction was that families would have to contribute to travel costs for distances of more than five kilometres (Ahonen 2003: 180; Seppänen 2006: 66). In 1991 it became possible to establish new private schools with the permission of the government. Such schools could opt out of the curriculum if their teaching was based on an ‘internationally known pedagogical system’ (Laki peruskoululain muuttamisesta 169/1991).

The changes in relation to school choice and private schools were readjusted in the 1998 Basic Education Act (Perusopetuslaki 628/1998). The Government Bill (Hallituksen esitys 88/1997) proposed by the Paavo Lipponen (Social Democratic Party) Left–Right coalition government followed the working groups’ deregulatory ethos. However, drawing on expert hearings and parliamentary debates,

the Standing Committee on Education amended the proposal. Municipalities were now required to allocate pupils a place in a ‘nearby school’ with a safe journey, and there was a requirement for regional equality (Ahonen 2003: 191–2; Seppänen 2006: 71). The 1998 Act also made the establishment of new private schools easier on various ideological grounds (education philosophy, religion, or pedagogical method), but retained the requirement for special permission from the government.

Criticism from the Finnish Confederation of Industries continued at the beginning of the new millennium. At its peak, it highlighted the purported ineffectiveness and mediocrity of the comprehensive school, which were the subjects of a large conference. In December 2001, shortly after the conference, the first PISA results came in, and the criticism lost its force (Simola et al. 2017). Apart from curriculum development the major legislative reform of the 1990s and the PISA results gave no reason for further large-scale comprehensive school reform. Nevertheless, contrary to Pasi Sahlberg’s (2011) argument, Piia Seppänen et al. (2019) point out that comprehensive education policy during the new millennium has been quite active. Government programmes have discussed varying topics such as funding, regional equality, class size, special education, and the declining results and gaps between pupil groups. Attempts to capitalize internationally on the Finnish reputation with the help of education markets and exports has been a recent development—and possibly the most marked because of PISA (Schatz et al. 2015; Seppänen et al. 2019).

Within the national framework it has become clear that municipalities vary in their policies regarding school choice. Evidence suggests that these choices reflect more social background than aptitude, and that in some bigger cities choice is very popular (Seppänen et al. 2015; Varjo et al. 2015; Kosunen 2016) and yet faith in the comprehensive school policy and system is still strong among parents (Seppänen et al. 2015). The Swedish example of boosting inequality through the radical liberalization of school markets (e.g. Dovemark et al. 2018) has raised concerns in the Nordic research community that such reforms should be avoided in Finland and other countries (NordForsk 2018). Though challenges have arisen throughout the history of the policy, the Finnish comprehensive school system has demonstrated success (to varying degrees) in terms of programme goals, process legitimacy, and political support.

### **Summarizing Success in the Finnish Comprehensive School System**

The central programmatic goal of the comprehensive school policy—to enhance equality—has endured over time. In addition to equality, education policy has also been linked to economic prosperity. The balance between these two goals, and the

understanding of equality, has determined the structure of the comprehensive school system. At its most abstract, the main policy debate about education in Finland is on the relative emphases on education equality and education equity. The former is linked to the social democratic agrarian tradition of equality; the latter to the new market-liberalist version of equity that was boosted in the late 1980s. Whereas equality emphasizes the similarity of pupils or students and the right to receive an education, equity emphasizes ‘difference among pupils and everybody’s right to receive schooling that fits his or her capacities, needs and individuality’ (Simola et al. 2017: 33). This great debate is echoed in the various discussions of the regional balance of higher education (Kauko 2013), the discussion of school choice (Seppänen 2006), or the role of New Public Management in education (Uljens et al. 2016). The same debate is globally relevant, but in many respects—concerning quality assurance and evaluation policies, for example—Finland presents a rare case of a policy with a more dominant emphasis on equality (Simola et al. 2013). In this debate comprehensive schools have been the foundation of equality. The Finnish policy of providing comprehensive school education has successfully delivered universal welfare, drawing on producing beneficial social outcomes with the help of raising the population’s level of education.

The process of policymaking and negotiation resulted in a grand compromise between the different parties and stakeholders. Despite the various criticisms of right-leaning interest groups, the compromise has held. It is now difficult to imagine a scenario in which the comprehensive school framework is loosened and another form of school introduced (as has happened in Sweden, for example). However, changes within the comprehensive school may prove decisive in the longer term. Historically, the comprehensive school has been a success in process terms: different voices were included and a solution was found in the decades of reform, and we can conclude from the prevailing silence that the outcome is viewed by most to be just and fair. Future threats to the main goals of sustaining equality and economic growth are related to the potential of the middle-class distinction, the continuing discussion in the wake of declining PISA results, and the demands of austerity politics.

Returning to the issues raised in this chapter’s introduction, it is clear that the Finnish comprehensive school has enjoyed political success, and it still enjoys a halo effect. Political and professional actors associated with the policy may take their share of the international glory awarded to Finnish education (see Rautalin 2013). Within Finland, stakeholders in the programme also enjoy political benefits. Education researchers would agree, for example, that the Finnish Trade Union of Education enjoys a strong position as part of the policymaking establishment and the trade union landscape. Among politicians there are very few who identify themselves as education policy experts (e.g. Kauko 2011). This could be interpreted as a feature of a state-centred and bureaucratically led system. It is

nevertheless clear that the comprehensive school has enjoyed the support of all the main political parties for decades.

Learning from the Finnish example is challenging because the education system is deeply rooted in socio-historical context (Salokangas and Kauko 2015), which may not be easily transferred or emulated. Despite this, efforts have been made to explain and learn from the success of Finnish comprehensive education. Many such efforts do not precisely operationalize what they mean when they speak of success, which risks projecting onto the Finnish case whatever is expected to be the key to success. In short, determining whether the purported success of Finnish education can be exported is complex. Simola et al. (2017: 123) list ‘explanations of the Finnish success and decline in basic-schooling politics’, which all derive from root causes such as war experience, late industrialization, contingent events such as municipal autonomy, or the varying pedagogical traditions that have evolved since the 1960s, to name but a few.

The Finnish comprehensive school policy is a story of political conflicts resulting in compromises and a robust institutional set-up. A workable hypothesis is that the Finnish comprehensive school is a modern institution attempting to survive late modern pressures. The political system of the 1960s and 1970s, along with the growing economy of the Golden Years (Hobsbawm 1994), was able to institutionalize an enduring political compromise that relied on a radical idea of equality independent of the child’s background. The political system generally supported continuation rather than radical change, and at some potentially critical junctures contingent events, such as municipal decentralization (1990s) and PISA results (early 2000s), supported the continuation of the institution. The former was important in locking in autonomy of the municipal system and the latter in resisting criticism that could have led to political changes (see Simola et al. 2017). Finally, a major factor contributing to success has also been the diversity of political representation in parliament, which is of course a representation of the will of the people.<sup>3</sup>

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact’s (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI’s Public Impact Fundamentals framework. CPI’s framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

## Notes

1. The number of countries and ‘economies’, smaller regions such as Hong Kong and Taipei, has grown from forty-three to sixty-five, having peaked at seventy-five (OECD 2016: 27).
2. The number of participating countries has varied between twenty-nine and fifty-eight, US states from zero to thirteen, ‘benchmarking participants’, meaning smaller regions, between two and six, and there have also been between zero and three off-grade participants (National Center for Education Statistics 2018).
3. I would like to thank Mira Kalalahti and Janne Varjo from the University of Helsinki for their valuable comments on a previous version of this chapter. The remaining errors are mine alone.

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# Estonia's Digital Transformation

## Mission Mystique and the Hiding Hand

*Rainer Kattel and Ines Mergel*

### A Digital Success Story

In 2017, *The New Yorker* published a story titled 'Estonia, the Digital Republic' (Heller 2017). The article's subtitle was 'Its Government is Virtual, Borderless, Blockchain, and Secure. Has this Tiny Post-Soviet Nation Found the Way of the Future?' It summarizes the buzz around Estonia's digital transformation: from the outside, at least, it is seen as a major success and has been lauded in mainstream media such as the *New York Times*, *Financial Times*, and *Forbes* (Scott 2014; Crouch 2015; Gaskell 2017). In these, Estonia's success in digital government is frequently described in parallel with its thriving ICT industry, best exemplified by Skype which originated and is still primarily based in Estonia and which was subsequently acquired by Microsoft.

The Estonian e-government infrastructure and its success rest on two main pillars, both introduced in 2001, that essentially create a digital state and digital citizens: the data infrastructure X-Road and a compulsory national digital ID (Kalvet and Aaviksoo 2008; Kalvet 2012; Margetts and Naumann 2016). X-Road is an interoperability platform for existing decentralized databases and a data exchange layer that can be used by public and private sector actors. It is independent of platforms and architectures and provides secure interoperability for data exchanges and identification of trusted actors in digital service delivery. The digital ID makes it possible for citizens to be identified digitally and to use digital signatures. Together, X-Road and the digital ID make it possible to digitally sign any contract, access essentially any public service such as citizens' digital medical history, order prescriptions, file taxes, vote, and so forth. More than 2,300 public and private services use X-Road, and the digital signature has been used almost

We would like to thank Brian Gannon, Ella Fitzsimmons, Mallory Compton, Paul 't Hart, Wolfgang Drechsler, and participants at a workshop in Utrecht in April, 2018 for their comments on earlier drafts of this article. The article is based on 22 interviews with leading Estonian politicians, policy-makers, ICT activists, ICT entrepreneurs and third sector representatives carried out between September 2016 and June 2017. Quotations used in this chapter are gleaned from these interviews. A list of interviewees can be obtained from the authors upon request.

350 million times by Estonia's population of 1.3 million. The digital ID penetration is close to 100 per cent; 30 per cent of votes are cast digitally (in both local and national elections); almost all personal income tax declarations and medical prescriptions are done online, and most medical records held by hospital and family doctors are accessible online. The Estonian government claims that its e-government infrastructure has annually led to savings of about 2 per cent of GDP and more than 800 years in working time for public and private sector in a calendar year.<sup>1</sup>

According to the EU's Digital Economy and Society Index (DESI) for 2017, Estonia is the leading nation in Europe in digital public services (it dropped to second place in 2018). However, in most other e-government rankings, Estonia's digital success is less evident. In DESI's overall ranking, Estonia is featured in the ninth spot for 2018, and it is ranked only sixteenth globally, according to the UN's 2018 e-government survey.<sup>2</sup> This mismatch—high praise and leadership position in global news outlets vs. relatively middling rankings in overall digital transformation indexes<sup>3</sup>—reflects the nature of Estonia's digital success: Estonia is ranked high for its digital public service *infrastructure*, universally available and mandatory, as an integral backbone of public service delivery. Estonia's digital success, however, is *not* about other digital offerings such as digital democracy, citizen engagement, or digitally transforming public services such as the welfare state.

The specific nature of Estonia's digital achievement and at the same time the disconnect between technological infrastructure and degree of digital penetration are often overlooked in international coverage. Domestically it has become a crucial political and policy issue over the past few years. For instance, Kaja Kallas who heads the Reform Party since April 2018 (the Reform Party is one of the largest and most popular parties which has led various coalition governments over the past fifteen years until 2016 when it was forced into opposition) referred to the abovementioned less than stellar rankings in global indexes and argued that much of the e-government infrastructure is outdated and called for fundamental reforms in Estonian e-government (Kallas 2018). With the decision to focus its digital development on X-Road only, Estonia has effectively created its own legacy system—a move that the initial thinkers wanted to avoid. This realization comes amidst increasing domestic criticism of the so-called e-residency programme, launched in 2014 and highly lauded in international media, which essentially opens some of the X-Road and digital ID-based services globally (Tammpuu and Masso 2018).<sup>4</sup>

In order to assess Estonia's digital transformation along the three dimensions deployed in this book—programmatic, policy and political success—it is important to note that Estonia's case is a success of a national strategy rather than of a single policy or even a bundle of programmes. Indeed, Estonia's digital initiative does not arise from a documented foundational policy or strategy, or even

documented discussion and debate. The government's e-government strategy document, *Principles of Estonian Information Policy* (1998) approved by the Estonian parliament in 1998, which was seen as the critical scene-setter for digital transformation in the 1990s (Kalvet 2007), does not mention any of the fundamental principles or developments that took place just a few years later. It can therefore be argued that the Estonian digital transformation is characterized by 'development-driven strategies' rather than by 'strategy-driven development' (Kalvet 2007: 11).<sup>5</sup>

Furthermore, Estonia has never had a central office for digital transformation like other countries that have set out on the digital transformation journey, such as the UK's Government Digital Service (GDS), despite the fact that such a central agency was initially envisioned to manage (among other things) vital public registries (Estonia's Roadmap to Information Society 1994). Nor is there a formally designated and empowered state official for digital enablement: the current government Chief Information Officer position exists only in English translation, and only informally.<sup>6</sup>

Estonia's digital transformation has been an extended and ongoing process over three decades, starting in the early 1990s when Estonia regained its independence and continuing to the present day. It was informed by successive debates and developments, and multiple policy initiatives. Much of this process has been ad hoc and informal. For example, many strategic policy documents for digital transformation have followed the rhythms of European (structural) funding periods rather than responding to domestic challenges and planning processes.<sup>7</sup> Similarly, various overlapping and mostly self-managed public-private networks provided the informal dynamic capacity and capability for change, few of which have been institutionalized or formalized.

However, a fundamental constant in Estonia's digital transformation has been widespread cross-party support for the digital agenda. Starting with the first independent government in 1992, ICT development in society was seen as delivering competitive advantage, as a symbol for leaving the Soviet past behind, and as an indicator for opening the Estonian society and economy towards the West. Digital transformation as a vision was part of a broader political consensus at the time that included the agreement to join the European Union and NATO. To this day, the digital agenda enjoys widespread political support. It has become part of Estonia's official image and branding as evidenced by the e-Estonia showroom (<https://e-estonia.com>), almost a mandatory stop of any official state visit.

In the following, we review past events and decisions to untangle the essential elements and distinctive features of Estonia's digital government success. We examine whether the success factors and drivers of the past decades can be relied on to ensure this success endures and delivers the next generation of digital transformation policies in Estonia.

## Contexts, Challenges, Agents

### History and the Hiding Hand

In 1990, Estonian state-owned electronics companies employed 26,000 people—this is more than today despite electronics being one of the principal and highly successful export articles over the past twenty years (Ubar 1993; Tamkivi 2017). Yet Estonia's electronics industry, and its transformation from the Soviet legacy systems into an integral part of Scandinavia's global value chains, has almost nothing to do with Estonia's digital government. So why and how did digital government emerge as a paradigm next to and competing with electronics and industry in general? In other words, why did not digital transformation follow the path of the 'invisible hand' of free-market reforms—a set of ideas so dominant in Estonia from the 1990s onward?

Two crucial political circumstances in the 1990s provide the answer. First, after regaining independence in 1991, the first free elections in Estonia brought to power political forces that were intent on cutting ties to Soviet legacies in all aspects of society. Some developments were inevitable: as the Soviet planning system collapsed, so did export markets to the east, and companies needed to transform themselves into privately owned entities relying on domestic (and mostly Western) markets (Reinert and Kattel 2004). Others came from political will, such as consciously embracing recent Western technologies, products, and services rather than attempting to upgrade inherited Soviet technical, production, and service systems (Drechsler 1995). This resulted, for instance, in changes to the funding and governance of R&D, the privatization of state-owned companies, and transformation of the finance sector—all following a guiding political principle of transition by replacement (Kattel 2012). This proved particularly crucial for ICT because it encouraged a focus on new IT solutions as opposed to large-scale centralized legacy systems in both private and public sectors, also excluding Western legacy systems available in the form of development aid.

Transition as replacement was complemented with a political idea underpinned by the same ideological principle: namely, to 'leapfrog' the West's technology. Here the success of Finland and Nokia became one of the guiding political reference points: 'What is our Nokia?' asked Lennart Meri, Estonia's first president after Estonia regained independence in 1991, a question that has remained a popular catchphrase. As Estonia seemed to lack the political will and economic capacity to build its own significant industry, the focus turned to develop what might be labelled as a general purpose technology. In other words, rather than developing specific IT and electronics industries, the political focus was on developing IT as a general purpose socio-economic skill to be shared by as many citizens as possible.

These twin ideas laid the groundwork for three critical features of Estonia's digital transformation that are still dominant today:

1. Focus on future-oriented and almost utopian solutions—the realm of ‘crazy ideas’, as expressed by Mart Laar, prime minister from 1992–4 and 1999–2002.
2. Public digital architecture should be universal in nature.
3. Decentralized digital agendas (including databases) of line ministries.

Thus, in its purest form, Estonia's digital transformation can be seen as a strategy to leapfrog rather than just catch up with the West (Burlamaqui and Kattel 2016). In this view, widely shared among the emerging policy networks in the early 1990s, the Soviet occupation that lasted over five decades is seen as a lost time. This implied a particular glorification of what can be called the first republic, which lasted from 1918 until 1940. Following its independence, Estonia not only reissued the *kroon*, its currency from the interwar period, but also based its new constitution on its previous constitutions from 1920 and 1938—indicating its reliance on traditional values. The digital initiative epitomized the other component of the new republic's dual ambition: to be the state and the society that it was in the interwar period *and* to leapfrog the West in development.

However, two significant differences exist between Estonia in the 1930s and the 1990s: the ethnic composition of its society and its economic structure. In 1934, 88 per cent of inhabitants were Estonian, and this increased to 97 per cent after mass emigration during the Second World War. In subsequent decades this trend reversed as people, mostly ethnic Russians and Ukrainians, were encouraged by the Soviet government to move to Estonia from the Soviet Union. By 1989 the share of native Estonians dropped to as low as 62 per cent; in north-eastern Estonia, the percentage of Estonians decreased to 13 per cent in 1989 (from 65 per cent in 1934) (Estonian Statistics n.d.). These shifts in the population were associated with rapid industrialization, particularly in north-eastern Estonia, that created a long-standing high demand for labour (Rajasalu 2002). Plans for even more investment into resource-intensive heavy industry and mining—and fears of new waves of immigration—played a crucial role in galvanizing the popular independence movement in the late 1980s around environmental protection issues (Manning 2007).

This confluence of industrialization with ethnic tensions explains why Estonia, despite being one of the most economically and technologically advanced countries within the Soviet Union, chose not to upgrade the inherited economy and instead sought to do something completely different. As an emerging general-purpose technology, ICT offered an almost perfect solution, particularly given the availability of R&D skills in this sector. ‘The digital’ thus came to express Estonia's—or more precisely, its elite's—ambitions, and explains why to this day, the ‘digital elite’ is almost entirely ethnically Estonian.

The role of ‘crazy’ ideas was initially also part of Estonia's economic policy. For example, Estonia introduced a relatively unique currency board to manage its currency, and a flat income tax rate (both rare in Western or other economies).

The first prime minister after regaining independence, Mart Laar, was openly radically neoliberal, citing Milton Friedman and counting Margaret Thatcher among his friends. Also, the success of these reforms brought international recognition and gave Laar and others confidence to pursue further radical ideas. This contributed largely to Estonia's rise as the extreme and successful reformer in the eyes of the international community—and as the main disciple of Adam Smith's famed 'invisible hand'-led economic policies whereby free markets provide the best economic outcomes. The implementation of 'invisible hand' infused policies by the first Laar government in 1992–4 relied upon the enthusiasm of amateur politicians, who drew at least part of their risk-taking courage from their naïvety. This process is well described by Albert Hirschman (1967), whose principle of the 'hiding hand' notes that policy-makers sometimes take on tasks without realizing the risks involved, and this may result in unexpected creativity and success. Hirschman argues the hiding hand works through ignorance of ignorance, and Laar agrees: 'I was 32, I was young and crazy, so I didn't know what is possible and what's not, so I did impossible things' (Laar 2010). In digital government, this did not lead to free-market based solutions, but rather to visionary policies that relied on charismatic leadership, small tight networks, and constant renewal of both leadership and networks.

### External Influences and Skills

The academic elite played a vital role in the early genesis of Estonia's digital transformation. Mart Laar recalls how one of the first things that came onto his desk as prime minister was a memo by Raimund Ubar, professor of computer engineering at Tallinn University of Technology, titled 'Targeted program for Estonian electronics and computer technology' (Ubar 1993). The purpose of the memo was to convince the government to establish an R&D programme in electronics and computer engineering to upgrade Estonia's industry. While Ubar's memo focused on industry and applied research, what seemed to have impressed Laar was Ubar's insistence on avoiding the legacy trap he had observed in Western countries and encouraging a policy of investment in future-oriented emerging technologies rather than in legacy technology. Laar recalls: 'Ubar wrote that it is not sensible to overreact and start immediately by buying things. He was the first person who told us not to buy anything old.'

The avoidance of this legacy trap allowed the policy-makers to avoid large-scale investments into ICT as budgetary means were scarce and capacity to develop centralized IT systems was low. Later, during Laar's second government (1999–2002) this became the unspoken *principle of frugality*: rather than buying large-scale solutions from established vendors, government departments and agencies were encouraged to find open-source solutions. This also enforced departments and agencies to develop their own digital agendas.

In the initial decision-making processes, academics played a vital role as part of the first formal advisory body on ICT, the Informatics Council, established in 1990. The focus on cyber security, a prominent feature of the X-Road, can be traced back to the Informatics Council, as many of its members had a connection with the Estonian Academy of Sciences Institute of Cybernetics.<sup>8</sup> From this institute, Cybernetica AS was founded, one of the companies that delivers many of the public digital solutions, including X-Road. Academics were also the first to establish actual internet connections with the West through networks with Swedish colleagues (Högselius 2005).

Proximity to Scandinavia played an essential role in building the ICT landscape in Estonia. The Estonian government reorganized the Ministry of Communications into two state-owned companies, Eesti Telekom and Eesti Post in 1991, decoupled from Soviet telecommunication networks and created a mobile joint-venture with Swedish and Finnish counterparts called Eesti Mobiiltelefon. This company initially used the NMT and not the GSM standard for mobile technology (as did the Nordic countries at the time). Eesti Telekom, in turn, acquired the monopoly rights for Estonia's fixed telephony until 2000, but the concession agreement left out mobile and data communications—and this proved critical in the years to come. Another joint venture between Estonia and the two Nordic countries, Eesti Telefon, was an important early investor into Estonia's digital infrastructure modernization (Högselius 2005: 81–91).

The R&D programme in electronics, proposed by Ubar to Laar, never materialized, but ICT gained importance as a cross-party policy goal throughout Laar's first administration. During Laar's second administration, between 1999 and 2002, many of the critical elements of Estonia's ICT policy coalesced into a more or less coherent framework and were quickly translated into swift and radical actions. Key to this development was Linnar Viik, a serial entrepreneur and later founder of the e-Government academy, as the ICT adviser to the prime minister. Viik became an influential adviser with a wide-reaching portfolio, more important and powerful than many of the ministers (Laar 2010).

As the digital experiment—and the modern republic—matured, political leadership in ICT became less about ideas and policies and more about recruiting talented IT people to work for the government. This was much helped by the fact that the Estonian civil service is designed as an open system: almost all positions can be filled through open competitive calls. Thus, for instance, Taavi Kotka, former CEO of Nortal, one of the largest domestic ICT companies, was hired as government 'Chief Information Officer' in 2013. Lack of legal and public barriers arising from the large-scale support of digital transformation helped attract talent from the private sector, as Kotka (interview) states:

The good part was that in ICT there [were] very few legislation initiatives. It was mostly about inspiration, it was mostly about fixing investment processes, getting toward the right resources and strategies in place. It was more like organizing

work than working the policy or the legislation. ICT and cyber security are not regulated at all, basically. It's a very lightly regulated effort.

If the hiding hand style of strategic leadership was provided mostly by politicians in the 1990s, then in the 2000s it was provided increasingly by strategic advisers and recruits from some of the most prominent Estonian ICT companies.

## Design and Choice

Following Ubar's guidance a fundamental principle of Estonia's digital transformation efforts was the idea of no legacy. As mentioned earlier, government ICT projects could not afford to build massive systems run by large vendors. Instead, the government was encouraged to embrace a distributed architecture of IT systems to cater to the different needs of each government agency. This became an explicit strategy from 1999 onwards: ministries were asked to build their IT systems according to their specific needs but ensuring frugality and interoperability across government. The resulting distributed architecture created the need for a software layer that allowed these distributed IT systems and databases to exchange data with each other.

Laar's second government rapidly expanded X-Road as a layer for secure data exchange for distributed public IT systems and databases, followed shortly after by digital signature and e-ID based on the unique personal code. Viik and others were able to tap into personal networks in the public and private sectors, for example with the banking sector, which helped develop competency in cyber security (Kerem 2003). In this way, the public ICT infrastructure—with its fundamental principles of governance: distributed data architecture and strategy, central strategic guidance and financial controls, decentralized implementation—worked with public-private networks to access competencies and increase legitimacy.

Despite this seemingly coherent strategic move, Estonia has never had a central digital agency, nor does it have centralized or even unified public databases. Instead, politicians and civil servants have relied on cross-sectorial networks to receive strategic advice in pushing their digital transformation agenda forward. Viik (interview) notes:

The overall ICT policy coordination and formation were carried out by the, I would say as a central group of some 10 to 15 people, and the broader group involved some maybe 20, 25 persons who twice a year, sometimes three times a year had seminars and reviews on what we should do next.

This is highly unusual in the Estonian political and bureaucratic culture. Most neoliberal political cultures mistrust close-knit networks or the heavy influence of private sector actors on public sector representatives and are acutely sensitive

when it comes to corruption and erosion of accountability associated with such networks. In the Estonian ICT sector the networks and exchanges between the private sector and government operations rely heavily on each other's advice and guidance—and build the trusted backbone of its digital transformation efforts. As a matter of fact, belonging to these networks is more important than having a formal government role. This is even more remarkable in the Estonian context where in all other policy fields one of the key complaints is lack of cooperation and weak coordination structures (Randma-Liiv and Savi 2016).

Despite the potential accountability threat the ICT sector has remained relatively scandal-free over the past two decades, with little evidence of corruption, influence, or accountability issues. The most critical moment occurred in 2007 when Estonia became the first nation-state to fall victim to a coordinated Distributed Denial of Service (DDoS) cyber-attack in 2007 (Lesk 2007). The continued attacks led to the establishment of NATO's cyber security centre in Tallinn. Following the initial attack, the country had to repair its services by disconnecting from the internet for four weeks, and a strategic intent emerged that focused on collective rather than on individual actions. According to Andres Kütt, a principal adviser to the Estonian Information System's Authority:

Strategically this is from where [the network] emerged. The ideology from it actually stems from what our former Director General Jaan Priisalu called the collective brain. Which is primarily behind the cyberwar ideology of Estonia. The doctrine is that in cyber conflict, the party who can amass the biggest collective brain wins. Because in the internet world, everything is interconnected, and no one single organization can withstand attacks or can sort of execute attacks en masse alone. You need to have that sort of collective brain. And the collective brain being distributed needs to work together, there needs to be trust between parties in that brain, so that network stems from that sort of ideology.

The close-knit network among high-profile politicians and their private sector IT advisers also emerged as a natural development from the fact that public-private partnerships initiated significant IT investments and digital services as joint ventures with Scandinavian state-owned companies and then mainly by the banking industry. With electronic banking proliferating in the late 1990s, banks were at the forefront in rolling out the national e-ID (initially bank offices issued e-IDs). Through the educational Tiger Leap and Look@World programmes in the late 1990s and early 2000s, the banks financed IT education in schools and for the broader population so that citizens could use their online services. In essence, the banks took over the task to train and inform citizens who might not be naturally drawn to conduct online transactions and preferred physical bank branches:

The bank's self-interest was to not have a bank branch everywhere. They embraced electronic banking. So what they did for a while was to teach people in rural areas, especially older people, how to use computers.

The banks deployed training kiosks across the country to bring their clients online. Also, Hansapank, the leading bank at the time, built up the data infrastructure and hired cyber security specialists to protect the banking system. Some of the top cyber security people moved from banks to the government, which proved vital in responding to the DDoS attack in 2007 and paved the path for continuous personnel movement between sectors.

### **Delivery, Legitimacy, and Endurance**

Estonia's early focus on integrating IT education with general school education was an essential factor in enabling digital transformation. Funded by both public and private sector organizations, the Tiger Leap programme was initiated by Jaak Aaviksoo and Toomas Hendrik Ilves in 1996: a first step was to bring all Estonian schools online. Private sector companies became involved in a co-sponsored public-private partnership called Look@World. Both programmes had an immediate effect on Estonian youth and led to the emergence of a vibrant IT start-up sector and arguably to improvements in government operations in recent years, as one official notes:

The last several years, when I went around visiting Estonian start-ups, I always asked them why did they end up in technology, and they would say 'Oh, well I was a Tiger Leap child.' So now people in their mid-30s, are people who were 14 or 15 [when they] got online.

The subsequent success of IT start-ups such as Kazaa and Skype provided further stimulus:

What really transformed young people's attitude was the success of Skype. Basically, there were four, at that time, young Estonians who after they managed to avoid doing prison time in the United States for inventing Kazaa, which was a file-swapping program, like Napster, and of course it violated copyright laws. And then the same group of four, because the technology concept's fairly similar, invented Skype. And the idea that in this sort of far away provincial, cold, rainy, backward backwater, which is kind of the concept young Estonians had of where they lived. You could send the career—some, some people who were good at math and science, would invent a worldwide brand, and become rich was an enormous motivating factor to get people interested in technology.

In particular, the Tiger Leap programme can be seen as a blueprint for how digital transformation was delivered. The programme was initiated in 1996 through a legally private foundation in which government was one of the founding members and key funders, alongside eleven IT companies. It created competitive grants and encouraged schools and local governments to submit applications for the

rather limited government funding for IT education programmes. In essence, this governance structure created a highly agile environment, where those willing to invest their time and energy could be easily engaged either as funders or participants, and it did not matter whether they belonged to the public or private sectors. Above all, such fluid structures allowed private actors—notably banks—to be heavily engaged in the Tiger Leap programmes. Importantly, foundation based structures allowed public–private networks to operate outside of government without much red tape—and without much institutionalization or formalization.

The networked cooperation between the public and the private sector occurred as a natural evolution: CEOs, non-profit managers, or academics are moving between different sectors, accept short-term appointments in government, or are asked to serve as strategic advisers to the Prime Minister and the President. The phenomenal success of Estonian IT start-ups, like Skype, gave rise to another powerful network of Estonians with ICT skills and members of its local start-up ecosystem (the 'Skype mafia'), mostly developers and entrepreneurs with shared values and ideas (see <http://skypemafia.com>). Thus, layers of trusted network relationships have evolved between public and private organizations that focus on exchanges and strategic planning initiatives. Many of those incorporate prominent Estonian IT companies, such as Cybernetica, Nortal, or Skype which are active in the cyber security, e-government, and banking industries.

Movement between sectors is not one-directional. Government agencies have, for example, signed a memorandum of understanding with Nortal, which allows the company to request government officials to work on international client projects abroad. Frequently, public managers are sent on leave to work on international projects, for example in Oman, lending deep public administration expertise and understanding of government systems to the private sector.

Another layer—beyond the consultative layer—is the information exchange and networking layer of cyber security experts who regularly meet as an informal group. Their goal is to exchange knowledge and good practices to protect the country's infrastructure against cyber-attacks. Ties among participants are extremely strong and take on a regulative function since the informal network members include representatives across all industry sectors. For instance, failing to fall in line with what is decided in terms of processes and technologies can lead to exclusion from the network. This has a real impact, as one of the network organizers explains:

It is a small community, but it [can] still to an extent deliver. In the sense that, it is acknowledged that the formal mechanisms can get you that far, but true cooperation between parties only happens via personal contact. We need to have some level of personal rapport with people. Yes, at the end of the day, you can whack somebody with a piece of law, or regulation, or a process, yes, you can do that. But, it only works very limited. Has very limited effect.

The design principles of the Estonian digital transformation are a result of the strong political decision-making and networked governance. Some of these are ingrained in the policymaking culture, others in the explicit legal codex. The most influential design principles are not, however, codified in law or regulation; instead, they are followed by those in leadership positions in government. They bear the hallmarks of what can be dubbed a civic hacker culture that fuses start-up agility with design thinking. The once-only principle—designed to reduce the bureaucratic burden (Wimmer et al. 2017)—is a case in point. Citizens and businesses provide their information to government one time only and thereafter this information is available to all other government actors. In Estonia, this is a principle, not a law. As Kotka explains:

It's not a law. People think it's a law, it's not a law, it's a principle. So, there's no law saying that the government can ask only once information from the people. This is so in the case of companies, but about the people it's a principle.

Similarly, the high level of interoperability made possible by components such as the X-Road data platform and its connected applications are also not mandated by law: 'Or the saying [that] an ICT system has to be interoperable with other systems. That's, again it's a principle. There's no legally binding regulation.'

Nor is it a rule that the Estonian public sector should not use IT technologies that are more than thirteen years old or avoid off-the-shelf IT systems offered by large international vendor companies. Instead, such principles emerged from early thinking typified by the Ubar memo, and are a reflection of the start-up culture of that time, of which Skype and its later alumni—'Skype mafia'—are examples.

This development of informal networks can be summarized as a specific kind of 'mission mystique' that spans organizational boundaries: a set of institution-strengthening characteristics and institutional charisma Goodsell (2011: 477–8). In the Estonian ICT sector, such mission mystique transcends organizational institutions and strengthens networks that are driven by common values and held together by (digitally savvy) charismatic leadership. Such mission mystique is essential for the hiding-hand principle by creating legitimacy for risk-taking and experimentation.

## **Analysis and Conclusions**

At the core of Estonia's digital transformation is the idea of a digital citizen who accesses public and private services through a digital platform that ensures the interoperability of diverse and decentralized information systems. This relies on ideas that are counter-intuitive to free-market thinking and follow a principle characterized as the 'hiding hand' rather than the invisible hand. Two elements

were essential: first, the adoption by politicians and policy-makers of a culture of risk-taking and bold ideas; second, the formation of multiple overlapping small networks to promote early success and build momentum. These phenomena became mutually enforcing and enabled rapid adoption of innovative solutions.

To summarize, Estonia's digital transformation and its success rest on three key factors. First, a confluence of a number of contextual factors; second, on a set of agreed upon governance principles; and third, on a set of design principles:

### Contextual Factors

- The Soviet legacy had left Estonia with an outdated industrial structure and widespread dislike of industrialization. More positively, it left Estonia with a wealth of R&D talent in ICT through various Academy of Sciences institutes, such as the Institute of Cybernetics (established in 1960) and other similarly highly advanced academic institutions. As their funding collapsed in the early 1990s, much talent poured into emerging private companies, in particular, various joint ventures with Scandinavian telecoms and other companies.
- Geographical vicinity to Scandinavia. In the 1990s, Nordic countries had one of the fastest developing telecommunications sectors globally. Opening up both policymaking processes (through advice and joint ventures) and markets (through privatization and regulations) to Scandinavian partners brought know-how and investment.
- Small size and population concentration. Estonia has 1.3 million inhabitants, almost one third in the capital, Tallinn. This clustering of population facilitated agile networks that were able to gain quick and lasting political support, and which required low initial infrastructure investment.

### Governance Principles

- Government ministries and their agencies had direct responsibility for their ICT strategies, investments, and data—and information architecture and departmental ICT strategies were decentralized.
- A critical coordinating and guidance function in negotiating ICT investment decisions and the formulation of crucial design principles was performed in the centre. During the 1990s the prime minister's office played this vital role, and it is now coordinated by the Ministry of Economic Affairs and Communications.

- There was a deliberate focus on public–private networks rather than on individual organizations. Estonia’s e-government landscape consists of a number of organizations (agencies such as Information System Authority, or departments within ministries such as Department of State Information Systems) and cross-organizational networks that are sometimes formalized (such as the Estonian Defence League’s Cyber Unit<sup>9</sup>).

### Design Principles

- No legacy principle: public digital infrastructure should not use technological solutions that are older than 13 years.
- Build-vs.-buy principle: particularly in the early stages of digital transformation, the priority was to build systems from scratch rather than buying ‘off-the-shelf’ software systems from ICT vendors.
- Once-only principle: businesses and citizens have to supply information for government authorities only once and data is available through the data exchange layer X-Road across government agencies.
- Interoperability and security principle: rather than seeking to create unified databases and information system, the focus is on secure interoperability of data systems.

Together, the coordination of strategy, social conditions and policy combined with a uniquely talented, motivated and relatively young workforce resulted in the creation of a public digital infrastructure that is recognizably world-class.

The rapid pace of change and the focus on digital citizen and identity nonetheless highlighted anomalies. In the first place, despite the statement of a strategic intent of participatory governance, innovation—and in fact the drive for digital initiatives—has come from a tight-knit elite network of politicians, business leaders, and civil servants and few ideas have emerged through co-creative processes with citizens. The recent e-residency programme is one of the only initiatives that places a strong focus on user feedback. Second, while e-ID and other advances have changed aspects of the user experience of crucial public services such as electronic tax declaration, the services themselves have remained remarkably unchanged. Third, while many digital services have brought efficiency gains to citizens and businesses in Estonia, citizen satisfaction with crucial services such as healthcare and education has remained low. As an example, according to OECD rankings in 2014, Estonia ranked fifth from bottom in satisfaction with health services (in 2007 it ranked the lowest), and second from bottom in satisfaction with education system (in 2007 it ranked third lowest). Further, Estonia performs poorly on some critical social indicators: for example, in 2016 it had the highest gender pay gap in Europe, and a higher than EU average Gini index (Eurostat). While citizen satisfaction is not the only

measure of the quality of public services—and digital infrastructure only one component in the provision of sophisticated services such as health and education—it is indicative that there is a little-measured improvement in the provision of core public services.

While decentralized digital agendas of line ministries provided needed agility, it also created uneven digital capabilities across different departments and agencies. This reliance on bottom-up departmental initiatives seems to necessitate stronger and perhaps more formalized coordination structures than are currently present. Furthermore, while e-voting is increasingly popular, other aspects of digital democracy such as civic engagement have remained weak (with a notable exception of the so-called Citizen Assembly between 2012 and 2014 that, however, eventually failed to deliver any significant results; see Jonsson 2015).

Finally, while distributed IT architecture is at the heart of Estonian digital transformation, the central X-Road layer represents a dependency: 'It's the X-Road or no road.' While Estonia has already successfully exported this proven infrastructure to other European countries, like Finland, there are alternative paradigms that do not rely on it (e.g. the UK's domain and platform focused approach).

Estonia's focus on ICT as general-purpose technology proved to be one of the critical success factors as it enabled the creation of digital infrastructure that is universal in nature. Yet, relying on decentralized and mostly informal networks in building this infrastructure, Estonia now faces a challenge to build capacities and capabilities within the public sector to take advantage of the public digital infrastructure. In sum, perhaps the most significant question faced by Estonian digital government is whether the main reasons for its success—particularly its charismatic leadership-based informal networks and civic hacker culture—provide it with enough endurance to sustain its early success and with the institutional capacity to harness the potential of Estonian digital infrastructure for more inclusive public services and society.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

## Notes

1. E-Estonia facts, <https://e-estonia.com/wp-content/uploads/updated-facts-estonia.pdf>.
2. For details, see <https://ec.europa.eu/digital-single-market/en/desi> and <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2018> respectively.
3. Drechsler (2018) offers an excellent discussion on the hype around Estonia's digital success.
4. E-residency programme homepage and live dashboard can be found here: <https://e-resident.gov.ee>. As of August 2018, there are more than 40,000 e-residents. As the main service e-residents can currently use is setting up a company, this has had unintended consequences as it has drawn the attention of money laundering regulators in some countries.
5. Thus, for instance, the data exchange layer called 'X-Road'—introduced in 2001 and fundamental to Estonian e-government—is not mentioned in the 1998 strategy document at all, either by name or principle. A subsequent 2004 strategy document, 'Basics of Information Policy' mentions it once; a follow-up strategy in 2006 (*Development Plan for Information Society* 2013) discusses X-Road twice; and the current strategy (*Development Plan for Information Society* 2020, adopted in 2013) mentions it eight times—even though the X-Road has not changed significantly since 2001.
6. The position is formally called Deputy Secretary-General for Communications and State Information Systems, and it is part of the typical management level in Estonian ministries and not a stand-alone office; see <https://www.mkm.ee/en/ministry-contact/management>.
7. Starting with the 2004 strategy, the timings of adoptions of the strategies reflect EU structural funding periods (2004–6; 2006–13; 2014–20).
8. For a detailed discussion of the vital importance of Institute of Cybernetics, established in 1960, and its R&D capabilities in the evolution of Estonian ICT sector, including involvement in 'Soviet Arpanet', see Högselius (2005).
9. See <http://www.kaitseliit.ee/en/cyber-unit>.

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## Infrastructure Partnership Success in Southern California

### Building and Paying for the Alameda Corridor Rail Project

*Richard F. Callahan*

#### **Introduction: A Public Infrastructure Success**

The Alameda Corridor rail project became a tale of two cities: Los Angeles and Long Beach, California. It started as a story including each of the six cities in between. As a policy success, the story offers insight into the programme, processes, and politics that in 2002 built a 20-mile cargo rail line for \$2.4 billion. Initially this is a story of a compelling facilitator, Gill Hicks, who persisted in developing consensus across disparate political jurisdictions and the private sector railroads and port shippers. However, over time the story changes, with cooperation of the six mid-corridor cities evaporating, along with the projected revenue. Time, accompanied by an economic downturn and introduction of new logistics technology for cargo shipping, has changed a positive financial position to one of deferring a future debt that exceeds the initial construction costs of the project.

The Alameda Corridor Transportation Authority (ACTA) transformed a tangled web of rail lines, each owned and operated by three competing railroads, into one line. The new corridor created public value in eliminating grade rail crossing that backed up truck and car traffic in six mid-corridor cities, and through the reduction of air pollution emissions and groundwater contamination. Private sector value was created as the new line moved freight trains at 40 mph rather than 10 mph. The line moved the harbours from reliance on nineteenth-century rail technology to a twenty-first-century system aligned with the technology needed to compete in a globalized goods movement world. Public expense was significantly reduced as the line was built primarily with private sector debt financing, which was paid off by fees on private sector container cargo.

The process included the formation of a task force to explore the feasibility of a consolidated rail line. From the task force emerged an approach for governance

as a formal joint power authority inclusive of the six mid-corridor cities, as well as the large cities of Los Angeles and Long Beach, each of which controlled the harbour. Subsequently, the ACTA eliminated the mid-corridor cities in a legally contested action. The move to governance by only the cities of Long Beach and Los Angeles contained costs and kept the project on time to reduce the financial uncertainty that would have adversely affected the costs of borrowing. This efficient decision-making structure based on those with a financial stake in cost containment came at the expense of participation in decision-making by mid-corridor cities. However, each city received a range of social benefits, which included a construction job training and hiring programme for local residents, contaminated groundwater clean-up, and millions of dollars of negotiated funding for specific benefits and in construction permitting fees.

Described as a successful public–private partnership (Callahan et al. 2010), the ACTA used private sector funding to retire the debt incurred to pay for construction. Politically, having the railroad companies pay a container fee to generate the revenue needed for debt service created a positive reputation for all participants. The use of a private funding mechanism insulated the public purse as well as elected officials from the costs of the project, yet the palpable success of constructing and operating the Alameda Corridor rail line through the first five years of operation benefited the elected officials of Long Beach and Los Angeles as well as the senior management of ACTA.

The ACTA linchpin has always been the temporal element—would revenue projections prove to be accurate? Could construction be completed on time? Would a long-term infrastructure project remain viable in a volatile global containerized shipping market? And not surprisingly, will a future technology make ACTA financials successful in the future (Pisano 2018)? When looking back at the ACTA project, there is reason to qualify the endurance of its initial level of success. The programme was a success in terms of construction to consolidate lines and increase rail cargo speeds, but with the Great Recession came a reduction in worldwide shipping. Also, new technology has reduced the amount of containerized cargo shipped by rail. The initial reduction in traffic congestion due to grade cross separations became less successful as truck traffic again increased. Initial emissions reductions also backtracked as truck traffic increased, and with it small particulate pollution as a potential health risk. Similarly, over time the ACTA governance structure evolved from inclusion to exclusion of the small cities in order to limit veto powers which could delay construction. The initially successful mechanism of the harbours paying for any shortfall in collected revenue broke down with the prospect of an extended shortfall of revenue. The process and political success of ACTA also waned over time. With the exclusion of mid-corridor cities, the politics became muddled.

## Navigating Complexity in Developing ACTA

As an infrastructure project, the Alameda Corridor construction addressed bottle-necks in goods movement and economic growth. Prior to the construction of the grade-separated railroad lines, the existing outlets for shipping containers to move from the ports in Los Angeles and Long Beach harbours were a series of railroad lines and roads running north from the harbour to downtown. Most of the goods moved on routes that were roughly parallel to a major north-south surface street named the Alameda Corridor. Three separate railroads moved goods from the two harbours to Union Station, 20 miles north in downtown. In addition, trucks carried containerized products on Alameda Street and onto area interstate highways.

At the time of the initial studies in the mid-1980s, ranked as the third busiest port complex in the world, the Port of the City of Long Beach and the Port of the City of Los Angeles were increasingly congested. The growth in annual volume handled by the ports was anticipated to double from the 1980s to the 1990s and threatened to overwhelm existing rail and road capacity. Failure to expand transportation capacity ran the risk of losing future business to other ports. The challenge noted by the president of the Los Angeles Harbor Commission was for 'the Ports of Los Angeles and Long Beach, which are considered the most technologically advanced ports in the world, to make an archaic local 19th century rail system into a 21st century state-of-the-art cargo transportation system. We are doing this so that we can continue to expand to meet the cargo needs of the future' (Lushing 1993).

In the early 1980s this uncertainty regarding the impact for future harbour expansion prompted the ports' governing bodies to study alternatives for improving transportation outside the harbour. The policy challenge was to 'fix' the 'archaic rail system' in the area (Goodwin 2001; Hicks 2001). The Union Pacific, Southern Pacific, and Santa Fe railroad companies competed against each other out of the harbour area along three different routes to downtown and eastward, each crossing over roads and bringing trucks and cars to a stop while their freight cars rumbled past. The at-grade crossing created unwelcome congestion in the mid-corridor cities, as well as decreased air quality. A significant potential benefit for the Alameda Corridor project was to consolidate these three lines onto one line that had grade separations. When testifying to the California Legislature's Senate and Assembly Select Committees, Alameda Corridor General Manager Gill Hicks noted that though only thirty-four of the actual grade separations were along the Alameda Corridor. The rerouting of other trains would create a total of 200 grade crossing eliminations (California State Legislature 1997: 8-9).

Four sets of benefits were to result from grade separation. Truck and automobile traffic would no longer be stuck at street intersections waiting for countless

freight cars. Cargo could travel at increased speeds of up to 40 miles per hours on a grade separation rather than the existing 10 miles per hour average. Air quality could improve measurably with the reduction of idling cars and trucks in the region. And finally, what was described by Mayor Richard Riordan of Los Angeles as 'the most important economic asset for Southern California over the next 30 years' (Kirkorian and Zamichow 1993) would be able to thrive again, and according to project Executive Director Jim Hankla, lay 'the foundation for other transportation improvements and long-term economic revitalization' (*Corridor Chronicle* 1999: 3).

### A Search for Governance

Given the fragmented multi-jurisdictional stakeholder and regulatory environment, a dedicated governance structure for building the line needed to be designed. In fact, the creation of the ACTA became a journey in governance as much as in rail construction. Initially in the early 1980s, the regional land use planning agency, the Southern California Association of Governments (SCAG), studied improving highway access to the harbour. The planner at SCAG working on the study was Gill Hicks, who became the top staff person for ACTA. Over the next two decades, and until the actual construction began, Hicks' ability to facilitate and innovate, coupled with his persistence, would be rewarded with eventual funding and construction of the project. Hicks had been socialized into SCAG's distinctive approach towards governance. SCAG served over 100 separate political jurisdictions, with the driving need to build regional consensus. Against that backdrop, Hicks approached his agency's role in the Alameda Corridor project as one of a 'facilitator...with a mindset of building consensus' (Hicks 2001). Serving for over thirty years as executive director of SCAG, Mark Pisano viewed the Alameda Corridor project as a model of a locally crafted, decentralized institutional solution that responded to a pressing regional need (Pisano 2001).

As the SCAG lead for the Alameda Corridor, Gill Hicks' role was as staff to the committees that met, but also multifaceted: initiator of action, innovator of solutions, navigator of the cities, harbours, county, state and federal government, and negotiator with the private and public sectors. From the initial discussions in the early 1980s to successfully securing funding, Hicks navigated and negotiated through a complex public sector intergovernmental landscape, with multiple veto powers, in the context of the multiple perceptions (public, journalists, and politicians) of the contemporary failings of the large-scale rail transit construction in Los Angeles County. At the start of Hicks' journey, the first question was one of problem definition. In retrospect, the decision to build a consolidated, grade-separate cargo rail line appears foreordained. However, at the time of the discussions, multiple options included doing nothing, focus on moving truck

traffic over adjacent interstate highways, leaving the problem to the harbour commission or the Los Angeles County Transportation Commission, or consider rail construction.

Preparations for the project began to pick up steam with the railroads funding a study of rail access which recommended consolidating port traffic on the Alameda Corridor at a 'ridiculously low' estimated project cost of \$220 million (Hicks 2001). This led to the creation of an Alameda Corridor Task Force (ACTF), chaired by the influential Los Angeles City Council Member Joan Milke Flores, whose Council District 15 included the Los Angeles harbour area. Also, serving on the task force was a representative from the Los Angeles County Transportation Commission (LACTC), Jackie Bacharach—a city council member from a small city along the coast, and Art Goodwin representing the Los Angeles ports. As with Gill Hicks, Flores, Bacharach, and Goodwin remained involved in the Alameda Corridor project from the early task force discussion through the initial funding and ground-breaking for construction.

A key feature in the early discussions was the inclusion on the task force of representatives from the six small cities that experienced the traffic congestion at the rail crossings for the varied railroad routes of the Alameda Corridor: Carson, Compton, Huntington Park, Lynwood, and South Gate. Also serving on the task force were county and state representatives from Los Angeles County Supervisor Kenny Hahn's district and from the state transportation department, Caltrans. The task force structure included the varied stakeholders, becoming the model for the initial legal governing body of the Alameda Corridor project. Representation on the task force was mirrored to a large extent in the initial joint powers agreement (JPA) that initiated and oversaw the Alameda Corridor project.

The project did not progress much from 1985 to 1989 despite the task force meetings. However, the two ports' proposals to expand port facilities triggered state and federal laws requiring an environmental impact report (EIR) and environmental impact statement (EIS) prior to approval. The harbour project to increase cargo capacity would generate additional truck and rail traffic out of the harbours toward downtown Los Angeles for transcontinental shipment. The EIR/EIS process would lead to required mitigation of the traffic impact through communities between the harbour and downtown. Consequently, officials at the ports recognized the immediate need to improve the flow of goods along the Alameda Corridor.

The ports began intense negotiations in 1989 to structure a governing body that could improve goods movement outside of the harbour (Hicks 2001). The process for governance included at least three distinctive options. One, handing the project lead to the existing regional transportation planning and funding agency, the Los Angeles County Transportation Commission (LACTC) which was constructing the above ground light rail. Two, creating through legislation a special

district as had been done for the LA Rapid Transit District which oversaw the running of the second largest bus fleet in the United States and was building the downtown subway project. Three, retaining strong local control through a formal, legal agreement between public sector jurisdictions, known as a Joint Powers Agreement (JPA).

The leadership of the cities and harbours of Los Angeles and Long Beach favoured the third option. Accordingly, the strong local control option needed to decide who was in control of the governance process. At the core of this challenge was allocating representation. The six smaller cities along the Alameda Corridor diverged in their interests from the larger cities and harbours of Los Angeles and Long Beach. Each of the harbour commissions favoured limiting the governing body to a representation allotment that allowed the ports to dominate (Hicks 2001). However, the process for developing the ACTA Board saw the officials from the ports compromise to include representation from the mid-corridor cities. From the perspective of the ports' staff, this process of expansion was 'the fatal mistake to get buy in of the small cities' (Goodwin 2001). The initial JPA included fifteen members, with the harbour commissions, Los Angeles City Council District 15, the City of Long Beach, the six mid-corridor cities, the state Caltrans, and the regional transportation agency, LACTC, each having representatives.

In Los Angeles County, a very public debate was occurring over the larger transit agencies on requiring the principal elected official on a board to attend meetings, without the option to appoint an alternate delegate. Requiring the principal elected officials to meet was seen as a mechanism to advance accountability for successful transit construction and operations. The design of the ACTA JPA Board required the principals to attend meetings. The direct involvement of the principal board members, as opposed to designated alternates from staff or public members, had two significant effects. First, mid-corridor city ACTA members were deeply enmeshed in local politics as council members in their respective cities. Also, they were directly connected with other local elected officials as well as with their state legislators. The connection to the legislature allowed the corridor cities to press their grievances in another forum, seeking to bring the 'shadow of the legislature' to influence negotiations between the corridor cities and the cities of Los Angeles and Long Beach.

A second consequence of the principals exclusively serving on the boards was an expertise imbalance among the mid-corridor city representatives, the harbour commissioners, and executive directors of the ports. The representative from the Port of Los Angeles and the Port of Long Beach had detailed technical expertise on the issues related to the ports. In addition, they had considerable experience with the financing and construction of large capital projects. This accountability to the best interests of the ports, coupled with expertise in building infrastructure projects, drove the port representatives to attain control of the JPA Board.

In the words of the long-standing General Manager Gill Hicks, 'the ports were not interested in risking hundreds of millions of dollars' (Hicks 2001) with technically inexperienced mid-corridor city representatives who were more focused on benefiting their city than in competing a rail project.

### Building and Maintaining Political Support

Politically, the Alameda Corridor project occurred in the substantial shadow of one of the United States' largest infrastructure investment in the 1980s and 1990s: the construction of the Los Angeles rail transit subway and light rail lines. These projects were plagued by cost escalations, construction problems, and political acrimony to the point where both transit agencies were abolished and replaced by a new agency (Callahan 2007). In facilitating the delicate political agreement needed to move forward, Gill Hicks drew from the experience of the other projects to significantly influence important governance, project design, and contract award decisions affecting the Alameda Corridor project (Hicks 2001).

The political management of the project was initially led by Mark Pisano as Executive Director of the Southern California Association of Governments, with the point person as Gill Hicks of SCAG staff. Pisano had considerable experience of over a decade working with the powerful elected officials in the cities, the six-county region, state legislators, and members of the United States Congress. The governing board of SCAG eventually totalled seventy members. Gill Hicks had an inclusive political management style that looked to develop consensus with the elected officials most directly affected, as well as with the communities and the ports. Hicks worked closely with the Los Angeles County Transportation Commission Task Force that included powerful commissioners whose support would be needed for moving forward.

As the primary beneficiaries of the success of the construction of the Alameda Corridor, the Port Commissions for the harbours and their oversight the City of Long Beach and the City of Los Angeles emerged as important political players. As significant contributors to each city's infrastructure and economic vitality, the harbour commission of each port had significant political importance. The essential shift that occurred in political management was the dominance of the cities and ports of Los Angeles and Long Beach representatives on the ACTA Board (Callahan 2007). The political management of the project was one of reducing the potential for the mid-corridor cities to add costs or slow down the project. The ACTA Board's political management carried through to the construction phase with the selection of Jim Hankla to replace Gill Hicks. Each step in the political management of the project can be seen as the cities of Los Angeles and Long Beach's elected officials and their designated representatives to the

completion of the rail line construction on time and on budget. The context of costs overruns for the transit infrastructure focused the political actors on protecting the Alameda Corridor projects from cost overages or unfunded costs. From the perspective of Mark Pisano, ACTA became a political success perceived as building needed regional infrastructure with significant costs carried by the private sector railroads.

## Tackling Challenges

The strategic challenge facing ACTA was always a race to reduce uncertainty on the problem definition, the infrastructure solution, funding, governance, the private sector, construction costs, and project completion. The biggest challenge was to reduce the significant ambiguity on the global goods movement which provided the future revenue stream. As the project progressed, the ACTA Board struggled with its profound lack of control and uncertainty over land, funding, and mid-corridor city support. All these problems were connected. Problems included not owning the right of way. Right of way acquisitions required funding. Private capital required ownership of project land, and public funding was not in place. The need for mitigation of construction impacts required funding and certitude over the location of lines to address the need for local mitigation. There was no certainty that the project could create the resources needed and sustain the cooperation essential for constructing one of the largest public works projects in the United States in the 1990s, eventually costing in the range of \$2.4 billion (United States Congress 2001: 5).

## Rights of Way

The privately held railroads—the Union Pacific Railroad, the Southern Pacific, and the Santa Fe—owned the right of way needed for construction of the Alameda Corridor project. Not only did they own the rights of way, but each also operated an active rail line shipping freight from the harbour in the same direction as the Alameda Corridor. The conflict over the purchase of the railroad-owned rights of way revolved around the value attached to the land. Assemblywoman Martha Escutia (1993) wrote, in a letter to the editor of the *LA Times*, after a joint legislative hearing that ‘railroad right of way valuation procedures and guidelines were highly subjective and indeed unfair to California taxpayers’. The critics of the purchase price argued that the railroads would continue using the right of way, that Southern Pacific had recently received nearly \$1 billion in public money for railroad rights of way purchased in other areas, and that loss of competitive advantage in owning the lines was overstated. The proponents for

purchase argued typically that the Alameda Corridor was, according to LA Harbor Commission President Ronald Lushing (1993) the 'foremost infrastructure improvement project in our state', with significant environmental and economic benefits.

The ACTA Board chose a negotiated settlement over applying eminent domain. The assembly member representing Long Beach in the legislature concluded that 'land seizure would only have resulted in a terribly expensive legal battle which would stall the Alameda Corridor project for years' (Karnette 1994). The Port Commissions led the negotiations as they were providing the funding for the purchase of the rights of way, excluding ACTA's board and general manager from the two years of negotiations (Goodwin 2001). The negotiations resulted in purchase of the 20 miles of rights of way from Southern Pacific for \$240 million. The ports also paid approximately \$75 million to Union Pacific Railroad and \$2 million to Santa Fe Railroad to complete the purchase of needed rights of way. The negotiation structured a cost sharing agreement on anticipated environmental clean-up, with Southern Pacific paying the first \$15 million, the ports the next \$10 million, and then sharing any additional expense (Kirkorian and Zamichow 1993).

The purchase of the right of way significantly reduced several sources of uncertainty. For construction, the ACTA Board gained control of the land for the entire length of the project. For operations, ACTA gained railroad customers committed to future use of the line for shipping containers from the ports. For future revenue, the railroads agreed to a negotiated charge per container shipped on the new rail line, providing a revenue stream for repayment of the debt service for construction of the project, with an escalation clause tied to the consumer price index (Goodwin 2001).

### A Tale of Many Cities: Complexity and Institutional Design

The institutional design of the Alameda Corridor project as a Joint Powers Agreement (JPA) was the seminal event for the Alameda Corridor project. The ports' staff drew upon earlier experience forming the Intermodal Containerized Task Force (ICTF) in 1986 which provided the exact language for the subsequent formation of ACTA with the exception of the initial representation on the governing board (Goodwin 2001). The key feature of the ACTA JPA involved structuring the legal document as an agreement between the City of Los Angeles and the City of Long Beach but also including the mid-corridor cities on the ACTA Board. This inclusion reflected the preference of SCAG leadership to include representation of small cities and the contemporary institutional design of the Los Angeles County Transportation Commission with four designated members from small cities.

On ACTA, representatives of the ports pushed for increased control at the expense of representatives of the mid-corridor cities. A precipitating event was when port representatives were frustrated over being out-voted by mid-corridor cities on the selection of firms for bond financing. After the meeting the port representatives asked their legal counsel to draft language for a seven-member board that excluded representation from the mid-corridor cities. This evolved into a formal amendment to the JPA agreement to allow the formation of a seven-member finance committee in 1995. The finance committee consisting of representatives of the cities and harbours of Los Angeles and Long Beach assumed all significant contractual and financial powers for ACTA. In effect, the fifteen-member board lost authority over all important decision-making to the finance committee, which would present the results of their 8:30 a.m. meeting to the full board later in the morning for ratification (Goodwin 2001).

The four mid-corridor cities without representation on the ACTA Board lost control over the impact of a very large below-grade railroad trench literally being dug through each of their jurisdictions. In legislative hearings on the Alameda Corridor, Assemblyman Carl Washington, whose district included mid-corridor cities affected by the proposed project, argued that 'in the final analysis, when this Alameda Corridor is completed, the burden of proof will be upon us as legislators that we allowed these type of people [the ACTA Board members] to come in and just put together a \$2 billion project that affects all our districts' (California State Legislature 1997: 91). At the same legislative hearing, Assemblywoman Escutia noted that 'there was a great mistrust between the cities and the ports' (California State Legislature 1997: 105).

The mid-corridor cities contested the ACTA Board action on two counts: the amendments to the JPA Board structure and the environmental impact statement. The extent to which the mid-corridor cities resisted, with the exception of Huntington Park (Hicks 2001), is reflected in the involvement of ACTA's legal counsel in the Senate and Assembly select committee joint hearing on the project. The Chief Counsel for ACTA Gerald Swan's testimony responded to the lawsuit by the mid-corridor cities of South Gate, Compton, Vernon, and Lynwood as well as three separate lawsuits by the City of Lynwood and another suit by the City of Alhambra on the environmental impact statement. Swan concluded his testimony with, 'I encourage members of the State Legislature and members of the committees that you have assembled to discourage litigation and to encourage all to work cooperatively to see that this important project is completed without disruption' (California State Legislature 1997: 108).

The appellate court ruled in favour of the cities and ports of Los Angeles and Long Beach on 10 October 1996 (Los Angeles City Council 1996). The court found that the JPA was an agreement between the cities of Los Angeles and Long Beach and that as long as any amendment was approved according to the legal requirements of the JPA, the amendments were legal. Control of the governance

of the project shifted entirely to the cities of Los Angeles and Long Beach. The JPA evolved from a fifteen-member Board in 1994 to a seven-member board in 1997.

However, the ACTA Board members still needed to address the mid-city concerns for very practical reasons. First, the lawsuits posed the potential for cost and delay, and according to Assemblywoman Martha Escutia, they were 'about leverage to get more mitigation' (California State Legislature 1997: 105). Escutia publicly stated the fear that mid-corridor cities would hold the project construction hostage to gain additional funding from ACTA: 'some other city council members felt well, gee, if they're going to screw over my community by putting in a trench, which frankly was approved by both city council members, I want some money for the action, you know' (California State Legislature 1997: 105). Digging a ten-mile, 33-foot deep trench through the six mid-corridor cities required construction all at once rather than in phases (Goodwin 2001) with prior approval of city permits for construction in their localities. ACTA needed to ensure the cooperation of the mid-corridor city governments or run the risk of delays in permits and introducing general uncertainty affecting the timely completion of the project.

The reconstituted Board shifted control over the project to those who were paying for the project: the cities and harbours of Long Beach and Los Angeles (Hicks 2001). The revised governance structure addressed the fundamental issues of financing. With the cargo fee revenue from the ports paying for the most significant portion of the project, the shift in governance allowed the appropriators to also be the expropriators. The governance of the project was in control of representatives of the ports and cities who were directly accountable for use of the ports' generated money. The amended JPA ensured that the only decision-makers for the expenditure of funds represented those entities paying for the project. The new governance structure provided the increased control and a reduced uncertainty that were important to the bond market.

### Adapting to Change

After approximately five years of successful operations, ACTA faced two significant changes forcing adaptation. First, the Great Recession of 2008 dramatically reduced the cargo flow to the port. Consequently, the revenue generated by the rail line declined significantly. Second, a new technology appeared in the late 2000s, transloading of containerized cargo shifting to trucks. Transloading moved specialized items locally, as opposed to container units moving items in bulk. This new technology reduced the number of containers shipped by rail from over 60 per cent to approximately 40 per cent of total harbour volume. As a result, rail revenue declined.

The combination of these two unforeseen events caused ACTA to lack sufficient funding for making bond repayment subsequent to 2008. In response, two adaptive features in the design of ACTA were called upon. First, the agreement with the rail companies called for any shortage of revenue to be made up for by the harbour commissions. For two years, each harbour commission contributed to a total of over \$10 million annually. Second, the ACTA Board voted to refinance the loan, moving debt service out to the future. The result created more total debt, but literally bought time for revenues to increase. The debt service (Alameda Corridor Transportation Authority 2018: 5) now totals over \$2 billion.

The deferral of debt service added significantly to the interest payments due, particularly the 2004B series line, with over \$100 million in additional interest payment due. Two competing views characterize the borrowings. A critical view compared the debt service to a 'Ponzi scheme' (Humphreville 2017), using the promise of future revenue to create unsustainable debt. Alternatively, there is the view that the time value of money lessens the impact of the debt and creates time for additional technologies to emerge that will increase the revenue on the rail corridor (Pisano 2018). As an operating entity, ACTA had little choice but to reschedule debt payments when the harbour commissions insisted that they would not meet revenue shortfalls until the economy and technology combined to increase cargo flow.

## **Assessing the Alameda Corridor Project**

### **Programmatic Assessment**

In the US arena of infrastructure construction, the Alameda Corridor has been held up as a model of project success (Callahan et al. 2010). Six features were notable in framing the project as initially successful: One, the on-time and on-budget completion contrasted significantly with the ongoing construction woes of the subway, including cost overruns, and Hollywood Boulevard sinking due to tunnelling. Two, a project definition emerged from an amorphous set of alternatives (Hicks 2013). Three, funding was developed as a public-private partnership, with the bulk of the debt borrowed against future revenue from a per container cost charge paid by the railroads. Four, the operation met revenue projects from the start in 2002 through the onset of the Great Recession in 2008, including repayment of the \$400 million federal loan. Five, the project provided localized improvements with reduction of traffic congestion at thirty-four grade-separated rail crossings, a Job Training and Development Program (ACTA 2000), and the Alameda Corridor Business Outreach Program assisted disadvantaged businesses in competing for contracts. Six, local environmental mitigation addressed the century-long accumulation of long-standing copper contamination of ground-water and leaching chromium.

## Process Assessment

The process for success began with an initial broad planning coalition with members from local, county, and state government. The regional, federally designated planning agency, the Southern California Association of Government (SCAG) facilitated an inclusive task force study process. The process identified the problem as a regional challenge in moving freight quickly from the harbours to support regional economic growth into the future. The process also developed consensus on a solution of consolidated rail lines, with benefits to the harbours and to the mid-corridor cities. The resulting governance structure as a Joint Powers Authority evolved from inclusive of all jurisdictions impacted by the construction to a narrow governance structure, including only those paying for the project. The process moved forward through negotiating detailed settlement agreements and memoranda of understanding (MOUs) between the revised governing JPA and each of the six corridor cities. The construction phase appeared successful with the shift from the planning orientation of Gill Hicks with the hiring of a new Executive Director who delivered an on-time and on-budget project. Initially, the operational process appeared successful with repayments of the federal loan and other debts as anticipated from the revenue on containers until the start of the 2008 recession. The design of ACTA also facilitated a process of addressing the loss of revenue after the recession and the shift to new transloading technology change caused failure to meet debt service.

## Political Assessment

The political actors' perceptions of the ACTA project hinged on three features: first, effective political oversight to avoid costly construction delays that exhausted available funding; second, careful management of financial risks to limit public spending; third, no political infighting between appointees and public agencies. The first two features characterized the project at the time of the line opening in 2002. However, the removal of the mid-corridor city representatives was a source of political infighting between public agencies and appointees where 'many public officials in the six cities along the corridor route—many with low income, minority populations and high unemployment rates—are concerned about the project's dispersed benefits but concentrated costs' (Erie et al. 1996: 5). The political success derived from deliberate sets of political actions that addressed the above items one and two for avoiding delays and use of private sector funding, as well as the mitigation of the third in the political embarrassment of removing the representatives of the small cities. The following three specific mechanisms facilitated political success:

1. Governing through a Joint Powers Authority (JPA) as the political decision-making board.
2. Authorizing use of the purchasing clause in the Los Angeles City Charter as a legal basis for issuing a combined design/build contract for construction.
3. Funding of approximately one million dollars to each of the city councils for benefits or mitigations along with permit fees.

### Endurance Assessment

The challenge for ACTA has been to sustain its initial level of success. The project's construction success endured: increased cargo freight speed through consolidated rail lines, street traffic grade separation reducing congestion and air particulate pollution, and continued private sector operational oversight and payment per cargo container. However, the financial performance of the operations has prompted a reassessment of the success. The June 2018 assessment by S&P Global Ratings (2018) on the debt of ACTA now describes the project as viable with financial concerns for debt service problems. With over thirty years of professional connection to the project, Pisano (2018) concludes that the primary lessons learned for future long-term infrastructure projects are the need to account for both a potential change in the macro-economic environment and the potential for introduction of new technologies. Pisano draws on the concurrent impact on ACTA of the Great Recession of 2008 reducing revenue for debt service repayment and the introduction in logistics of transloading from the cargo container for trains to truck containers that reduced the project rail cargo volume from a projected 70 per cent to an actual 42 per cent of total volume. As a result, in fifteen years of rail operations the initial assessment as a success focused on construction and initial repayment has shifted to a focus on the reduction of rail cargo volume with a less than successful financial performance. However, the project continues with the development of new technologies and changing global economies offering the potential for a future reassessment (see Table 9.1).

### **Towards Sustained Success in Infrastructure Governance: Learning from ACTA**

The Alameda Corridor project combines the political complexity of regional projects with the risks inherent in large-scale construction, and uncertainty in thirty-year revenue projections. Though the rail corridor was an apparently uncomplicated idea, the challenges to governance and construction took over a decade to solve. ACTA's success was that unlike most rail transit projects (Berechman 2018), the construction was on time and on budget, without cost overruns, and initially

**Table 9.1** Policy success assessment map applied to the Alameda Corridor

<i>Policy Success Assessment</i>	<i>ACTA Development 1989</i>	<i>ACTA Implementation 2002</i>	<i>ACTA Endurance 2018</i>
<i>Programmatic assessment: Purposeful and valued action</i>	Addressed the contextual constraint of lack of funding through costs charged each cargo container shipped. Grade separation to benefit communities and rail track consolidation to speed goods movement	Built \$2.4 billion, 20-mile rail cargo project with private sector beneficiaries paying for the new project	After Great Recession and technology change caused loss of reputation with failure to meet debt service, unrealized usage estimates, and shift to new transloading technology
<i>Process assessment: Thoughtful and fair policymaking practices</i>	Initially a broad, inclusive planning coalition broad in local, county, and state government. Reflected the inclusive values, non-hierarchical approach and deliberative process of SCAG	Governance coalition narrowed, including only those paying for project. Institutional evolution of appropriators controlling expenditures. Developed a mix of policy instruments—private funding federal loan, local funding for planning, and state funding	Process for addressing change has been problematic—deferred debt payment to avoid charging harbours
<i>Political assessment: Stakeholder and public legitimacy for the policy</i>	Legitimacy seen by full range of participants with benefits through reduced air pollution, reduced traffic congestion in six cities, job programme for training and hiring during construction, cleaned groundwater contamination, increased speed of cargo	In operating phase, enhanced reputation of SCAG, ACTA and ports due to repayment success of federal loan, and on-target usage estimates. Provided funds and jobs to six mid-corridor cities	Governance structure has endured through challenges, viewed as resilient in addressing unforeseeable economic downturn and logistic technology change of transloading

accurate forecasts for demand. And unlike typical rail cargo lines, this public benefit project was design-built by a public sector agency for multiple public purposes. A variety of connected problems impeded the realization of the project. The ACTA governance structure evolved to address performance issues.

## Endurance of Success

The sustainability of this project draws on the adaptability and responsiveness to the project demands by the governance board. ACTA's changes in governance structure allowed development of financial resources to mitigate political conflict. The evolution towards increasing political control by the major beneficiaries and funding sources of the project provided resource allocation opportunities. The port city representatives worked to gain control of the governance structure. In excluding the mid-corridor cities, the representatives of the ports sought to gain control of the problem of opportunism. Rather than address various demands of the mid-corridor cities as voting issues before the ACTA Board, the removal of these cities allowed the Board to negotiate more durable agreements with each city. These agreements were adapted to specific local needs of each city and retained the autonomy of the ACTA Board.

The fiscal sustainability of the debt service moving forward remains an ongoing question. The basic equation is the following: Will revenue increase quickly enough to repay debt? The revenue question is contingent on not only continued growth in global trade, but on finding an alternative technology to address transloading. There are potential technologies in development that could increase utilization of the rail lines or movement of goods within the harbour (Pisano 2018). The temporal analysis applied to the first twenty years of the project suggests the potential that subsequent temporal analysis might find changes in the future finances.

## Can the ACA Experience Travel?

As a great policy success three features stand out for the ACTA programme, process and politics. First, the programme defined a project, secured public and private sector funding, and completed construction. Second, the process developed an initial consensus across multiple political jurisdictions. Third, the politics between large cities and small cities that threatened to derail the project were addressed through a series of negotiated agreements. But the success was not untroubled when considered across an extended time frame. ACTA designed the first fifteen years of success in project agreement, on-time construction, and initial operation repaying the debt service. However, the long-term nature of the infrastructure programme extended the time frame for changes in the economics and technology. The introduction of a new logistics technology coupled with the Great Recession shifted the financial ledger for ACTA at this moment in time. Analysis of the programme, process, and politics over an extended period of time shows an adaptive quality to the financial challenges through extending the

debt service time frame. The resiliency in ACTA suggests the potential for new cargo movement technology to emerge that would increase utilization of the rail lines. Increased usage can again turn around the revenue stream. The ACTA case suggests that policy success, once initially achieved, can never be taken for granted. Economic, technological, and other sources of change require constant monitoring, reassessment, and adaptation.

For ACTA as an infrastructure project, the compelling local need coupled with regional benefit suggests a confluence of circumstances that would be particularly specific to geography. The success of ACTA built on SCAG's institutional dynamics in facilitating regional solutions, with the mechanism of approving proposals for federal transportation funding. Similarly, the leadership skills of individuals such as Mark Pisano and Gill Hicks advanced the project over the course of the first decade. However, the institutional design of ACTA, and the institutional context of SCAG are not necessarily constrained to southern California. There are metropolitan planning organizations for each region of the United States. And the evolution of ACTA over time suggests three potential leverage points for transferability.

One, the combination of public funds leveraging private investment offers the most promise as a lesson that can be transferred to future infrastructure programmes. In eras of reduced availability of public funding in the United States for infrastructure projects, coupled with a reluctance to increase taxes, the use of private funding for projects that provide a public benefit is seen as an important way forward. The initial efforts with toll roads built by the private sector has had mixed results. However, the basic formula of investment of limited amounts of public sector dollars as a catalyst for study and design of future infrastructure programmes continues to be explored in public sector legislation.

Two, the most robust feature of the ACTA case with lessons for future projects is how ACTA solved the accountability problem by having the appropriators have total authority over expropriators. This ensured credible commitment. Differing from the other regional agencies—LACTC, RTD, and MTA—for ACTA the consequences of over-expenditure on any one aspect of the project would be the responsibility of the beneficiaries of the project. In projects other than ACTA, over-expenditures or delays on any project did not threaten the completion of the project or the direct beneficiaries of that project. Instead, delays in the MTA construction reduced available funding for other rail transit that would benefit a different set of actors. The evolution of ACTA solved the credible commitment problems that plagued the other rail construction projects.

Three, political control should focus on reducing uncertainty in a project. Bond buyers either flee from uncertainty or charge a higher premium for borrowing. The port representatives on the ACTA Board and senior staff recognized the fiscal costs of uncertainty, and by achieving governance control, they reduced it. Paradoxically, reducing the uncertainty over construction through the

mid-corridor cities took the form of partnerships. Addressing local opposition acknowledged that regional projects are inescapably an aggregation of agreements with local governments. Securing the cooperation of the opposing mid-corridor cities through detailed legal agreements and payments resulted in the local cities and residents achieving improvements in their municipal infrastructure, reduced traffic congestion, environmental improvements, and increased potential for economic development.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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# 10

## ‘Marvellous Melbourne’

### Making the World’s Most Liveable City

*Emma Blomkamp and Jenny M. Lewis*

#### **The Rise, Fall, and Return of Marvellous Melbourne**

During the 1880s, the term ‘Marvellous Melbourne’ was coined to capture a booming city that its inhabitants (known as Melburnians) were extremely proud of. At around half a million people, it was larger than many European cities at the time, despite its location on the other side of the world—in the south-east of Australia. Money was poured into building lavishly decorated banks, hotels, and coffee palaces (temperance hotels which refused to serve alcohol). The Royal Exhibition Building was built for the 1880 Melbourne International Exhibition. This was, and happily remains, a building on a grand scale, epitomizing the wealth, opulence, excitement, energy, and spirit of Marvellous Melbourne (Museums Victoria 2018).

Of course, the good times did not last—the early 1890s saw the inevitable bust that followed the boom of speculation. While Melbourne developers had built some stunning and multi-level buildings in the city for non-residential purposes, housing was built outside the centre, laying the footprints for an expansive set of suburbs. The city of Melbourne as it exists today began from earlier and much less salubrious beginnings. The settlement was illegal in the eyes of the British-backed governor based in Sydney, and, as was the case across the landmass being colonized by Britain, it notoriously involved the dispossession of the indigenous inhabitants of the area through deception and worse (Campbell 1987; Presland 1994). The gold rush of the mid-nineteenth century laid the foundations for many remaining landmark buildings and streetscapes (Museums Victoria n.d.). But it is the 1880s, more than any other period, that continues to define Melbourne’s shape and mentality. It bequeathed the city a set of ‘good bones’ but also created a raft of future planning challenges that came to a head a century later in the 1980s. A determined set of changes introduced over a long period of time were required to address these.

Our heartfelt thanks to Benjamin Maltby for his excellent and thorough historical research assistance on this chapter.

These policy changes, amounting to a tale of governance rather than a single dramatic policy, are mapped out in this chapter as a success story. By the 1980s Melbourne was in decline with major industrial difficulties and economic stagnation. Yet, in 1990, it was named alongside Seattle and Montreal as one of the world's most liveable cities (Department of Planning and Development et al. 1994: 23). This position has been maintained in various rankings up until the present day. Such rankings are fraught with definitional and simplification issues. But Melbourne has appeared at or close to the top of several of these—seven years at the top of *The Economist's* (e.g. Economist Intelligence Unit 2017) Global Liveability Ranking, and in 2018, top of *Time Out's* 'happiest cities', and fourth on its list of 'most exciting cities' (Manning 2018)—indicating that it is a desirable place to live and visit for many.

The transformation of Melbourne back to a city that can be considered marvellous in terms of its desirability as a place to live, work, and play, has been underpinned by a set of interacting state and city government policy moves. Hence, the success explored in this chapter is not one of a single policy, but one of governance change, involving two governments at different levels whose choices and their effects on each other produced benefits. In summary, as elaborated more fully below, there has been a high degree of programmatic, process, and political success, which has been maintained over time. There are, not surprisingly, winners and losers in this tale of urban revitalization. Melbourne's transformation has benefited property developers and those who can afford to visit and live in the city, at the expense of the less wealthy, including some of the artists and activists who actually helped to change it. There has nonetheless been a substantial level of convergence in perceptions of the value proposition of the new governance arrangements, and a conferring of legitimacy on the political system because of the success of Melbourne as a liveable city.

### **Marvellous Melbourne as a Governance Success**

Making Melbourne one of the world's most liveable cities meets this book's criteria of policy success as it created widely valued social outcomes, through policy design, decision-making, and delivery that have enhanced problem-solving capacity and political legitimacy. This programmatic, political, and process success has been sustained for a considerable period of time, with a broad coalition of actors and initiatives uniting to make Melbourne more liveable. The city and state governments continue to focus their urban policies on 'liveability', indicating the ongoing strength of this policy frame and powerful influence of international indicators.

First, in terms of programmatic success, state governments in the 1980s undertook a set of purposeful and valued actions to fundamentally remove planning and

development powers from the municipal level and the Melbourne Metropolitan Board of Works (MMBW—a statutory planning authority) and move them to the state. Both levels of government were interested in transforming the Central Business District (CBD), from a place that was only for working into a more inviting place outside of business hours. Hugely important to this was the reform of liquor licensing laws, which enabled many new cafés and restaurants to open and serve alcohol, and a focus on retail development and revitalization projects. These important first steps were foreshadowed and followed by a consistent approach to urban planning by the city government, tilted towards liveability and a people-centric approach.

The relationship with the incumbent state government throughout this has experienced several vicissitudes that make the overall consistency remarkable. The achievement of liveability as a major goal can be measured by Melbourne's place in the world rankings, but also by the ongoing growth of the city and continuing demand for inner city housing as the centre has become a desirable place to live. Clearly, these changes have brought benefits to many, but not to everyone, with poorer inhabitants being squeezed out of previously cheap accommodation and those who cannot afford to live in the city or in the inner suburbs facing long commutes from dormitory suburbs on the fringes of the urban sprawl. Critics also claim that it is developers rather than citizens who have benefited most from Melbourne's apartment building bonanza.

Second, in regard to the process, a careful choice of policy instruments was made and wielded by the state government in terms of 'hard' instruments. These included transferring planning powers to the state government and reforming laws (John Cain's Labor government), and major amalgamations of municipalities and the replacement of elected councillors with state government appointed commissioners (Jeff Kennett's conservative government) while elections were held for the new, much larger municipal governments. In the case of the city government, the reliance was (given reduced planning powers, limited resources, and political turmoil due to amalgamation, probably not surprisingly) on 'soft' instruments—strategy documents, long-term plans for the city, 'Postcode 3000' (described below), and a series of 'Places for People' strategies. Through the development of these policy instruments emerged a new shared understanding of the role and responsibility of the city government—as guardian and architect of public spaces—and a consistent emphasis on good urban design.

There was serious public disgruntlement over the state government's increased powers but it yielded the opportunity for major projects (Docklands, Southbank, the tennis centre, Crown casino) and many new apartment buildings to be approved more easily. The decision-making process was firm but not popular at the beginning—only once the benefits of a revitalized city became apparent did the changes come to be seen as correct and beneficial. The delivery process achieved the intended outcomes effectively. The combination of instruments used by the

governments at different levels meant that there was broader planning being directed from above which removed this more politically contentious aspect from the city government (and the MMBW), leading them to focus on liveability. The importance of having the same staff member leading urban design for the city since 1983 (Rob Adams—still in post) and his experience and sustained vision over such a long time appear to have been crucial. He clearly is an adept political strategist himself who can deal with the craft of policy. There is likely a bigger story here about how the administrative side of the city government has had substantial continuity, while the political side has twice been removed and replaced, and the city boundaries and governance changed substantially with council amalgamations in the 1990s.

Third, this is a fascinating case in regard to politics and public legitimacy. The reformist Cain (Labor) government (1982–90) made some bold policy moves throughout the 1980s. It was prepared to weather short-term unhappiness in the hope that the longer-term gains from city development and revitalization, and the attraction of major events to Melbourne, would win people over eventually. Similarly, the Kennett (Liberal) government (1992–9) was willing to suffer short-term unhappiness from the electorate with municipal government amalgamations in 1993, changes to Melbourne's boundaries in 1995, a reduction to the number of city government politicians, and the introduction of a longer mayoral term. The state government has the more contentious role in relation to planning, and doubts about the wisdom of continuing to build so many high-rise apartments in the city centre continue to this day. But the major events and many of the revitalization projects that began in the 1980s have provided the state government with revenue, as well as political capital and organizational reputation.

While these state government moves were in train, the city government—and in particular its administrative arm—was meanwhile establishing its vision of a liveable city. The new planning arrangements and community activists (some of whom were later elected as local politicians) encouraged them to focus on the social and cultural dimensions of the city. While the changes to municipal government initially created conflicts with a range of community and business groups (Gardner and Clark 1998: 137), these tensions were reduced by a strategy plan in 1985, which clearly delineated state and city government responsibilities for different domains. Throughout the development of the 1985 Strategy Plan, the City of Melbourne brought different stakeholders together to work on revitalizing the city (Ord 2018). Local individuals and groups, and the City itself, were not always included in state government-led initiatives, however. Initially unpopular developments, such as Docklands, demonstrate the consequences of top-down planning that fails to recognize existing community assets and aspirations (Gehl 2018). The political capital and organizational reputation of the city government has been enhanced by the obvious changes and vibrancy of the city, backed up by being ranked highly on liveability scales.

In summary, we argue that this is a success story first and foremost because of its 'programmatic' outcomes. Melbourne has been transformed into a world-class liveable city and has become marvellous again. This success has been achieved through an interacting set of state and city government policy choices. The state adopted a set of 'hard' instruments that limited the city's capacities. The city adopted 'soft' strategies within its more limited scope, but also decided to do things differently. The persistence of a committed and astute urban designer in the city government, whose 'people-centric' vision for Melbourne has not wavered in more than thirty years, has been important. The early pain of change has now given way to broad support for the directions taken. But the benefits and costs have not been distributed equally. Some are concerned that the planning laws allow too many new skyscrapers to be built, and that the city is growing in population too rapidly for the infrastructure to cope. There are also losers amongst the less wealthy, who cannot afford to live in the world's most liveable city.

### **Contexts, Challenges, and Agents of Urban Transformation**

Paradoxically, what has made Melbourne so liveable is both how 'unliveable' it used to be and the state's removal of the municipal government and the MMBW's planning powers. The industrial decline of the 1980s and established preferences for suburban living and car-centric city design, along with the weak financial position of the city government, led to dramatic changes at many levels, against a backdrop of broader socio-cultural and governmental shifts. The main challenge for both state and local governments over this period was in facilitating economic and cultural revitalization to transform Melbourne into a city where people wanted to live, work, and play. Playing a key role in the new governance arrangements were the Cain and Kennett state governments. Though from opposite ends of the political spectrum both took a bold, reformist approach to urban planning, which was supported and enacted by the City of Melbourne, where Rob Adams has had a strong influence as Director of Urban Design (and similar roles) extending from 1983 until the present.

In stark contrast to the opulence and vibrancy of 'Marvellous Melbourne' a century earlier, by the 1980s the city was widely considered an urban backwater. Residential and retail activity had largely shifted to the suburbs, the streets were dominated by cars and noisy trams, and many heritage buildings were threatened with demolition or had already been replaced by Modernist high-rises (Dovey and Jones 2018: 9). In 1983, there were fewer than 800 houses and no supermarkets in the CBD (Neilson 2013). Danish architect Jan Gehl (2018: 21) writes of his first impressions of Melbourne in the late 1970s:

The city was indeed boring and suffered quite a bit from the double impact of Modernist planning and automobile invasion. Going to the city centre in the evening was not a great experience at all. It was deserted. A few service people

attended to the many high-rise office buildings, but otherwise it was a quiet scene. It was even worse on the weekend—the city centre was as if neutron-bombed.

By the early 2000s, however, the city had been brought back to life. Gehl, who returned to Melbourne in 2004 to document the changes that had occurred in the central city since his first 'Places for People' study was conducted there in 1994, summarizes the improvements as follows:

a much larger residential community in the city centre; an increasing student population; improved streets for public life; new public squares, promenades and parks; a revitalised network of lanes and arcades; several city-wide art programs; more places to sit and pause; more attractions; a 24-hour city; better cycle and public transport access; and integrated policy for paving and furniture; and a greener city. (Gehl 2018: 23)

The transformation of Melbourne from a 'doughnut city' that was dead in the middle to what it is now has taken decades of steadfast commitment and incremental change, orchestrated by a number of dedicated individuals and government structures that have encouraged collaboration between the state and city governments, with significant input from other major stakeholders.

The unique status of local government as a 'creature of the state' (Aulich 2005) within Australia's federal system of government helps to explain how the scene was set for new governance arrangements to be created. As elsewhere in Australia, local government in the State of Victoria is subject to the *ultra vires* principle, where it is restricted to those functions explicitly granted to it by higher levels of government. While the role of Australian local government has evolved over time (Dollery et al. 2006: 555–6), its limited authority is common to the 'Anglo' group, one of three broad models in Hesse and Sharpe's typology of local government systems found in Western industrialized countries (Cheyne 2008). The Minister for Local Government in each jurisdiction retains the authority to dismiss democratically elected local politicians if they consider a municipality is not well managed. Indeed, Melbourne's dysfunctional city government was sacked by the Liberal State Government on Christmas Eve in 1980 (and again in 1993, as part of broader local government reforms) and replaced by commissioners (see Table 10.1). Melbourne illustrates the trend of Australian city governments that have 'been regularly dissolved, usually when state governments have pursued strong pro-development agendas' (Freestone 2010: 40).

An important part of this governance story is that, while the city government was democratically elected again in 1982, the new Labor State Government removed its planning powers. The authority to approve all major planning applications within central Melbourne was delegated to planning minister (and former architect) Evan Walker, and the Victorian State Government still retains these planning powers. The government's effort to streamline planning approvals and make the city more attractive for developers resulted in wait times on

**Table 10.1** Key changes and elections in Melbourne City and Victorian State governments, 1981–2001

Victorian State Government	Year	Melbourne City Council
Rupert Hamer's Liberal government in power since 1972. Lindsay Thompson becomes Premier after Hamer's resignation.	1981	MCC sacked by Hamer government and replaced by Commissioners.
John Cain's Labor government elected. Removes city government's planning powers and delegates authority for city planning to planning minister Evan Walker.	1982	MCC reinstated with reduced number (21) of councillors, majority of whom are Labor Party members/supporters.
Amendment 150 to the Melbourne Metropolitan Planning Scheme introduces 'new zones and controls'.	1983	MCC begins its review of the 1974 MCC Strategy Plan. Rob Adams employed as consultant.
'Central Melbourne, Framework for the Future' released.	1984	
John Cain re-elected. Centralization of planning power in the Cain Labor government.	1985–6	'City of Melbourne Strategy Plan' released.
Cain government releases 'Shaping Melbourne's Future'.	1987	First female Lord Mayor (Alexis Ord).
John Cain re-elected. Nieuwenhuysen reforms liberalized liquor licensing laws.	1988–9	
Joan Kirner replaces John Cain as Premier.	1990–1	Elizabeth Proust takes over as the MCC CEO.
Jeff Kennett's Liberal government elected. Planning policy at a State level reduces dramatically.	1992	Directions: 1992–1995 reviews the 1985 Strategy Plan. Postcode 3000 policy introduced.
<i>Local Government (General Amendment) Act 1993</i> reduces city governments in Victoria from 210 to 78, and <i>City of Melbourne Act</i> removes local politicians and restructures MCC boundaries.	1993–5	MCC sacked by the Kennett government and replaced with four commissioners (as part of the <i>City of Melbourne Act</i> ). Large electoral reforms implemented within the MCC.
Jeff Kennett re-elected.	1996–8	MCC fully reinstated
Steve Bracks' Labor government elected. New 'City of Melbourne Act' reforms MCC structure and voting.	1999–2001	MCC dismissed, to prepare for the Bracks government's new 'City of Melbourne' Act (to be introduced in 2001).

Note: White: Liberal (conservative); Dark grey: Labor; Light grey: Commissioners (appointed).

development applications being slashed around five-fold (Ministry of Planning and Environment 1984: 19). The same government also increased its infrastructure spending from 1982 onwards, and drew upon public-private partnerships, aiming to 'maintain the primacy of (and property values in) the CBD', in the context of a worsening economic recession (McLoughlin 1992: 232; Freestone 2010: 38). In 1984, it released its planning policy manifesto 'Framework for the Future', which was primarily designed as an economic strategy (Ministry of Planning and Environment 1984: 4). In 1985, planning power was further centralized in the state government when the Ministry for Planning and Environment subsumed the old MMBW's planning powers. In 1988, it liberalized liquor licensing laws, enabling many new restaurants and opening the streets for al fresco dining (Zajdow 2011).

In the meantime, the city government focused its efforts on management reforms and strategic planning processes. Building on its (never implemented) strategic plan from 1974, the City of Melbourne Strategy Plan 1985 was developed as an intervention to rehabilitate and stimulate the city following more than a decade of policy neglect (Melbourne City Council 1992). As discussed in more detail in the next section, its development was guided by a steering committee which led to a shared understanding and ownership of urban design strategies, and the deliberate recruitment of consultants and experienced staff who shared their vision and values (Ord 2018: 39–40).

The 1985 Strategy Plan was strongly influenced by the community activists who had formed 'Melbourne Voters' Action' (MVA), a coalition of inner-city residents' groups, in response to the conservative (Hamer) government's dismissal of the democratically elected city government (Ord 2018: 38). Led by social and environmental planners and activists, many of whom were members of the local Labor Party and who had contributed to the community consultation on the popular 1974 Strategy Plan, MVA monitored the commissioners appointed to run the city. They also lobbied the opposition Labor Party to reinstate the city government and institute fixed three-year terms if elected (Ord 2018: 37–8). When this happened and Melbourne's city government was reconstituted in 1982, many of the young activists from MVA were elected as local politicians (Neilson 2013; Ord 2018). Recognizing economic and demographic changes in the city, the new city government extensively reworked the 1974 Strategy Plan to produce a comprehensive, detailed policy document that outlines goals and strategies for transforming Melbourne. The 1985 Plan clearly articulates the different roles of state and local government in developing the city, which helped to resolve tensions between them, both of whom had been working to articulate different 'visions' for the city (Gardner and Clark 1998: 137–8).

Along with local activists-cum-politicians who spearheaded MVA, a key figure in the City's strategic planning process and wider liveability movement was—and still is—Rob Adams. Employed as part of the consultancy team designing the 1985 Strategy Plan, he was soon appointed to the City of Melbourne's executive and has

remained there ever since, currently as Director of City Design and Projects. He appears at multiple points in this story, and his longevity and commitment to making Melbourne a place where people want to spend time constitute a crucial strand of the liveability focus that has been developed.

At the start of the 1990s, the City began comprehensive internal management reforms, aimed at making decision-making processes within its executive more streamlined, consensual, and efficient. Reflecting the broader New Public Management (NPM) reforms sweeping through Australian local government at the time (Aulich 2005), in Melbourne this change was led by Elizabeth Proust, who arrived as the CEO in early 1990, followed by her successor Andy Friend. Central to this reform was an attempt to combat an entrenched 'vertical' management structure within the council, which had siloed responsibility for different policy areas into different departments that rarely communicated effectively with one another. Under the new structure, three corporate managers who held multiple portfolios reported to the City's CEO, creating a 'team approach to management, which not only broke down barriers but also provided very clear leadership within the organisation' (Gardner and Clark 1998: 139). This new structure supported the earlier efforts of elected members to create a more unified and productive organization through the selective recruitment of executive officers and collaborative planning processes focused on urban design and social inclusion priorities (Ord 2018). The more consistent and efficient practices in the administrative branch were complemented and enabled by the state reforms that reduced the frequency of local elections, after the destabilizing previous arrangements whereby one-third of all councillors and the mayor were elected each year, which had resulted in decisions being regularly overturned and the newspapers dubbing the City, 'Clown Hall' (Ord 2018: 37; Adams and Dovey 2018: 205).

The transformation of municipal management under the compulsory competitive tendering era, ushered in by Kennett's neoliberal government, saw services increasingly provided by external contractors (McKeown and Lindorff 2011). This has resulted in consultants having a significant influence on urban design and local government policies throughout Australia (Stevenson 2000: 112). Insider accounts of Melbourne city planning highlight the important role that (international) consultants played in both the development of the 1974 and 1985 Strategy Plans (Ord 2018: 36, 39) and in demonstrating the significance of pedestrianization and public seating in how people behave in the city (Gehl 2018: 22; see also Jones 2018: 103). The City of Melbourne's heightened appreciation of urban design reflects international trends in shifting from cities for cars to cities for people.

Around the world, city governments have turned to 'soft' policy domains such as arts and culture in their quest to improve quality of life and compete as 'creative cities', especially through urban regeneration (Blomkamp 2014). The 'Places for

People' urban design framework adopted both in Melbourne City and at the national level in Australia (Gehl 2010; Department of Infrastructure and Transport 2011) represents a more human-centred and holistic approach to urban planning, influenced by transnational flows of consultants and the powerful 'creative city script' (Grodach and Silver 2013: 9–10; see also Landry 2000; Florida 2005). The 'creative city' concept is alleged to have been formulated in Melbourne in the 1980s, before anywhere else in the world (Yencken 2018: 73). Growing concerns about environmental sustainability and the ideas of urban activist Jane Jacobs (1961) have also been important international influences in Melbourne. They informed the 'grassroots approach to town planning' and the desire 'to create networks of walkable communities' that took root in the 1970s and spread through subsequent city plans and policies, such as its 1985 pedestrian strategy (Adams and Dovey 2018: 202–3; Jones 2018: 100; Ord 2018: 37). These trends have been reinforced by global rankings that provide external validation of the City's focus on quality of life.

Unsurprisingly, the development of Melbourne as a city has thus been influenced by global trends and events. Along with those already discussed, immigration and related policies have significantly shaped the vibrant culture of Melbourne. The traditional owners of the land, the people of the Kulin nation, were largely displaced by early settlers from England, Ireland, and Scotland. Following the gold rushes of the 1850s, Melbourne became home to a diverse range of ethnicities during 'the land boom of the 1880s' (and the rise of the Marvellous Melbourne label) and later through post-war migration in the mid-twentieth century (Damousi 2008). Although British immigrants continued to constitute a majority, 'non-English-speaking groups clustered in the inner city' from the beginning of the twentieth century (Damousi 2008).

National policymaking has also had an influence on the demographic make-up of Melbourne. Increased ethnic diversity, particularly in the form of refugees and migrants from Asia, followed the dismantling of the 'White Australia' policy and a turn to multiculturalism in all levels of politics. More recent influences on the transformation of central Melbourne that were outside the city or state government's control include the deregulation of higher education and subsequent increase of international fee-paying students, along with foreign investment from Hong Kong (in anticipation of unification with China), especially in residential towers in Southbank (Ord 2018: 41). The City of Melbourne has relished this increasing cultural diversity, epitomized in the resulting proliferation of festivals and restaurants with cuisine from many different cultural traditions. Thus, while the city and state government can lay claim to enabling some impressive changes in central Melbourne, their policies have been shaped, constrained, and complemented by a range of national and international contextual factors.

## Designing and Delivering a Liveable City

Despite—or perhaps even because of—its relatively limited role in planning following the changes described above, the city government proactively and constructively worked with the state government to improve ‘liveability’ in Melbourne. The new governance arrangements involved collaboration, negotiation, and compromise between the state and city governments, and significant and vocal non-government organizations. A sample of specific policy design processes are explored here to illustrate the different roles and approaches taken by these governmental actors.

The major strategic plans developed by the City of Melbourne between the mid-1970s and mid-1990s focused on making Melbourne a nicer place to live and visit, especially by improving public amenities and promoting residential development. The 1985 City of Melbourne Strategy Plan sits at the heart of the relatively consistent approach to urban planning policy taken by the local government despite the wide array of challenges and changes it faced. Based on the 1974 Strategy Plan, the newly reinstated city government developed the 1985 Strategy Plan over three years in the early 1980s. Their successors further extended and updated this policy with *Directions 1992–1995* (Melbourne City Council 1992).

A guiding principle of the 1985 plan was ‘full citizen engagement in the exercise such that at its conclusion there would be real citizen ownership of its recommendations’ (Huggard, cited by Yencken 2018: 77). Building on the city’s assets and ‘local character’, it aimed for incremental changes rather than ‘grand schemes’ (Adams and Dovey 2018: 204, 230). The plan explicitly sought to attract people ‘to live, work, shop, and enjoy their leisure in the city’ (Melbourne City Council 1985: 15). It deliberately redefined the CBD as the ‘CAD’—central *activities* district—emphasizing the ‘entertainment, government, civic and cultural activities’ taking place alongside business in the city (Jones 2018: 128). Lecki Ord, a member of MVA who became Melbourne’s first female mayor in 1987, emphasizes the social dimensions of both the policy process and content:

There was a focus on opportunities for social interaction with the full spectrum of society, and self-expression in cultural and recreational activities. The city’s programs and works over succeeding years were driven by the *Strategy Plan*’s aims that the city should emerge from the engagement of citizens in decisions that vitally affect their lives, and that it should symbolise the values and achievements of the larger Melbourne community. The extent to which Melbourne today is one of the world’s most liveable cities is in no small way a result of informed and organised citizen engagement in its planning. (Ord 2018: 41)

The 1985 plan was distinctive at the time for taking a detailed, ‘goal achievement’ approach, aiming to counter the trends of population decline and economic productivity losses. It specified detailed objectives in each of the key areas it

focused on—the city's economy; commercial and industrial development; population and housing; community services; 'movement systems' (such as transport); tourism and leisure; and the 'physical environment'—setting measurable goals for improvement in each area. Recognizing the limited scope and resources of the city government, the goals were designed to be achievable over time and 'on very low budgets' (Adams and Dovey 2018: 204). The plan's development involved extensive research and consultation with the local community, taking into account data on traffic flows, pedestrian movement, space utilization, analysis of prior policy, and input from consultants (Melbourne City Council 1985).

The incorporation of different forms of evidence and ideas, and contributions through expert and community consultation contributed to building legitimacy, increasing the policy's chances of success. The City's own review of its 1985 plan concluded that two thirds of the policies set out in the original plan 'have been completed or are ongoing' (Melbourne City Council 1990: 10). The subsequent 'update' advocated slowing the pace of development, and refining it, with the goal of making Melbourne an inclusive, artistic city, not just a busy, business-focused one (Melbourne City Council 1992). New for the 1992 report was an outline of actions to be undertaken either by the Victorian State Government, or jointly by state and city governments.

The City of Melbourne was thus ahead of its time, implementing strategic planning and reporting regimes that were to be mandated through NPM reforms applied to local government in Australian states from the late 1980s to early 2000s. It followed the City of Sydney, whose 1971 Strategic Plan exemplified the 'new wave of progressive strategic city plans . . . experimenting with innovative methodologies and new-look emphases on urban design and environmental management' (Freestone 2010: 35). New provisions later set forth in state legislation were accordingly designed to make local authorities more accountable and more responsive to community wishes, notably through mechanisms such as strategic planning and performance statements, as well as sometimes broadening the scope of local government activity (Aulich 2009).

Throughout the 1980s and beyond, the city government actively incorporated and promoted pedestrianization as a key plank in liveability. As understood by the City of Melbourne and articulated in the 'Places for People' reports, 'liveability' is about how people experience the city, especially public space. In 1993, Adams, as the City's Urban Design Manager, brought Gehl to Melbourne to conduct a large-scale planning and social study of the city. Gehl's subsequent 'Places for People' report studies the people of Melbourne and how they use their city, specifying for instance how long people spend walking between spaces and remaining in each space. Explicitly focusing on making the city more 'liveable', it suggests improving pedestrian links around the city, and creating more functional and amenable 'gathering spaces' (City of Melbourne and Gehl 1994: 13–14).

The report ends by recommending two sets of goals: a series of numerical targets for pedestrian movement and space utilization, as well as amenity development (for example, ‘number of outdoor café seats’), to meet by 2001; and two pages of specific recommendations on how these goals might be achieved (City of Melbourne and Gehl 1994: 41–3). Its establishment of clear benchmarks for measuring the city’s development was somewhat unusual in the context of local government planning in Australia at the time. Along with its emphasis on ‘people-centric’ design, resembling the language of the 1985 Strategy Plan, this likely reflects the influence of Rob Adams and team over both documents. It also illustrates a more grounded approach to measurement that ultimately drives city planning, in contrast to the external validation offered by international indices of liveability.

The State Government also emphasized good urban design as it developed and released its own plans for central Melbourne during this period, although it focused more on economic development. Appointed as head of the Ministry of Planning and Environment for the Cain Labor government, David Yencken (2018: 73) defines ‘high-quality urban design’ as making the public realm ‘as attractive to as many people as possible, to ensure that people find pleasure in public spaces and that the spaces in turn attract supportive activities’. Ten years later, the importance of ‘good urban design’, defined as ‘visual meaning, functional efficiency and broad access to change in cities and towns’, was also recognized and promoted by the national government’s Urban Design Task Force (Freestone 2010: 39). The planning policies released by the Cain Labor government—‘Central Melbourne: Framework for the Future’ (Ministry of Planning and Environment 1984) and ‘Shaping Melbourne’s Future’ (Ministry of Planning and Environment 1987)—reflect this appreciation of urban design, but essentially as a way of harnessing central Melbourne as a tool to boost Victoria’s economy. They focused on encouraging ‘urban consolidation’ and large-scale development. In contrast to the City’s ‘goal achievement’ approach, ‘Shaping Melbourne’s Future’ was arguably ineffective because it lacked clear implementation mechanisms and talked in vague terms; indeed, the ‘implementation’ section of this report is only two pages long (Goodman et al. 2016: 29; Ministry of Planning and Environment 1987: 56–7).

Nevertheless, elements of the state’s plan were carried through to the 1990s, and adopted by the Kennett (conservative) government, in particular through the first major policy document released jointly by the city and state governments. *Creating Prosperity: Victoria’s Capital City Policy* was designed principally to ‘act as a guide to the private sector’ (Government of Victoria and Melbourne City Council 1994: 1). It aimed to make Melbourne a more internationally attractive city, particularly focusing on its strengths and opportunities as an appealing centre for big business, through initiatives such as building the Melbourne Exhibition Centre and a new Museum of Victoria, and beginning the Docklands developments. Other commitments that reiterated the City’s plans

included promoting Melbourne as 'Australia's best place to live and visit' and 'Australia's premier retailing centre', by retaining the city's unrestricted (24 hour) trading hours, encouraging more activities in the main street, upgrading and maintaining the city's lanes, arcades and footpaths, and building the new public space Federation Square (Government of Victoria and Melbourne City Council 1994: 5).

The City's 1985 Strategy Plan is the key policy at the local level in this tale of urban revitalization. Shaped by input from community activists and urban design professionals, it functioned not only as an important policy document to guide decisions and design in the administration but was also used as a manifesto in city government election campaigns and as a vehicle for bringing together state and local government actors and other key stakeholders. Like the plans it immediately preceded and followed, the 1985 Strategy Plan was shaped by community activists who had professional experience in planning and architecture, some of whom then became local politicians (after lobbying the state's Labor Party to institute changes to local government), and who employed consultants and staff who shared their vision and values.

Gardner and Clark (1998: 138) suggest that the 1985 Strategy Plan was successful where it outlined policy and planning targets that were achievable. Adams confirms the importance of targets, such as 8,000 new residences, for keeping politicians and planners accountable (Adams and Dovey 2018: 206). He also suggests that it was strong alignment and collaboration between city and state planners that enabled the policy changes that led to Melbourne becoming more liveable (Adams and Dovey 2018: 206). According to Freestone (2010: 38), the key factors that led to the successful implementation of the 1985 Strategy Plan, specifically in terms of achieving increases in the city's residential population and conserving its local character, were: 'political support, design-led delivery through area-partnerships, specific master plans, and public-private partnerships'.

After Melbourne was rated as the world's equal-most liveable city in one of the first global 'liveability' studies undertaken in 1990, the state government began to focus on preserving and promoting this quality. 'Liveability' was a central and explicit focus in its 1994 'Melbourne Metropolitan Strategy Discussion Paper'. Identifying urban sprawl as a key threat to liveability, and noting that much of the region's growth was occurring on Melbourne's outer metropolitan edges, the state suggested that a solution would be to further encourage housing development near and within the central city (Department of Planning et al. 1994: 23–5). Echoing and extending the city government's plans, it also suggested 'enhancing' the city's pedestrian environment, cultural and heritage features, universities, perceived level of safety, and 'diversity', both in terms of demographics and of housing and jobs available for citizens (Department of Planning et al. 1994: 26–31).

The different policy documents developed by successive state and city governments demonstrate tensions between these two levels of government over the

future of Melbourne, with each fighting to instate their preferred plan for the city (McLoughlin 1992). Local community and stakeholder groups, in turn, fought for different visions of how and where the city would develop. As Freestone (2010: 37) puts it, describing the state government's approach to urban and suburban development in the 1990s, 'turmoil at the local level was often profound'. Each government proposed focusing on development in different parts of the city in their central policy documents.

In the 1980s, however, the tug of war between the state and city governments resulted in both parties giving much more attention to the central city than in preceding decades. Both parties had comprehensive, well-funded plans to redevelop the city, and both agreed on key areas to be funded. The policy consensus was that *something* had to be done. Over time, the City appears to have taken on the role of managing smaller-scale urban design and infrastructure projects, focused on *how* people use the city, while the state government has retained responsibility for large-scale projects that define *what* people come to the city for. Despite local objection to urban consolidation, these policies helped to revitalize the inner city, leading to its 'liveable' qualities that are widely appreciated today. It can also be argued that increases in policing and improved perceptions of safety have contributed to the city's perceived 'liveability', by making it appear a safer place especially for wealthier people to live and work (Palmer and Warren 2013: 83–4).

Alongside these major battles centred around planning, an important policy development aimed at encouraging and assisting residential development in the centre of the city was 'Postcode 3000'. This policy was coordinated by the city government and supported by the state Department of Planning. Refusing to accept the state government's projected forecasts of a declining population, the City had set targets in its 1985 Strategy Plan to increase housing types and add at least 8,000 new dwellings to accommodate a population increase of 16,000 residents (Jones 2018: 129). However, its initial mechanisms to implement this policy were not successful and it was not until the property market crashed in the late 1980s that the subsequent empty commercial space provided an opportunity to realize this vision (Adams and Dovey 2018: 206–7).

Postcode 3000 provided financial incentives and technical and capital works support to developers proposing to build thirty or more residential units. These incentives were combined with a media strategy to promote the advantages of living in the city. At its heart was a demonstration building conversion project, where the City, working with industry partners, converted vacant floors of a historic building into apartments. Despite initial scepticism, the City recovered its investment as rents exceeded expectations and 'a long waiting list of prospective tenants' exemplified it had succeeded in persuading people to live in the CBD (Jones 2018: 129–30). The policy is credited with bringing redundant buildings back into use as apartments, helping the City meet its fifteen-year target

for residential growth within ten years, and the creation of Birrarung Marr, a riverfront park reclaimed from under-used rail sidings. An unanticipated side effect, however, was that, as rents increased and residential property investment became more attractive, low-income residents were forced out of the central city (Adams and Dovey 2018: 208).

A connected policy development was the transformation of Swanston Street, which similarly illustrates both tensions and collaboration between government actors, residents, and other stakeholders. Swanston Street has been the site of prolonged debate and divergent policies between state and city governments over the past three decades. It has long been described as the 'civic spine' of Melbourne (Jones 2018: 106), despite in the 1980s being 'little more than a traffic artery; close to 90 per cent of the vehicles travelling along it had neither an origin nor a destination in the city' (Yencken 2018: 75). Early experimentation led to implementation that was later legitimated through external awards and changing attitudes and behaviours. Inspired by an international example shared by a young designer in the Ministry of Planning, the state government embarked on an experimental initiative in 1985 to show what was possible, while tensions between government departments and media criticism prevented more substantial change at the time. The 'greening of Swanston Street' closed part of the road to traffic for a street party over a weekend, when it was covered in grass sods. Initially seen as a political stunt, around half a million people came to the central city to experience the event, which was reportedly 'loved to death' (Jones 2018: 102; Yencken 2018: 76).

After an international expert 'brought in to advise and reassure based on the European experience of pedestrianization projects' failed to do more than preach to the converted, an economic study persuaded the state and city governments to reduce traffic in the area (Jones 2018: 103). A massive consultation then effectively identified practical implementation needs. Seven years after the 'stunt', Swanston Street was closed to vehicular traffic, an improvement that was considered 'the key to the City of Melbourne's receipt of the first Australia Award for Urban Design' in 1996 (Jones 2018: 104). The continued need for trams to use the street has thwarted full pedestrianization, but the street now has the widest footpaths in Melbourne, is much safer for pedestrians, and has more amenities—the number of cafés, for instance, doubled between 1992 and 2003 (Jones 2018: 104–5). Its eventual (partial) pedestrianization demonstrates Yencken's (2018: 74) argument that the best way to change perceptions of a city is by making physical changes to the environment and letting people experience them.

### Enduring Allure

Local and global legitimating factors have contributed to the enduring effects of the shared vision promoted by administrators, planners, and activists in the

1980s. The localized focus of city government on tangible dimensions of people's experience in the city, genuine community input into planning processes, and their recognition of existing assets can all be seen as success factors in this governance story. Over several decades, globally circulating ideas, indices, and consultants have provided inspiration, information, and external validation.

As key actors from this period point out, 'high-quality urban design is a long-term process' (Yencken 2018: 66) which needs to be considered far beyond electoral cycles, and takes decades to achieve (Adams and Dovey 2018: 253; Jones 2018: 141). While state government legislation and planning guidelines introduced height limitations in the 1980s, for instance, these were ignored and dismantled by subsequent governments who 'bowed to developer pressure' (Yencken 2018: 69–71). It is remarkable that the city government, in spite of all the pressures and changes outlined above, managed a consistent approach to urban design and planning during this period. It was aided by the state's local government reforms that reduced the electoral changes in city government and the voting power of businesses (although property owners still have disproportionate electoral sway).

Local politicians' determination to include community voices and local data in planning processes and to establish organizational structures and internal capability also effectively ensured a relatively consistent implementation of strategic plans. The persistent 'people-centric' approach of the council administration, despite changing politics at the city and state levels, and broader changes in the urban environment, may not have been possible if the key role of Director of Urban Design had not been filled by the same person for more than three decades. The 'political work' and 'craft work' of Rob Adams are an important factor in this governance success story. Ord (2018: 39) echoes others when she claims, 'The successful implementation of the 1985 *Strategy Plan* is in no small way due to the commitment of Rob Adams to see the principles embedded in all subsequent council decisions.' His persistence and collaboration with a range of other important actors, notably local politicians, state planners, international consultants, and industry partners, has made a mark on the city. The cumulative effects of thirty years of incremental changes by state and city governments can be seen in Melbourne's streetscapes (Adams and Dovey 2018; Jones 2018: 93, 139).

## Analysis and Conclusions

The success that we have focused on in this chapter is a story about the changing governance arrangements that have reshaped central Melbourne. This story analyses the combination of state and city government policies and strategies over more than three decades. The increased capacities of state government reduced the formal capacity of the city government, but also gave it licence to do

things differently. The layered and emergent interactions between these two levels of government managed to combine economic and commercial interests with culture and liveability. NPM worked together with urban design principles and committed activists interested in citizens' rights: Melbourne rose from the ashes.

The state government changed numerous planning and strategy settings, making some unpopular decisions but using its legitimate power to shape the city at a macro level. Major building developments were pushed through in the face of opposition, and determined efforts were made to attract people to Melbourne's centre as a place to live and play as well as to work. Successive state governments redefined the scope of the municipality's powers and showed a determination to remove financially incompetent local politicians. Amalgamating what were then small municipalities with limited scope and abilities and changing the boundaries of the city so that it effectively straddled both sides of the Yarra River were also important, if unpopular, reforms.

Changes to the city government itself are also key to this governance success story. The changes that saw the local politicians' roles move from an annually revolving door—even for the (then elected from within) mayor—to three-year terms and a directly elected mayor, had significant effects. The city government's new focus on immediate and tangible things, which matter a great deal to people as they move around the city, was combined with a more visible, approachable and professional cadre of local politicians. The result was the removal of doubts about the legitimacy and competency of the municipal government, following years of perceived incompetence and financial mismanagement. Changes that modernized the city's administrative structures and procedures also bolstered its reputation. In what we would now easily recognize as New Public Management, many corporate management principles were imported to the City, followed by ideas about the importance of competition and the desirability of contracting out services. These moves added up to a clear signal that the City government had been transformed into a modern, responsible, and professional organization.

The social and environmental activists who first made an appearance in community consultations on the 1974 Strategy Plan, before becoming much more visible when the local politicians were sacked, and then numbered amongst the newly appointed politicians once elections were held again, were also an important part of this story of new governance arrangements. They can be credited with staunchly supporting the focus on good urban design that the state and city governments were beginning to embrace, and which has since become so important to Melbourne's liveability. They are also likely to have had an enduring influence by promoting the incorporation of citizens' views into strategy documents.

This governance success story rests on the redefinition of the realms of responsibility of the state and city governments, which changed their capacities and their interactions. It also points to the symbolic importance of markers of success, which in this case helped to change residents' perceptions of their city and its

standing in the world, in the context of changing national and international trends. Having landed towards the top of world liveability rankings, this very public marker of success helped the state and city governments and the people living in it, to continue to focus on Melbourne's liveability as a core concern. All of these contributed to making Melbourne marvellous again.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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# The Dutch Delta Approach

## The Successful Reinvention of a Policy Success

*Arwin van Buuren*

### Introduction

Many foreigners are amazed when they visit the Netherlands and are told that 26 per cent of this country is below sea level and 60 per cent of the country is susceptible to flooding. And, to make it even worse, the flood-sensitive area is densely populated: the main cities of the Netherlands (The Hague, Amsterdam, Utrecht, and Rotterdam) all are located in the part of the country that is below sea level. However, after the disastrous flooding of 1953, the Dutch produced an unparalleled success story in protecting their delta against flooding. They established a legal framework of high norms for flood protection and realized a series of massive infrastructural works. A powerful institutional regime of a semi-autonomous national implementation agency (Rijkswaterstaat, the executive agency of the Ministry of Infrastructure and the Environment), dedicated regional water boards, and a well-developed expert community maintained this framework. It turned the Netherlands into one of the best protected delta areas of the world and the international benchmark for effective delta management.

More recently, the Dutch successfully reformulated their 'delta approach' in order to adapt to the possible but uncertain impacts of climate change. There were no apparent policy failures as a trigger for this policy reform, but the necessary trigger for this 'policy update' was deliberately invented by installing a high-level, independent advisory committee that advised the Dutch government about how to deal with climate change. Their advice was used to initiate a new national Delta Programme under the stewardship of an independent national Delta Commissioner. As part of this programme quite a few important elements of the current policy were revised. Most importantly a paradigm shift was realized from a prevention-oriented policy towards a more risk-based orientation. In the international community the Dutch delta approach is seen as a hallmark of quality, effectiveness, and robustness.

The reinvention of the Delta approach is an exercise in *policy maintenance* (Hogwood and Peters 1982): reinventing a policy in order to enhance its lifespan. The case of the new Dutch Delta Programme is remarkable in part because it went

one step beyond maintenance: it successfully reformulated the paradigm behind the Dutch delta approach before the existing paradigm had demonstrably failed. And so it is also an example of an anticipatory policy style (Bovens et al. 2001). The case raises the question how we can explain that already efficacious policies are successfully reinvented before their initial success has been exhausted. After all, reinventing successful policies is not self-evident. Path-dependent incremental adjustment is the much more likely long-term trajectory of a successful policy regime. Moreover, a policy network's core competencies (ways of working in which it is highly experienced and thus very good) can easily become so deeply institutionalized as to narrow the scope for adaptation, learning, and innovation of current routines.

In this chapter we demonstrate how the Dutch Delta Programme—devised as an external driver injected into the existing policy sector to come to a revision of the Dutch delta approach—can be seen as a successful device to combine exploitation (sustaining the successful elements of the former flood management regime) with exploration (developing new strategies and avenues to deal with new challenges related to climate change).<sup>1</sup> First, we assess the case as one of successful reinvention. We then delve deeper into the way in which the Delta Programme accomplished this reinvention and look for possible explanations why an already successful policy could be successfully reinvented. In the final part of the chapter we probe these potential explanations more deeply and articulate a set of lessons for policy reinvention that might be drawn from this case study.

### **Reinventing a Success Story**

The basis for the successful Dutch delta approach can be traced back to the major flood of 1953. This flood resulted in more than 1,800 casualties, 100,000 people lost their homes, and 150,000 hectares were flooded. Total damage was estimated at 1 billion Dutch guilders. Twenty days after the flood the Dutch government installed the Delta Committee tasked with advising the government on how future catastrophic flooding could be avoided. This committee—mainly composed of civil engineers—presented a Delta Plan with proposals to close off all major sea arms and to shorten the coastline by 700 kilometres. Alongside the plan new flood norms for the whole country were proposed.

During the half century that followed, Dutch water management was remarkably effective in preventing new floods from occurring. In 1993 and 1995 two 'near-miss' riverine flood events took place during periods of extreme water levels triggered by a confluence of weather events and erosion impacts upstream. In 1995 more than 250,000 people had to be evacuated (Rosenthal and 't Hart 1998). These near floods constituted a wake-up call. Past success could not be allowed to breed complacency, and the result was a new law to hasten the implementation of

dyke enforcements along the main rivers (Delta Law Main Rivers), because many necessary enforcement projects were overdue. This law was followed by a programme 'Room for the River', consisting of thirty-nine projects aimed at enhancing the discharge capacity of the rivers. This programme again was a success. On time and within budget (2 billion euros) the thirty-nine projects were implemented to enlarge the discharge capacity by giving the rivers more room. In addition, a couple of innovative and multifunctional projects were realized and new nature development was accomplished (Van Buuren et al. 2013).

Until 2008 the main focus of the Dutch flood policy was on guaranteeing a high level of flood protection. The norms for flood protection were linked to the probability of flooding. This is quite a unique characteristic, because it is more logical to base such norms on the risk (probability and consequences) of flooding. The First Delta Committee had proposed such risk-based norms, but they were never developed due to the technical complexity of formulating them. The strong prevention-oriented focus, however, fits well in the Dutch culture of keeping the water at a distance: most Dutch people feel themselves safe behind the dikes and are convinced that the dikes prevent flooding. Their risk awareness is low, especially because of their strong belief in the quality of flood prevention.

Until now the Dutch have been perceived as very successful with their flood protection policies although it is quite difficult to prove just how successful. The Dutch delta approach is regarded as a world-leading example of keeping dry feet in low-lying delta areas, but we only know whether it performs well when a super-storm (around once in 10,000 years—the norm for the water defences in the Netherlands) hits the Dutch coast. Nevertheless, the Netherlands is seen as an international hallmark for delta management. And the societal support for the yearly investments in flood protection is quite strong, although local enforcement projects were sometimes quite time-consuming due to resistance from local residents.

But even successful policies need maintenance and adaptation as their operational and socio-political environments change, or—as in this instance—when 'events happen' that have a game-changing significance. Following a wave of alarming reports about the scope and possible impacts of climate change, in 2008 the Second Delta Committee was installed and presented a highly influential report. The committee reminded the government and the public at large that the Netherlands could not assume that in the decades to come its post-1953 infrastructures and governance arrangements would suffice to maintain current levels of safety. It called for a concerted approach to discover what was needed and advised the installation of an independent national authority to coordinate the effort. It also called for setting up a national fund for the purpose of safeguarding the availability of enough financial means to cover the presumably significant costs of infrastructure updating and other new measures that might be deemed necessary. Due to effective boundary work with the national cabinet and a powerful media

campaign, the government accepted the committee's recommendations within a week of their presentation. It prepared the Delta Act that called for an annual presentation of a Delta programme, a new authority (the 'Delta Commissioner'), and the instatement of the Delta Fund.

In 2010 the first Delta Commissioner took office. Following a four-year fact-finding, community-building and collaborative policy design effort, Kuijken—a three-time department head and one of the most experienced public sector chief executives in the country—presented five important 'Delta decisions' that would shape the fifty-year programme that was to follow. These decisions articulated new norms for flood risk and devised policy ambitions for spatial adaptation that were to be implemented through regional water governance networks. They were ratified by the Dutch parliament and have since begun to be implemented (see section 'Design and Governance of the Programme' for a more detailed account).

### **Assessing the Dutch Delta Approach**

When we examine the Dutch delta approach in general and the Delta Programme in particular with the PPPE framework for policy assessment used throughout this volume, a picture of fairly comprehensive success emerges (see Table 11.1).

Within the Dutch public sector the second delta approach is often mentioned as a success story and parts of its institutional architecture and programme management philosophy have percolated to other government portfolios and the governance of other 'national challenges' (for example the drafting of the National Energy Strategy or the National Coordinator for Security and Counter Terrorism). The Dutch approach has also received accolades from international institutions like the OECD and others, who hail the Dutch delta's record as amongst the safest worldwide (OECD 2014).

In addition, the Dutch delta approach has become a successful export product. With the help of deliberate policy branding and marketing, the Dutch government sold its approach to a couple of other delta areas (both in developed countries like the United States and in less developed countries like Vietnam, Bangladesh, and Indonesia). A special 'water envoy' was appointed to 'spread the word' and market Dutch knowledge and experience with regard to delta management everywhere in the world. The Delta Programme in other words became a global brand name that clearly contributed to the already strong international reputation of Dutch water management (Minkman and Van Buuren, 2019).

Flood risk safety affects so many people in the Netherlands that there is unwavering public support for robust flood risk safety standards. The entire country has a lot riding on the success of the Delta approach; should it fail, the damage on so many levels would be immeasurable. In short, it is difficult to say who loses or does not benefit from the flood policy. Although the Dutch flood

**Table 11.1** Assessing the success of the Dutch Delta approach

Programmatic assessment	Process assessment	Political assessment
<ul style="list-style-type: none"> <li>• The value proposition is about keeping ‘dry feet’ by safeguarding a high standard of flood protection. This proposition is undisputed.</li> <li>• The policy is based upon the solidarity principle which means that all parts of the Netherlands pay an equal part in flood protection.</li> </ul>	<ul style="list-style-type: none"> <li>• The way in which the Delta Programme arrived at the delta decisions and the regional implementation strategies is valued by the great majority of the involved stakeholders and local and regional authorities.</li> <li>• Decision-making about dyke enforcement is embedded in adequate procedures, although the regional water boards faced difficulties with implementing the necessary measures in time and within budget.</li> <li>• The implementation of dyke enforcement is embedded in intensive participation processes in which the negative external effects are compensated for. The procedures are highly effective to deliver the necessary measures in time.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a broad and deep political <i>coalition</i> that supports the policy’s value proposition that sustaining high flood norms is necessary to safeguard economic prosperity.</li> <li>• The Dutch Delta Programme, the national agency Rijkswaterstaat, and the regional water board authorities do have a strong organizational reputation (both within the public domain and among citizens).</li> </ul>

#### Endurance assessment

The focus of the Dutch Delta Programme is upon the long term and measures have a lifespan of at least 50 years. While no assessment is possible at present, at least the programme is explicitly ‘built to last’, and contains important provisions designed to ensure it is adaptive and able to accommodate further changes in the environment.

The value proposition is broadly supported among the Dutch people and this support is quite stable.

The strong reputation of the Dutch Delta approach contributes to the legitimacy of the broader political system.

risk approach has some distributional effects (people from areas that are not flood-prone pay also for the defence of the flood-prone areas; people that live in the areas directly surrounding rivers have to accept dikes in their backyard although they are mainly designed for people in the hinterland), overall, flood risk is perceived as an issue of collective survival.

The most frequently heard criticisms with regard to the Delta Programme are twofold. One is that the more fundamental decisions are postponed (for example to close off with sluices the Nieuwe Waterweg River, the access to the port of Rotterdam), on grounds that they can be considered in the future, when some of the persistent uncertainty about local manifestations of climate change will be reduced. The philosophy of adaptive delta management is espoused to legitimize a stepwise approach in which small, no-regret measures are prioritized above more fundamental measures which are not necessary yet.

Second, the consensual character of the Delta Programme means that measures that are opposed by some stakeholders are not implemented even though there are serious indications that they need to be adopted. One such example concerns the question whether project developers and land owners involved in spatial development initiatives should be made responsible for taking mitigating measures to reduce flood risk. Until now, the responsibility for managing the water management consequences of construction projects has been shifted onto the water authorities, who however have no veto powers over spatial developments in flood-prone areas and thus are left to pick up the pieces once these developments have been approved. The Delta Programme has yet to address this incongruence.

### **Design and Governance of the Programme**

The Delta Commissioner has been positioned as an independent ('honest') broker between the national government (including between its different departments, e.g. Public Works and Environment, Agriculture and Nature, and Internal Affairs) and the various layers of subnational government (provinces, regional water boards, municipalities). The Delta Commissioner was never designed to become a 'czar'-like figure who can coordinate from the top-down and relies on an expansive bureaucratic fiefdom. The Commissioner was not given any decision-making authority ('hard power'), but instead has to rely mainly on three sources of influence: the power to convene, facilitate, and broker ('soft skills'), the power to report directly to parliament (and thus the possibility to publicly shame non-cooperative parties), and the power to draft the yearly investment programme regarding flood protection and climate adaptation (up to 1.2 billion euros annually). At approximately 15 fte (full-time equivalents), the Commissioner's staff was deliberately kept small and organized as an autonomous team outside the national departments. The overall aim was for the Commissioner and the programme to be

seen as truly ‘national’ interventions instead of as a ‘central government’ takeover of delta governance: a boundary-spanner and bridge-builder among the various governmental layers and domains.

Subsequently, the Delta Programme was deliberately split into regional as well as functional (fresh water, flood risk safety, and spatial adaptation) programmes. Each of these was managed by a programme manager. A Steering Group with broad representation of all relevant government actors was installed to take the necessary strategic decisions. In addition, each programme also has an Advisory Committee on which the main societal stakeholders are represented. This structure contributed significantly to the development of an active ‘delta community’, with annual conferences and network meetings both at the regional and national levels, frequent newsletters, and other forms of communication and interaction.

The Delta Commissioner decided at the start of his activities to work towards five strategic delta decisions that would set norms and directions for the Delta Programme moving forward. Each region had to draft a ‘preferential strategy’ on how to implement these decisions. This regional strategy must be focused on the long-term (2050) and be ‘adaptive’: the possibilities for changing the path had to be explored and possible tipping points and step changes taken into account.

A meticulous iterative approach was used to arrive at the five Delta Decisions and the preferential strategies. Each year one step in the exploration was set. Each sub-programme started with a problem exploration phase. After that, an array of possible strategies was considered and then reduced by selecting the most promising ones. In the final year of the cycle, the preferential strategy was chosen. This approach thus provided a comprehensive, inclusive, and grounded method to first open and then gradually close the strategy development process. It had the twin features of promoting wide search and robust analysis as well engendering trust and commitment among the parties involved. This was achieved by a strong emphasis upon joint fact-finding (including actively seeking out local knowledge in the regions), inclusive deliberation, and consensual decision-making. The entire process took four years but ultimately the results were widely accepted.

The Delta Programme also kick-started a wide variety of *local and regional pilot projects*. In 2011 a first series of pilot schemes was initiated to explore the idea of multi-layered safety, a new—more risk-based—approach to flood management focused upon the integration of flood protection, spatial planning, and emergency management. Various pilots were undertaken to explore the consequences of new norm settings for flood risk safety. Subsequent pilots started to explore more in-depth the possibilities of using spatial measures and flexible responses to flood emergencies as an alternative to rigid and highly costly protective measures. Regional delta programmes started their own pilots in order to test and adapt their preferred regional strategies.

In 2014, the Delta Commissioner presented the five Delta Decisions which were then ratified by the national government and the parliament. One decision was about the new flood risk norms. Another was about spatial adaptation, also referred to as ‘water-robust planning’, designed to arrive at more risk-neutral forms of spatial development. The Delta Decision on flood risk safety mentioned the possibility of ‘smart combinations’, to provide the opportunity for exceptional situations in which dyke enforcement can be replaced by a combination of measures (by elevating the land, or by realizing waterproof buildings and improving the possibilities for evacuation). Three pilot cases were selected to further explore the possibilities of these combinations. They examined the opportunities for certain areas to opt for a programme of (spatial, infrastructural, and crisis and disaster management) measures instead of only dyke enforcement. The implementation process of the Delta Decisions has a number of defining characteristics that epitomize the Dutch delta approach.

First of all, the implementation path has a really long-time horizon. The new flood risk norms have to be settled in 2050. The new norms guarantee everyone the same level of flood protection. For everyone the risk of flooding (based upon the probability of flooding and the consequences in a certain area) has to be 1 in 100,000 years. That means that there is ample time for making the investments that are necessary for their achievement. Simply put: there is much work to do, but there is also enough time to do it. The new norms have to be translated in new regulations, standards, working methods, and organizational routines. All (primary) dikes in the entire country (with a total length of 3,600 km) have to be reassessed so that actual rather than statistical risk determines whether and how reinforcement measures have to be implemented.

Second, the implementation is planned in an adaptive way: its progress is monitored in relation to the evolution of the impact of climate change and alternative pathways continue to be explored, so that when external circumstances necessitate a change of strategy the system does not have to begin from scratch. The concept of Adaptive Delta Management was coined to underpin this gradualist, learning-oriented approach to implementation.

Third, the more innovative part of the Delta Programme—with regard to adaptive planning and risk and disaster management—is accompanied by soft policy instruments focused upon knowledge development within regional pilot projects, e.g. by providing some seed money to municipalities for hiring expertise and developing communicative steering instruments. Most of the implementation of this ambition was translated into developing a ‘Stimulation Programme Climate Adaptation’ focusing on showcasing best practices, information sharing, and networking.

Fourth, the implementation of the Delta Decisions has been put ‘back in the line’. In other words: while the policy development phase of the Delta Programme was an inter-organizational effort to come to a set of broadly shared policy

proposals, in the implementation phase responsibility has been cast back onto the individual organizations to discharge their own responsibilities by leveraging their own competencies. That means for example that the implementation of dyke reinforcements is not the responsibility of the Delta Programme or the regional sub-programmes, but of the regional water board authorities. To make sure that their activities continue to align with what has been termed 'the spirit of the programme', they are obliged to consult provinces and municipalities before they finalize their planning.

Finally, even after the Delta Decisions were formalized, the Delta Commissioner remained in office and became responsible for monitoring the implementation of the Delta Programme. Each year the Commissioner prepares a formal progress statement about the implementation of the Delta Programme for discussion in the national parliament—a 'soft' but nevertheless powerful way of ensuring accountability across the system.

### **The Road to Policy Reinvention**

The seminal work of Hogwood and Peters (1982) is most frequently cited when it comes to the question of what can happen when policies are at the end of their lifespan. They distinguish between policy termination, policy maintenance, and policy succession. They observe, as others would do in great detail later, that public programmes are hard to terminate; many of them persevere for a long time (Rose and Davies 1994), sometimes well beyond the point of marginal returns. Ideally such policies are abolished and succeeded. With regard to policy succession Hogwood and Peters (1982: 299) observe: 'policy succession is conceived of as an instance in which a previous policy, program or organization is replaced by a new one directed at the same problem and/or clientele. Policy succession occurs as a result of a process in which the issue of replacing is put on the relevant political agendas, a coalition is mobilized to authorize the replacement, and the replacement is successfully implemented.'

Policy maintenance, in contrast, is about continuing a current policy. According to Hogwood and Peters, maintenance occurs for several reasons: because the policy is essentially not broken and there are no alternatives to replace it wholesale; because the current policy regime is inert; or because actors failed to terminate the current policy or failed to organize for it to be succeeded with another policy. Their overall interpretation of policy maintenance is thus quite negative. It is a second-best option.

In the decades of research that followed this publication, many have questioned this interpretation. Real-life cases do not match this typology and policies are multifaceted which means that in every case of policy evolution, we can discern elements of maintenance and succession. Furthermore, in the case of policy

maintenance or succession, the main trigger is the fact that current policies no longer suffice. However, many instances of policy change are not triggered by failure. The drivers for change or evolution can be more political and thus can result from changing power positions of different actor coalitions (Sabatier 1988). They can also be more cognitive. In that case, changing insights about the effectiveness of a policy result in policy change. And finally, they can be more ideational: new ideas or discourses enter the political arena, become hegemonic and lead to policy change (Schmidt 2011).

In this chapter we asked ourselves how in the domain of Dutch flood risk management we can explain this case of successful policy reinvention (which can be seen as somewhat more far-reaching than maintenance, but not as dramatic as the invention of a completely new paradigm). The question of how to explain this case of successful policy reinvention (in the case of an already successful policy) is relevant for two reasons. First, most instances of policy succession involve policies that are widely seen to have failed. In the case of the Dutch delta approach, this was certainly not the case: the post-1953 response has widely been hailed as a major success. Also, policy change is more difficult when the policy and its institutional context are strongly path dependent (Pierson 2000; Weaver 2010). The Dutch water domain is often referred to as featuring strong path dependencies, not only when it comes to its institutions and policy ideas, but even in its physical infrastructures and the geography that resulted from centuries of building dikes and dams (Gerrits and Marks 2008; Van Buuren et al. 2016). That makes policy innovation and renewal even more difficult when the status quo is not perceived as problematic.

So, neither condition applied and yet the second Delta Programme constituted a major innovation in this deeply institutionalized sector. There are at least five mechanisms that can explain why this could occur.

*A triggering event overseas was leveraged locally*—When the awareness of the consequences of climate change grew and after the devastation wrought by Hurricane Katrina in New Orleans in the United States, people became convinced that the Dutch delta approach had to be reinvented to prevent a future disaster. As we have seen, in 2008 the Second Delta Committee was installed and presented its highly influential report. This led to the creation of an independent national Delta Commissioner and a Delta Fund to safeguard the availability of sufficient financial resources. The various proposals of the Delta Committee were adopted by the Dutch government.

Verduijn et al. (2012) convincingly argued that the Delta Committee did a very good job in framing their key messages. Even though no crisis occurred, the Committee was highly successful in creating awareness for the urgency of climate change. They were able to put the revision of flood risk policy and management high on the political agenda. This success can be explained when we look at the way in which the Delta Committee framed its narrative, using the story of a

‘common delta identity’ and creating a sense of urgency and collectiveness. To enhance the sense of urgency the Committee successfully constructed a crisis narrative (with the help of historical examples, recent examples from abroad, and by illustrating the potential impact of future disasters).

*The policy arena was successfully opened and operated in a collaborative fashion*—The Dutch Delta Programme was highly successful in mobilizing a broad range of actors to discuss the future of Dutch flood risk management. It invested in a large number of venues that allowed for participation of all kind of actors that previously were not strongly involved in flood risk policy or management: provinces, municipalities, the private sector, interest groups, and others). Some of them were invited to enter the inner circle of the Delta Programme (for example the provinces and municipalities). Others were invited to enter the second ring (such as the regional safety authorities and private interest groups). Those were invited to join advisory committees at the regional and at the national level. The participation of these actors contributed to a more ‘spatial’ and ‘ecological’ perspective on flood risk management. Especially the participation of regional and local authorities contributed to a policy paradigm in which the spatial consequences of flood management are put more central. The strict focus on prevention (deeply embedded in the existing, closed policy community) was broadened and replaced by a wider perspective on risk management.

*Multiple niches were organized as a seedbed for promising ideas*—The Dutch Delta Commissioner was a convinced proponent of exploring new ideas at a distance of the formal policy regime in pilots and other experimental contexts. With the help of some additional budget, external expertise and provisions for positive exposure, many regional governments were facilitated to explore promising ideas and concepts. These pilots were organized in a collaborative way and in close interaction with experts. The yearly Delta Congress was used as a venue to present these pilots and to enable interaction among them. Many of these pilots resulted in promising ideas that were used as arguments for new policy ideas in the yearly Delta Programme.

*New policies (and their authors) were perceived as authoritative*—The piecemeal approach (from problem exploration to drafting the preferred strategy) contributed to the quality and thus the authority of the ultimate Delta Decisions. Joint fact-finding was the common method that was used to establish consensus about the scientific knowledge used. For the Delta Decisions and the regional strategies broad support was made visible (with formal advice, scientific reviews, and so on). The coalition that supported the Delta Programme also possessed authority. It was a broad community in which many representatives of the different public authorities were visible. The national Steering Group was composed of representatives from national ministries, regional and local governments, and water boards. And finally, the person of the Delta Commissioner significantly added to the authority

of the proposals of the Delta Programme. The Commissioner is a very senior and experienced public manager with a broad political and administrative network and an independent position.

*The approach respected and built upon valuable existing institutions*—The Delta Commissioner was quite keen to prevent resistance and alienation among the traditional policy community. His strategy to organize room for policy change can be characterized as a threefold approach. First of all, the existing institutional structure and the existing ways of working were maintained and were used to implement the Delta Decisions. Second, most of the changes were relatively small and most of the time not obligatory (although the new norms of course were!). For example programmes on spatial adaptation were based upon the idea of communicative steering, knowledge governance, and ‘leading by example’. And finally, a really long-time horizon was chosen to implement the Delta Decisions, which gives the involved actors enough time to translate these decisions into their own procedures and routines. By opting for an adaptive approach it is possible to adjust its implementation when new insights make that necessary.

### **Conclusions: The Strength of Consensual Incrementalism**

Many policies are path-dependent and successful policies even more so. Policy-makers like to retain and emulate ‘what works’, and perceived success thus is one of the most powerful, self-reinforcing mechanisms that brings about path dependency. The Dutch flood approach focusing on prevention is highly path-dependent and the presence of the many hard flood defences (dikes, dams, and so on) contributes to this path dependency (Van Buuren et al. 2016). This being the case, the Delta Programme’s reinvention of the Dutch approach to flood risk can be seen as an even more remarkable achievement. The gentle break with long-held professional monopolies and their technocratic-paternalistic policy styles in effect constituted an attempt to initiate a process of ‘path creation’ that over time leads towards another direction in Dutch flood management—one that takes a more balanced approach to flood risk in which not only protective measures and big civic engineering projects are important but also spatial policies to reduce impact as well as measures to enhance community and business resilience. This approach is based upon the idea that initiating alternative, complementary pathways for flood management can lessen the dominance of the current path and possibly can lead towards a more resilient balance between prevention and adaptation. The new flood norms form the ‘enabling context’ for such a new approach and are designed to prevent the system falling back into old routines. The new norms legally secure a risk orientation in flood protection. They ensure that not only are the consequences of flooding taken into

account explicitly when programming dyke enforcements, but also that spatial developments that could lead to increased flood risks appear on the agenda of the various governments early on, so they are able to discuss their necessity, consequences, and possible mitigating measures.

From our case we can learn that constructing the wake-up call is really important to open the possibility for reflecting upon an already successful policy and to organize the possibility to change the existing path. There has to be a sense of urgency that the current policy has to be revisited, despite there being no apparent failure. The interesting thing in the Delta Programme case is that the sense of urgency to reconsider the successful existing policy had to be created. This was successfully done by the blue-ribbon Veerman Committee, which provided catalytic leadership through its well-timed use of framing techniques to raise the salience of issue and convince the national government to seriously consider the need for policy revision.

The Delta Commissioner in turn deliberately reframed this urgency. In the first publication of the Delta Programme (2011) the economic importance of safeguarding flood protection in the long run was emphasized in combination with the so-called Dutch sobriety. The need for policy revision was not framed in relation to the quality of the existing policy, but with reference to the future. Revising the current policy was deemed necessary in order to 'protect future generations against flooding' ([www.deltacommissaris.nl](http://www.deltacommissaris.nl)).

Reinventing hitherto successful policies might well be more difficult than repudiating and terminating failed policies. The bar creating a credible rationale for it is high, because why would anyone change a winning proposition? In the absence of a self-evident 'burning platform', there is a strong need for solid scientific underpinnings and a broad-based, collaborative approach to fact-finding, analysis, and advocacy. The Delta Programme showed many indicators of collaborative innovation (Van Popering and Van Buuren 2017). Through dozens of pilots, novel ideas were explored and tested locally without being threatening for the existing regime. The Delta Programme became a breeding ground for new solutions, many of which were scaled up to the Programme's policies and practices.

Second, the Delta Commissioner created new venues that provided a much wider array of actors than had been customary the opportunity to influence the revision of flood risk policy and management. The integration of these new actors led to a broadening of the existing policy community, increasing its operational capacity for developing and implementing alternative policy pathways.

The choice for a broad-based consensual approach, one that emphasized gradualism (no rush into big infrastructural works) and joint fact-finding, puts the Delta Programme's approach into the mainstream of the so-called 'polder politics' which has long characterized Dutch water management as well as many other domains of public policy (Hendriks and Toonen 2001). Combined with

the incremental, step-by-step approach to implementing the policy changes, the Delta Commissioner created a safe environment for piecemeal, risk-averse policy innovation. The fact that the trigger for the entire process—the (possible) long-term consequences of climate change—was framed as highly important but not urgent, gave this approach its credibility. It is highly unlikely that in this cultural context another, more top-down and crash-through approach would have achieved similarly good results faster or more cheaply. At the same time, it is also questionable whether this incremental approach to policy reinvention is suitable when the need to adjust flood policies is far more serious and urgent, as is the case for flood-prone communities in less resourceful countries.

It is difficult to predict whether the Delta Programme's success will prove sustainable across the programme's projected lifespan, yet on current indications its prospects are good. Measures have been taken to guarantee the long-term availability of resources. The new flood risk norms have been written into law. Stakeholder support for the philosophy of adaptive delta management—which institutionalizes periodic (every six years) revision of the norms and the measures in order to keep them up to date in the face of changing geophysical and socio-economic conditions—is broad and deep. All this bodes well for the programme's robustness.

The case of the Dutch Delta Programme suggests the importance of an authoritative 'honest broker' supported by a lean but high-quality staff performing catalytic, facilitation, and stewardship roles designed to energize and empower an existing governance network in tackling major new challenges that cannot be effectively addressed using only existing repertoires. It also suggests that there is merit in taking the time and making the effort required to activate and involve a wide and diverse suite of actors; this may be critical in forging a policy community that is willing and able to engage in a collaborative innovation process. Third, the case shows the power of small steps even when tackling complex and large-scale problems (Collingridge 1992). Fourth, making explicit choices early on to preserve those elements of existing practices that function well can contribute significantly to increase support for innovation efforts. Finally, the Delta Programme case suggests there is indeed wisdom in Rahm Emanuel's maxim that policy-makers should 'never let a good crisis go to waste': by 2010, climate change was still a 'creeping' crisis—high threat, major potential impact, massive uncertainty, but no immediate time pressure—allowing for a proactive yet piecemeal, learning-oriented response strategy. There was enough pressure to 'get going' but not enough pressure to generate impulses to go for the kind of dramatic gestures and quick fixes that arise in acute crises. Moreover, the source of the threat was exogenous to the system that had to respond to it, so there were no blame games to dilute the problem-solving energy.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

### Note

1. This chapter is based upon two different sources of empirical material. First of all, a secondary analysis is made of many different research projects in which the Dutch Delta Programme was analysed. I also used existing descriptions of the Dutch Delta Programme (Van Twist et al. 2013) and a couple of scientific articles (Verduijn et al. 2012; Van Alphen 2016). Secondly, as a researcher, evaluator, and adviser I was involved in a couple of research projects related to the Dutch Delta Programme (Van Buuren and Teisman 2014; Van Buuren et al. 2013; Ellen and Van Buuren 2014; Van Buuren et al. 2015).

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# The Copenhagen Metropolitan 'Finger Plan'

## A Robust Urban Planning Success Based on Collaborative Governance

*Eva Sørensen and Jacob Torfing*

### **The Long Shadow of a Post-War Expansion Plan**

The metropolitan area in the Danish capital of Copenhagen has successfully avoided both urban sprawl and overly dense and chaotic urbanization. The early adoption of a comprehensive and adaptive urban plan has created a well-balanced, award-winning metropolitan area that combines residential neighbourhoods with green areas and access to public transport. The urban plan was drafted seventy years ago and still governs urban planning practices in the greater Copenhagen area.

Physical planning of urban developments is extremely complex due to conflicting pressures on land use, contradictory socio-economic dynamics, uncertain prognoses and outcomes, multi-level governance structures, and limited public planning capacities. In addition, comprehensive planning of housing and supportive infrastructures often fails because planning experts dream up ambitious master plans that have little or no bearing on local conditions, knowledge, and needs and only enjoy modest political and popular support. Finally yet importantly, socio-economic turbulence, shifting political priorities, and bureaucratic resistance may undermine stated planning objectives and preferred strategies for how to attain them. Against this background, it is surprising how successful the so-called 'Finger Plan' in Copenhagen has been in governing decades of urban expansion in ways that secure desired outcomes in terms of high quality urban living and continuous support for core planning objectives by elected politicians, public planners, private stakeholders, and citizens.

The Finger Plan was conceived in the optimistic post-war years from 1945 to 1948 when pressure on land use outside the city centre was still limited. It was initiated by the private Urban Planning Lab and implemented by a dedicated group of planners in the semi-independent Regional Planning Office. In today's terminology, it was a bottom-up policy initiative that managed to garner support

from local, regional, and national government officials as well as a broad range of interest organizations and civil society associations. Political support was so strong that the Finger Plan soon became the official planning doctrine of public authorities in the Copenhagen metropolitan area, effectively turning it into a top-down planning strategy.

The Finger Plan provided an ambitious and comprehensive plan for how future urbanization in the Copenhagen metropolitan area should cluster around regional traffic axes for trains and cars running outwards from the city centre along five fingers that created residential areas separated by green wedges. The Finger Plan was constantly challenged by new developments and superseded by higher than expected growth rates, but it was able to accommodate these by integrating new demands and adapting the original plan to changing circumstances.

This chapter analyses the conditions for, and the adaptive development of, the Finger Plan. The empirical analysis of the factors driving the successful formulation and implementation of the Finger Plan will pay particular attention to the question of timing, the development of a responsive policy design, the strength of metaphors, the process of collaborative governance, the role of leadership, and the ability to adapt to changing conditions. The discussion section introduces the notion of 'robustness' in seeking to understand the governance success of the Finger Plan. The chapter concludes with lessons learned.

Our empirical analysis of the Finger Plan is based on original planning documents and narrative historical accounts of the planning process by the involved actors. Over the years, the Danish Urban Planning Lab has made numerous efforts to collect historical accounts from all the main actors. These accounts are often rather personal and may tend to paint a rosy picture of the past, but there are so many different accounts that it is possible to cross-check facts and events and piece together a pretty solid interpretation of the planning process and its results and achievements. Unfortunately, the material tends to lapse into long technical planning discussions, with only rather scant information on governance issues. Our intention to interview some of the main actors to obtain further information about the governance process had to be abandoned since the key actors have all passed away. Fortunately, there are enough bits and pieces to assemble a good understanding of the political and administrative dynamics.

## **A Planning Success**

Physical planning of urban environments is an important aspect of public policy and governance (Hajer and Wagenaar 2003). Successful planning produces a highly visible result in the form of cities with distinctive and well-connected neighbourhoods, well-functioning transport systems, and easy access to workplaces, shopping, public services, and recreational areas. By contrast, planning

failures—which are ubiquitous—result in urban sprawl, defined as dispersed and inefficient urbanization at the fringe of urban areas which results in sub-optimal land use, uneven development, and the loss of open farmland and nature. Urban sprawl begins as scattered, low-density, car-dependent settlement patterns but, after a while, continued expansion turns it into dense and incoherent urban environments characterized by unintended clashes between residential enclaves and polluting industries, lack of key public and private service functions, severe traffic congestion, limited access to green areas, and low quality urban living (Johnson 2001; Squires, 2002; Nechyba and Walsh 2004). In the United States, where urban planning is weak and limited, urban sprawl and overly dense and chaotic urbanization are considered major problems (Downs 1998). Stronger planning regimes in Northern Europe have made it possible to prevent urban sprawl and incoherent urbanization through the development and implementation of broad framework plans for current and future land use. They have also prevented the development of cities in which housing and industry compete for space, traffic congestion is the norm, and green areas and open nature are scarce.

Planning is important, but planning disasters are frequent due to a combination of uncertainty about future socio-economic developments, interest-based conflicts among key stakeholders, and shifting preferences and value judgements among the public and associated opinion formers (Hall 1980). Planning builds on an element of forecasting—perceived as a mechanical exercise in projecting future trends—that often turns out to be flawed. In addition, conflicts of interest between politicians, professional planners, bureaucrats, and private actors, including citizens, private firms, and civil society organizations, may erode support for even the most carefully designed master plans, thus preventing long-term planning. Finally, the popular image of what constitutes a good and liveable city may change over time, causing planners and politicians to halt or reverse existing planning strategies and invent new ones, only to revert to some version of an older strategy.

The ubiquity of planning failures should not, however, overshadow the many examples of successful planning. We can learn a lot from studying ‘the dog that doesn’t bark’, but we hardly ever scrutinize cases of successful planning (for a notable exception see Innes and Booher 2003, 2010). The latter are treated as unique, singular, and exceptional experiences that can neither be generalized nor learned from. We counter this trend by examining a genuine planning success that has managed to achieve its core objectives while maintaining broad-based political support.

*Programmatically*, the Finger Plan has had a very positive impact on the lives of Copenhageners. Not only has it prevented urban sprawl, it has also prevented the construction of chaotic and congested cityscapes with a low quality of life. The Finger Plan has facilitated rapid urbanization in post-war Copenhagen without compromising the demand for distinct, coherent, and self-servicing neighbourhoods with easy access to fast and reliable transport to the inner city and to green

recreational areas situated right next to the residential areas. Private developers have no doubt cursed the strict enforcement of the core principle of the Finger Plan that prohibits the construction of shopping malls and new neighbourhoods in the attractive green wedges separating the urban fingers. By contrast, local sports associations, nature conservation organizations, and environmentalists have praised the protection of the green areas and their proximity to the residential neighbourhoods, as this enables local citizens to enjoy the healthy pleasures of outdoor activities.

The contemporary architect Jens Rørbech describes the Finger Plan as an 'ingenious plan for the metropolitan area' (Rørbech 2011). Indeed, most commentators consider the Finger Plan to be the biggest Danish planning achievement ever. It is a cultural icon that most Danish people have heard about. In 2006, it was included in the Ministry of Culture's national list of outstanding cultural heritage sites, and it continues to be the subject of celebration and discussion. In 2013 and 2014, the international global affairs magazine, *Monocle*, ranked Copenhagen as the world's most liveable city, mostly due to its grand urban design, and in 2017 the government invited public and private stakeholders to a debate about the need for future additions to the Finger Plan.

The policy *process* was expert driven, but still quite inclusive. As a result, the Finger Plan enjoyed widespread political, administrative, and societal support. Despite its character as a comprehensive master plan based on rigid principles about urbanization, land use, and centralized planning initiatives, the Finger Plan was successfully implemented throughout the post-war period. Over the years, new demands were incorporated, and adjustments in the face of new developments were made in a flexible manner and based on deliberation between a broad range of public and private stakeholders.

*Politically*, the popularity of the Finger Plan amongst Copenhageners, especially those who moved out to the suburbs to enjoy the fresh air and green environment as well as easy access to public transport, further enhanced support for the Finger Plan at different levels of government and among politicians from different political parties. The positive response both from local residents and elected politicians, and the international praise from foreign planning experts, convinced the planning authorities in the Copenhagen metropolitan area that the Finger Plan was close to perfect.

In terms of *endurance*, the Finger Plan's core principle of separating areas for housing development from open land was maintained in urban development plans throughout the 1950s, 1960s, and 1970s, and it continued to inform planning reforms in the 1990s and at the beginning of the new millennium. The most recent regional plan for the metropolitan area is called *Fingerplan 2018* (Ministry of the Environment 2018). The Finger Plan survived a minor attack in the late 1960s and early 1970s, when a state-sponsored plan introduced some disruptive planning ideas, and it has been adapted in several ways in response to

new demands and developments. However, its core principle is still intact and even the most recent attempt to improve cross-cutting transport between the fingers and expand the palm of the hand through land fill merely tends to confirm and consolidate the existing finger structure.

The Finger Plan with its urban fingers radiating from the city centre was inspired by the planet-city of London, but the fingers were prevented from spreading to the east by the sea that separates Denmark and Sweden. Cities like Helsinki and Stockholm have also concentrated urbanization along fingers, whereas Barcelona has created a green belt around the city to provide access to open nature. A green heart shared by a ring of surrounding urban areas is found in the Randstad region in the Netherlands. As such, the Finger Plan is a particular type of planning strategy that, like other planning strategies, aims to avoid unplanned urbanization that often results in an amalgamation of urban areas with few and fragmented green areas. Typical examples of the latter are found in Antwerp, Los Angeles, and Milan (Vejre et al. 2007). Compared to those examples, the Finger Plan governing urbanization in the Copenhagen metropolitan area is an undisputed success.

In a world where plans are constantly undermined, halted, reversed, and changed, the longevity of the Finger Plan is truly remarkable and an indicator of its success. We will try to explain this enduring success at the end of the chapter but let us not forget that the Finger Plan is literally supported by strong path dependency (Pierson 1995, 2000). When the S-train lines that form the core of the fingers were first built, and new housing developments began to cluster around the train stations, the path was laid for further expansion along the urban fingers, and the cost of changing and redesigning the urban structure became exorbitant. Moreover, after a few years, planners, politicians, and private developers soon began to think and act in terms of the Finger Plan, thus providing positive feedback that further reinforced the structure. New generations of planners were educated in the ideas and principles of the Finger Plan, local politicians sought to thicken and extend the finger that fell under their jurisdiction, and private developers knew exactly where they should buy land in anticipation of new urban developments at the tips of the fingers. While the original path dependency argument (David 1985) is that the contingently chosen path will prevail in the face of more optimal solutions, in the same way as the QWERTY keyboard survived the invention of new and faster keyboards, it is difficult to identify that kind of competition in relation to the Finger Plan. So far, there has been no real competition to challenge the Finger Plan and no alternative urban plan has claimed to provide a better and more efficient planning model for the Copenhagen metropolitan area. In other words, the highly successful Finger Plan has enjoyed almost total hegemony, except for a few skirmishes along the way.

## **The Historical Context for the Emergence of the Finger Plan**

To provide some context for the emergence of the Finger Plan, let us briefly recount the political and socio-economic events leading up to post-war planning efforts. In 1848, a peaceful democratic revolution put an end to almost two centuries of absolutism in Denmark and paved the way for the formation of a constitutional monarchy. The absolutist king had built a strong and modern state that was now controlled by a democratically elected parliament and a government appointed by the king. Based on an efficient tax collection system and meritocratic recruitment of public administrators, which were both established by the absolutist state, the public sector slowly took the form of a Weberian-style bureaucracy based on hierarchy, specialization, rule-governed decision-making, and the separation of politics and administration. The continued devolution of powers and tasks to regional and local governments and individual public service organizations such as hospitals and schools meant that public bureaucracy was combined with a strong professional rule that gave the well-educated public professions inhabiting the public welfare institutions considerable power and discretion (Andersen et al. 2017).

Over time, the democratically controlled bureaucracy was supplemented by an elaborate system of collaborative governance that sought to bring relevant and affected actors from the state, market, and civil society together in public decision-making (Christiansen and Nørgaard 2003). The collaborative governance tradition was prompted by the coexistence of a strong and well-functioning state and a strong and well-organized civil society that called for the formation of arenas for cross-sector interaction. The collaborative tradition was also spurred by the rise of strong cooperative movements from the 1870s onwards. The farmers formed a cooperative movement in order to facilitate the transition from crops to animal farming, whereas the workers formed cooperatives in response to capitalist exploitation. The cooperative movements demonstrated that socio-economic problems could be solved through multi-actor collaboration. The development of the collaborative tradition in Denmark deepened with the gradual institutionalization of corporatist negotiations between employers and employees in the private labour market, and between the social partners and government officials in local and national policy-making. The elaborate system of corporatist negotiation was formed in the 1890s, institutionalized around the First World War, and further expanded during the 1930s and in the post-war era. It reached its high point in the 1960s and 1970s, and while the role and impact of tripartite negotiations has declined in the 1980s and 1990s, the role of loosely coupled networks that bring together a broad range of public and private actors seems to have increased at all levels of government, not least the local municipalities where politicians and administrators engage in extensive negotiations with local citizens and stakeholders (Torfing 2010).

Corporatist negotiations combined with a stable political alliance between social democrats and social liberals have played a key role in the expansion of the universalistic welfare state before and especially after the Second World War. Denmark has one of the most decentralized welfare states in the world. The subnational regional authorities are led by democratically elected regional councils, and are in charge of health, planning, and infrastructure; and the local municipalities are governed by elected municipal councils and have responsibility for service delivery, but also for local planning. Together, the regions and the municipalities spend almost two thirds of total public expenditure and deliver the lion's share of tax-financed welfare services to the citizens, although the latter are based on national legislation and state regulation that define minimum standards. Originally, devolution was spurred by the central state's promise to reimburse local governments that built public schools, public libraries, hospitals, social institutions, and so on. Today, the local municipalities are financed by a combination of block grants from the central government and locally collected income and property taxes.

In terms of urban planning in the metropolitan area, there were a few, lone attempts to plan urban development when King Christian IV expanded what today constitutes the inner city of Copenhagen in the first half of the seventeenth century. Recurrent fires and epidemics decimated the city and its population until a new growth era began in the second half of the nineteenth century. New neighbourhoods were built outside the urban fortifications that were later torn down. In 1856, the first building and construction law was passed in order to regulate the booming construction sector in Copenhagen. Two years later, the law was expanded to include construction work outside the city of Copenhagen (Hansen 2001).

As the population continued to grow at the beginning of the twentieth century, new land from the areas surrounding Copenhagen to the north, west, and south was prepared for urban development, and the construction of new neighbourhoods followed a carefully designed plan that emerged after an international architectural competition in 1908–9. This was a major breakthrough for urban planning in the metropolitan area that by now included several municipalities, of which the Municipality of Copenhagen was the largest. In 1925, the first national urban planning law was issued. The new planning law prompted the Municipality of Copenhagen to expand its administrative planning capacity (Lyager 2004). In 1939, the planning law was supplemented by a new building law that mandated all the municipalities in the Copenhagen metropolitan area to develop local plans for appropriate urban development and allowed them to expropriate land without monetary compensation. As part of the new law, the Ministry of Domestic Affairs appointed a Planning Commissioner who would discuss local plans with the municipalities and ultimately approve them. The growing emphasis on urban planning helped to ensure the construction of new neighbourhoods with proper

sanitation, adequate transport, and recreational facilities, but it did not prevent a layered and somewhat chaotic development of housing and industrial production sites at the outskirts of the new neighbourhoods (Hansen 2001).

In order to plan and regulate land use at the periphery of the new neighbourhoods, a new planning law in 1949 required local and regional authorities to make long-term development plans that distinguished between land zones, urban zones, and middle zones (Hansen 2001). The construction of new housing in the land zones was strictly forbidden. The new planning law, which was later expanded and renewed in the 1960s and 1970s, was an important condition for the emergence and longevity of the Finger Plan. While the regional authorities in the metropolitan area did not have the mandate to determine what should be built, how and where, they were able to use the zoning law to ban housing construction in certain areas.

The post-war planning endeavours in Copenhagen were driven by a young generation of architects who had begun to meet in their lunch breaks during the Second World War, and who longed for the German occupation to end so that a new era of rational planning could begin. The Danish planning-for-peace-in-wartime movement drew inspiration from Britain, where 'planning' was seen as a potent tool for reconstructing cities that had been destroyed by German bombs. This rational and analytical approach to planning was in particular inspired by Patrick Geddes' book *Survey before Planning* (1949). The title soon became a slogan for the new generation of urban planners (Lyager 2004).

The mandatory development of local urban development plans called for coordination across the municipalities in the metropolitan region to avoid conflicts and create synergies. There was a growing need not only for housing, but also for train lines, road construction, and recreational areas. In the 1930s, a series of independent expert committees had worked on housing development, railroad lines, traffic plans, and the preservation of large stretches of open land. However, there had been no coordination between the different planning initiatives and no attempt to assess the implications of one planning initiative for another. Hence, the call for inter-municipal coordination was complemented by an urgent need for cross-sectoral coordination of post-war planning efforts.

Social and political actors in the Copenhagen metropolitan region faced a formidable challenge. The absence of a comprehensive regional plan for an integrated expansion of housing, transport, and green areas would result in urban sprawl in fringe landscapes and a chaotic and layered urbanization outside the inner city. This would create an incoherent amalgamation of housing, business, and service functions without access to public transport and green areas. Urban sprawl onto open land and attractive sites along lakes and coastlines had been growing throughout the 1920s and 1930s, and could not be stopped by conservation, since only forests were deemed worthy of this (Vejre et al. 2007). In the urbanized areas in and around the inner city, there were several examples of

housing and industry located side by side in congested cityscapes with limited access to green areas. Planners, administrators, and politicians agreed that these unintended negative developments had to be stopped by a rational and comprehensive plan for the location of housing, business, service functions, transport lines, and green corridors. A holistic plan was needed that respected and combined all these functionalities while simultaneously facilitating and accommodating the expected growth of the Danish capital.

The post-war planning goal was accomplished by sticking to the 'central city concept' but letting housing and local service functions develop along five fingers stretching out from the inner city, which would constitute the palm of the hand. The fingers would expand along a new subway system (the so-called S-train system) that would be supplemented by roads running along the borders of the five fingers. The fingers would be separated by green wedges that provided easy access to nature and recreation for those living along the urban fingers. The Finger Plan is illustrated in Figure 12.1.

The Finger Plan turns the potential zero-sum game between rapid urbanization, efficient transportation, and nature conservation for recreational purposes into a plus-sum game by linking the different functionalities in ways that create synergies rather than mutual externalities. This is done by replacing the traditional layered expansion of big cities with a radial development where the different functionalities are placed side by side along the fingers.

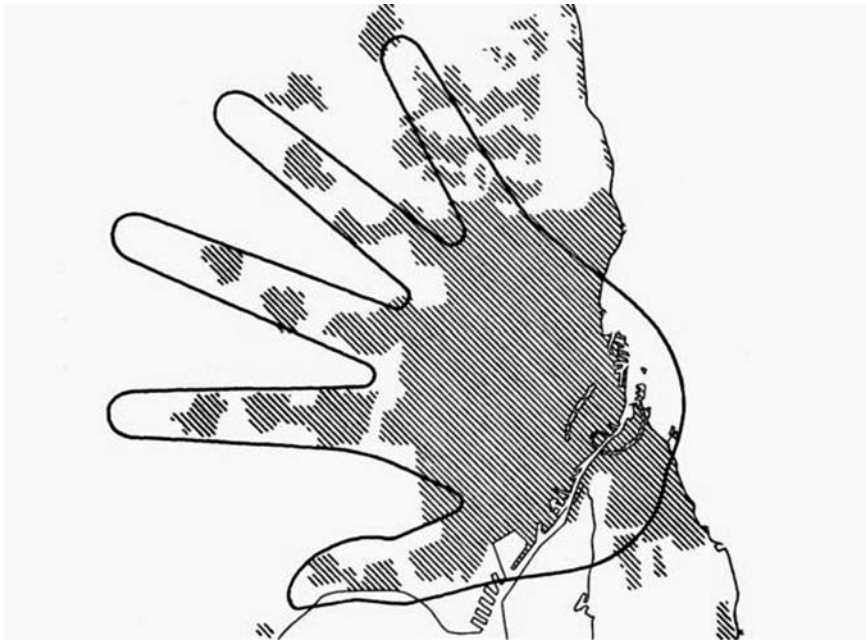


Figure 12.1 Illustration of the 1947 Finger Plan

Two leading planning experts, Steen Eiler Rasmussen and Peter Bredsdorff, initiated the process that led to the formulation of the Finger Plan. In March 1945—two months before the German occupation ended—they invited a broad range of interested people to an open meeting in the Danish Urban Planning Lab, which was a private forum for discussion amongst architects and planners. The topic of discussion was the need for comprehensive metropolitan planning. Soon after, the Danish Urban Planning Lab created the Regional Planning Office, an independent institution that was nonetheless co-financed by the local municipalities, the regional government, and several ministries. In 1947, the Regional Planning Office published a 'Sketch of a new plan for the greater Copenhagen Area' that came to be known as the Finger Plan (Regional Planning Office 1947). The sketch was not formally approved by elected officials, but was widely circulated amongst planners, bureaucrats, and politicians. It was crafted by a team of planners and architects led by Peter Bredsdorff, who also led the formulation and implementation of a number of local development plans from 1949 onwards, as well as the new General Plan for the metropolitan area that was adopted in 1952. While the state financed the local development plans and the City Councils endorsed them politically, the responsibility for their formulation and implementation was placed in the hands of the original team behind the Finger Plan (Lyager 2004). The new General Plan from 1952 was mainly an operationalization of the principles laid down in the Finger Plan in and through a series of local development plans that were assembled and mutually integrated.

Although elected governments at the local, regional, and national levels supported the development of the Finger Plan and formally approved the General Plan that governed its implementation, the Finger Plan was created through a bottom-up initiative by professional planners who enjoyed a high degree of autonomy. Drawing on recently developed theories of governance (Jessop 2002; Kooiman 2003; Sørensen and Torfing 2009), we can say that the involved government agencies played the role of a meta-governor that framed, supported, financed, and endorsed a networked governance process that took place outside the formal institutions of government, although it included a broad range of government actors.

### **Policy Design, Political Decision-Making, and Initial Implementation**

The Finger Plan built on the assumption that growth in business and housing was inevitable and impossible to stop (Regional Planning Office 1947). The plan had to allow for continued population growth, but the growing number of people had to be directed to the west and south-west in order to protect the north that was already relatively developed at the time. It also built on an early recognition of

the need for fast and effective transport combining trains and cars, and for easy access to green recreational areas. The latter was already clearly stated in a 1936 inter-municipal white paper on the protection of green areas (Forchhammer 1936). As explained earlier, the challenge was to avoid incremental, unplanned urbanization where housing, business, and small pockets of nature were mixed up in a messy structure that prevented the development of an efficient public transport system. Fortunately, the planners had a keen eye for balancing urban areas with non-urban green areas, and for separating the two from each other while ensuring mutual proximity. As one of the chief planners argued: 'The most important thing in urban planning is to identify the areas that should not be urbanized' (Andersen 2001: 5).

Retrospectively, we can say that the Finger Plan builds on two simple design principles. The first principle is 'station proximity', which basically establishes that housing, business, and service functions should cluster in centres placed along radial railroad lines and roads, constituting the joints in the fingers. The second principle is 'green wedges', which establishes that the urban fingers should be separated by green areas in which no building or construction is permitted.

The simplicity of the Finger Plan's design was one of its major strengths. The two design principles were combined and condensed in the finger metaphor. The image of a hand with the palm resting on the compact inner city and the fingers spread out in different directions, indicating future urban developments, graced the cover of the original Finger Plan document from 1947, and has since been reproduced in an infinite number of planning documents. The Finger metaphor was simple, easy to communicate to policy actors and the general public, and captured the essence of the new plan in terms of the radial development of housing and transport separated by green areas. People understood it, liked it, and remembered it. The Finger Plan soon became a popular icon. People only needed to take a quick look at the map of the S-train system to be reminded of the Finger Plan that governed the rapid urbanization in Copenhagen. The finger metaphor communicated and travelled well. Today, it provides a well-known reference point in international planning debates (Hall 1989; Ravesteyn et al. 2005; Vejre et al. 2007).

When it was formulated at the end of the Second World War, the Finger Plan was visionary, bold, and highly ambitious in its insistence on a rational and comprehensive approach to planning. It would never have taken off if it had not gained early support from a political coalition of planning experts, local and regional governments, and several ministries. Motives for entering into this broad political alliance differed. Planners were driven by professional concerns for rational and comprehensive planning based on thorough quantitative and qualitative analysis. The twenty-five to thirty municipalities in the greater Copenhagen area clearly recognized the need to coordinate their local planning efforts, and the regional government was keen to develop a comprehensive plan for the

rapid urbanization that was expected in the post-war era following the baby boom after the Second World War and the optimistic embrace of the newly won peace. The Ministry of Labour and the Ministry of Social Affairs were desperate to initiate public construction work in order to reduce mounting unemployment. They knew that investments in housing development and transport infrastructure would please the building and construction sector, including the strong trade unions (Jensen 1990).

Back in the late 1940s and 1950s, there were no systematic attempts to involve local citizens in public planning. However, it is easy to imagine that Copenhageners were keen to move out of the dark and congested inner city and perhaps buy a one-family house in one of the new neighbourhoods that were nicely situated close to public transport, service functions, and green areas. In the local government election in 1946, the Communist Party, which had formed the backbone of the Danish resistance movement, did very well and captured 20 per cent of seats in the Copenhagen City Council. The communists secured the mayoralty for planning and development, and the new mayor immediately called for a general urban development plan and supported the idea of developing a larger regional urbanization plan (Theisen 2001). Political support for the Finger Plan was secured.

As already mentioned, everything started with a new generation of planners who met over lunch to discuss their grand planning ideas. In order to muster support from administrators and politicians from local, regional, and national government, the planners wrote pamphlets and newspaper articles and gave public presentations on planning issues wherever they were invited to speak, not least at the so-called 'office meetings' at the city hall where there was a lively debate over the prospects for urban planning in the metropolitan region (Lyager 2004). The Urban Planning Lab took the initiative to form the Regional Planning Office that became the vehicle for the formulation of the Finger Plan. Seven planners and five technical drafters were attached to the Regional Planning Office that was headed by Peter Bredsdorff, who was a visionary and hard-working leader who taught at the Academy of Arts and ran a small planning consultancy firm when he was not working on the Finger Plan (Jensen 1990).

An Advisory Board comprising more than fifty people from local municipalities, regional government, national ministries, interest organizations, and civil society organizations such as social housing associations and the national sports federation, oversaw the work of the planners. Annual meetings provided detailed information about the evolving Finger Plan but did not allow for much debate. They mainly served the purpose of disseminating information to the hinterland of the board members and building support for new ideas and proposals (Jensen 1990).

The plenary assembly of the Advisory Board formed a smaller Work Committee consisting of administrative leaders from municipalities, the capital region,

and the state, and a handful of independent experts from the planning, building, and transport sectors. The Work Committee met twice a month and was the focus of intense political debate. Professional, economic, and political interests clashed, and it is reported that Steen Eiler Rasmussen and Peter Bredsdorff had to use all their diplomatic skills to settle disputes and muster support for the emerging Finger Plan (Jensen 1990). Apparently, the only major defeat they suffered was that the Work Committee refused to ratify the Finger Plan document. This problem was soon turned into an advantage since the final document could now be written in a clear and straightforward manner without too many compromises and with a pointed and stirring foreword by Peter Bredsdorff.

The Finger Plan was further specified and operationalized in the General Plan from 1954 that provided the templates for its implementation. The General Plan was later superseded by the 'Principal sketch of a regional plan' from 1960 that estimated an increasing growth rate and put further emphasis on the development of the fingers towards the south and the south-west.

The Finger Plan was designed by architects and planners and then successfully sold to a broad range of stakeholders, including local and regional authorities that were responsible for its implementation, and to the ministries of labour, social affairs, and transport that monitored and financed its implementation. The nested planning structure involving close interaction between local, regional, and state planning continued in the subsequent decades in which the Finger Plan was implemented and adapted. The local municipalities were responsible for developing local plans based on local hearings. At the regional level, the Regional Planning Committee (1967–74), the Capital Council (1974–89), and the Capital Development Council (2000–6) had overall planning responsibility in the metropolitan area and maintained close relations with key for-profit and non-profit stakeholders that were involved in a large number of public committees. With the municipal amalgamation reform in 2007, regional planning responsibility was split between the local municipalities and the state. The Ministry of Social Affairs and the Ministry of Labour had ceased to play a role in the planning process since urban planning was no longer seen as a tool for boosting employment in the building and construction sector. The Ministry of Domestic Affairs that regulated the municipal sector had also lost influence to the new Ministry of the Environment that became the chief planning agency as planning was increasingly connected with environmental issues. As such, the most recent versions of the Finger Plan were formulated by the Ministry of the Environment.

The decisive step in the implementation of the Finger Plan was the construction of the five S-train lines around which the new housing and the related business and service functions would cluster and form small urban centres like the joints on a finger. There were already two S-train lines, so another three lines had to be built to complete the transport radials stretching out from the palm of the hand that comprised a dense urban area with surface traffic running in all directions

and a ring road that connected the industrial areas at the roots of the fingers. The construction of the S-train lines was carried out by the state-owned railway company, DSB, that would further extend the S-train lines when new housing areas were constructed at the tips of each finger. There were many discussions about the placement of new train lines and roads. Decisions were taken based on careful analysis of localities. Train stations were located so that local residents would have no more than fifteen minutes' walk to the nearest S-train.

When the S-train lines were first built and the new zoning law had banned housing in the green wedges, the development of new housing and service functions along the fingers almost took care of itself. Private investors constructed new neighbourhoods based on local plans developed by the municipalities. All in all, the implementation was relatively successful inasmuch as urbanization developed along the city fingers and the green wedges were protected from urban sprawl (Primdahl et al. 2006). However, one of the green wedges to the north-west came under heavy pressure from urbanization. It was repeatedly eroded due to uncoordinated municipal planning, and the remaining green space was only narrowly rescued when the four local municipalities came together and made a joint agreement to preserve it (Vejre et al. 2007). While for the most part the size of the green wedges has been protected, the Finger Plan has been unable to prevent agricultural landscapes from being transformed from production to consumption landscapes. As such, hobby farmers and sports grounds have replaced full-time farmers and farmland. However, from the point of view of the residents, this might appear to be a positive development.

### **Absorbing Change: Adapting the Finger Plan**

While the initial implementation of the Finger Plan was relatively frictionless, new demands started to emerge only a few years after the General Plan had begun to be implemented. Already in 1958, it was clear to everybody that both economic and population growth exceeded the predictions in the Finger Plan, which had been made during a downswing after the economic crisis in the 1930s and the war in the 1940s. At the end of the 1950s, a growing number of planners claimed that the Finger Plan had outlived itself and should be abandoned (Larsen 2004).

A new state-sponsored regional 'Principle Plan' from 1960 abandoned the Finger Plan altogether and proposed new housing developments and trade centres along a new high-speed railroad towards the south-west that would eventually open Copenhagen up towards the rest of the country (Larsen 2004). The Municipality of Copenhagen rejected this plan entirely because it would stimulate growth outside the Copenhagen metropolitan area. Soon after, it announced its own plan which proposed a combination of longer fingers with new joints, massive urbanization of the island of Amager situated south of the city centre,

and the construction of large shopping malls and housing complexes at the roots of the fingers.

The construction of large shopping centres and housing complexes along the freight train line connecting the roots of the fingers was opposed by the local municipalities and residents outside the city centre, who feared that new buildings and roads would diminish the green areas and create further traffic congestion. A lot of negotiations took place back and forth between the municipalities and the regional authorities, and in the end a compromise was reached to build a new urban centre outside Copenhagen in Høje Tåstrup on the railroad line to Roskilde, towards the south-west. There was much more space out there, and a new urban centre would alleviate the pressure on Copenhagen while still being located in one of the fingers. The plan was executed with considerable delay, but Høje Tåstrup never became a vibrant urban centre.

The idea of a massive expansion of housing on the island of Amager was promising. An architectural competition was held in 1965, and the winners provided detailed plans for the urbanization of Amager. The only problem was that the new plans required that Copenhagen Airport would have to be moved to a new place, preferably to the unpopulated island of Saltholm next to Amager. Preparing this small island for building and construction, and digging a tunnel to the new airport, would have been extremely costly, however, and the plans for the new neighbourhoods and airport removal were soon abandoned.

In the end, it was the economic crisis from the mid-1970s onwards that put an end to the dreams of massive housing expansion on Amager and the construction of large shopping malls and housing complexes along the freight train line. Denmark entered a long period of stagflation that put pressure on public finances and lowered demand for new housing. In addition, there was a growing concern for the uneven development of Denmark, with too much emphasis on stimulating growth in the capital region. This new discourse halted the plans for the construction of new highways in and around Copenhagen (Elle 2004). From now on, new highways were to be built in the western part of Denmark rather than in the metropolitan region to the east.

So, what remained of the new municipal plan was really an extension of the Finger Plan with longer fingers in each direction. New, and perhaps thicker, joints would be added along the southern finger to Køge and the south-western finger towards Roskilde. A new finger along the northern coast line to all the rich residential neighbourhoods was also added by extending the old S-train connection to Klampenborg. The train line was carried through to Elsinore, and new neighbourhoods expanded in Kokkedal and Humlebæk. The new northern finger figures prominently in recent representations of the Finger Plan model (Ministry of the Environment 2007: 17, 2013: 5). In some of these representations, one of the original fingers is depicted as a half finger, reflecting the fact that it was never extended as far as was originally planned (Ministry of the Environment 2007: 15,

2013: 2). Hence, fingers are modular and consist of sub-modules. They can be extended and shortened, and new fingers can be added. The urban fingers and their joints are highly flexible and scalable.

The 1980s saw a growing focus on urban regeneration in the inner city and in the adjacent bridge areas that had received scant attention from advocates of the Finger Plan, who were more concerned with the fingers than the palm of the hand. Bulldozer tactics were applied in some neighbourhoods, leading to popular and political protests and occasionally to uprisings. Alternative strategies focusing on renovation of existing buildings and the creation of green inner courtyards spurred gentrification as the original tenants could not afford to live in the renovated flats. Finally, the old industries along the harbour front closed down or moved out of town, and the harbour front area was gradually redeveloped with new and expensive housing and new corporate domiciles and office buildings (Mikkelsen 2004).

The return to the Finger Plan after the frontal attack in 1960 that was ultimately defeated by the economic crisis in the 1970s was further cemented by the new regional plan from 1989 that brought back the principles of the original Finger Plan while simultaneously emphasizing the need to connect the fingers with each other (Capital Council 1989). The next twenty years saw the construction of new large ring roads, speedy bus lines, and metro systems that cut across and connected the fingers at various points so that people did not have to return all the way into the city centre before they could connect with another finger towards their destination. However, linking the fingers through the creation of cross-cutting transport systems only confirmed the existence of the fingers, and there continues to be a total ban on all forms of urban development in the green wedges. Today, further urbanization in the palm of the hand is no longer possible, and only minor and carefully balanced urbanization is permitted along the fingers as long as it respects the principle of proximity to a train station (Ministry of the Environment 2007). S-train stations that are connected by cross-cutting lines of transportation have been given a new status as 'hub stations' around which particular service and business functions are expected to emerge and cluster (Ministry of the Environment 2013, 2017).

A new theme in regional planning is the creation and maintenance of transport corridors on Zealand, where Copenhagen takes up the easternmost region. According to a new state-sponsored plan (Ministry of the Environment 2017), the municipalities in Zealand are required to make a long-term reservation of land to enable future transport and technical infrastructure along two corridors, one stretching from north to south Zealand, and another traversing the island from east to west. If the Danish planning regime had been weak and had allowed the development of urban sprawl, the creation of these two transport corridors would have been impossible or would have required numerous expropriations.

Seventy years after the launch of the original Finger Plan, the regional plans from 2005, 2007, 2013, and 2017 all feature 'Finger Plan' in their titles. In addition, the '2007 Finger Plan' talks about the Finger Plan as a celebrated cultural heritage artefact that will exert a strong influence on future planning. The Finger Plan is as influential as ever before, not least because it has been rearticulated as a key parameter in the global knowledge economy. Originally the Finger Plan was seen as a planning response to local challenges such as urban sprawl and soaring unemployment. Now, it is seen as a major asset in global competition in which the quality of the urban environment is a key parameter in the effort to attract highly qualified people and innovative businesses (Ministry of the Environment 2007: 8–12).

A recent report invites citizens and stakeholders to debate the future development of the capital of Copenhagen (Danish Urban Planning Lab 2017). The opening sentence declares that: 'The Finger Plan is central for the development of the capital region'. The report goes on to list a number of challenges such as lack of affordable housing, the need for enhanced mobility for skilled labourers, demand for a liveable urban environment around the S-train stations, and the need to protect biodiversity and secure access to green areas. While all of these challenges call for new initiatives, they are all thought to be achievable within the overall framework provided by the Finger Plan.

### **Why the Finger Plan Was Successful**

The Finger Plan was formulated through an effective combination of planning expertise and inclusive deliberation with stakeholders. It was implemented in an almost frictionless way, it succeeded in avoiding urban sprawl and incoherent urban layering, and it improved the living conditions of thousands of Copenhageners. A self-reinforcing feedback loop between the positive developments on the ground and the political support for its core ideas secured the longevity of the Finger Plan, which was gradually adapted to growth and new demands. In an attempt to explain the multidimensional success of the Finger Plan, we will first recapitulate the contextual factors that helped facilitate the successful formulation and implementation of the Finger Plan, before looking at the inherent qualities that contributed to its successful consolidation and adaptation.

Based on the analysis presented earlier, it is possible to identify a number of *contextual factors* that were conducive to the conception and execution of the Finger Plan and which help to explain its success. The first factor has to do with the timing of the Finger Plan, which could not have been better. The imminent end of the German occupation generated a huge enthusiasm for planning in the new era of peace and prosperity which seemed to be just around the corner. The negative, oppressive irrationality of the Second World War was to be replaced

by a positive, rational, and potentially liberating planning future. A window of opportunity was opening (Kingdon 1984) and the moment was seized by a dedicated group of architects and planners.

The second conducive factor was the high degree of professional autonomy within the Danish welfare state, which allowed a new generation of skilled and visionary planners to initiate the planning process, formulate an ambitious and comprehensive plan, and slowly generate political support for their bold ideas. Trust in the expertise of public sector professionals and their professional organizations, and willingness to listen to and discuss their public value proposals, certainly helped to get the Finger Plan off the ground.

The third factor spurring the development of the Finger Plan was the availability of positive planning experiences from other countries that the planners could translate to the local Danish environment. Inspiration for this exercise in holistic planning and its careful analysis of empirical trends and contexts came from England. The Finger Plan was greatly influenced by the planet-city model that governed the expansion of the London metropolitan area. However, foreign influences were adapted to the local geography so that the planet-city model with its 360-degree span became a 'finger-city' model with only a 180+ degree span.

The fourth and final factor was the pre-existing recognition of the need to preserve a number of green recreational areas, either through conservation or through the introduction of zoning laws. This recognition added a new and important item to the planning agenda that the Finger Plan could build on. Indeed, ideas about easy access to green areas resonated well with the hygienic welfare state discourse that called for 'light, air and cleanliness' (Schmidt and Kristensen 1986). Ideally, citizens should live in light-filled housing, breathe fresh air and live healthy, happy lives in well-planned suburbs. The Finger Plan clearly inscribed itself within this discourse.

The success of the Finger Plan cannot be explained merely by reference to these conducive contextual factors, however. We would therefore like to point out some of the *inherent qualities* of the Finger Plan that played a decisive role in producing and consolidating its supportive political constituency and adapting it to new developments while sticking to its core ideas.

First of all, the Finger Plan built on a simple programme theory that was easy to implement and generated the desired results. Urbanization should be directed away from the inner city and along a number of fingers separated by green wedges. Housing and local service functions should cluster around the stations on new train lines that would provide fast and efficient transport to workplaces at the roots of the fingers and in the inner city. Keeping the fingers thin would provide easy access to green areas for all the local citizens, thus enhancing their quality of life. Building the train lines and the supporting infrastructure in terms of radial roads at the borders of the fingers proved to be relatively unproblematic, and the

pressure on the green wedges was minimal due to the use of conservation and zoning laws that provided legal support for the Finger Plan.

Second, the simplicity of the Finger Plan allowed it to be captured by a single metaphor that provided an immediate and intuitive understanding of its content. The finger metaphor helped to popularize the otherwise technical and complex plan for the future urbanization of Copenhagen. The Finger Plan became a cultural icon with widespread popular support. The strong image of the palm of the hand resting on the inner city and the fingers spreading out in different directions constituted a 'boundary object' (Star 2010) that all the relevant and affected actors could contemplate and relate to, no matter where they came from. This helped to foster a joint policy dialogue among a plethora of public and private actors about the location, length, and thickness of the urban fingers, the prospects for further expansion at the tips of the fingers, the need to regenerate housing and business districts in the palm of the hand, and the future use of the land beyond the reach of the fingers. The finger metaphor is subject to flexible interpretations as the fingers are extended or shortened and new fingers are added.

This last observation brings us to the third and most important quality of the Finger Plan, that is, its robustness. Drawing on recent discussions of robust policy solutions (Ferraro et al. 2015; Haasnoot et al. 2013), we may say that urban planning is robust when it succeeds in turning problems, conflicts, and demands into design assets while simultaneously using modularity to enhance the future adaptability and polyvalence of the designed solutions. Robust planning is needed in the face of uncertainty arising from turbulence 'where events, demands, and support interact and change in highly variable, inconsistent, unexpected and unpredictable ways' (Ansell and Trondal 2018: 44–5). Planning contexts are turbulent and planning strategies aiming for a high degree of robustness by embracing the challenges and securing future adaptability provide an attractive response to turbulence. While 'protective' strategies aim to avoid turbulence or mitigate its effects by creating buffers, 'resilience' strategies aim to restore the previous equilibrium state by enhancing local capacity to bounce back when exposed to disruptive forms of turbulence. In addition, 'robustness' strategies seek to engage with turbulence in a proactive way by creating a dynamic equilibrium that allows disruptive change to unfold within an adaptive system that is capable of providing flexible responses to future challenges.

Robustness is a quality of policy solutions that helps to explain their success in the long term. Policy-makers may succeed in generating popular and political support for a new plan or policy solution that solves a pressing problem, but its long-term success depends on its robustness. Let us look at two defining elements of policy robustness in relation to the Finger Plan and see how they help to explain its longevity. The first element concerns the ability of a public policy to embrace turbulence by turning problems, conflicts, and demands into design assets (Ferraro et al. 2015). The Finger Plan does that in several ways.

Confronted with the rivalry between the local, regional, and national planning authorities, and the lack of inter-municipal coordination, the Finger Plan gives each of the planning authorities an important role in the comprehensive planning system. The state monitors and helps to finance the planning activities; the regional authority coordinates between the municipalities traversed by the fingers; and the municipalities focus on their own local planning efforts, such as developing residential neighbourhoods and urban clusters around the S-train stations. Everybody gets a say in the process and a piece of the cake. Moreover, confronted with the conflict-generating zero-sum game between urbanization and open land, the Finger Plan aims to turn the relationship between housing development and the conservation of green areas into a positive-sum game. It does so by insisting that easy access to recreational areas is key to ensuring the quality of life of residents in the new urban fingers. Housing and green areas form part of a higher level dialectical synthesis. Finally, confronted with the paradox between the political preference for public transport and the inevitable growth in private cars, the new train lines are supplemented with parallel roads that can lead car traffic towards the inner city. This is no 'either/or' solution, but rather caters for both scenarios.

The second element of robustness is the use of a modular design (Heaton et al. 2013) to adapt a public policy to future turbulence and to rearticulate its different elements within changing political frameworks that bring forth new goals and aspirations. We have already seen how the fingers constitute modules with sub-modular joints that can be extended, cut off, and multiplied in a highly flexible manner in response to changing demands. The modules can also be connected in new ways, for example through the construction of cross-cutting lines of transportation. As such, modularity helps to keep future options open, which is a key aspect of robustness (Padgett and Ansell 1993). Moreover, as time passes, the original concern for economic growth, housing development, and full employment becomes less and less important, while the environmental concern for preserving open land and living close to S-train stations, and thus being able to use public transport, increases. However, this is not the whole story since the most recent development rearticulates the Finger Plan as an important factor in attracting new businesses and smart people in the global knowledge economy. As such, the Finger Plan appears to be polyvalent in the sense that its different elements can be rearticulated and connected to different political projects and visions.

To further justify the claim that robustness is important for the success of the Finger Plan, let us look at a quote from one of the recent Finger Plans published by the Ministry of the Environment:

The urban finger structure appears to be a highly robust structure that has informed urban development in the metropolitan area since the first Finger

Plan emerged in 1947. It has created a remarkable connection between the general functions of the city and the transport infrastructure and created a cohesive recreational landscape that stretches well into the densely populated urban areas. It has been able to adapt itself to changing magnitudes of growth and to the significant changes in business, technology, prosperity and life forms that we have encountered since the middle of the previous century.

(Ministry of the Environment 2007: 12; our translation)

This quotation clearly ties robustness both to the ability to unify the concern for housing expansion and the preservation of green spaces, and to the ability to adapt to quantitative and qualitative change.

The successful design, metaphorical branding, and modular adaptability of the Finger Plan is first and foremost the result of efforts by dedicated, visionary, and skilful planners. However, the planners would not have been able to mobilize the necessary support for their planning ideas or to secure public responsibility for their implementation and adaptation had it not been for the early emergence and continued expansion of an elaborate system of collaborative governance that constitutes the last of four inherent qualities of the successful Finger Plan. From the very beginning, the architects and planners were conscious of the risks of being insulated from the political and administrative decision-makers, and they worked hard to communicate their ideas to the different actors in the 'authorizing environment' (Moore 1995), which included executive administrators, elected politicians, socio-economic interest organizations, and the general public. The bottom-up urban planning initiative had to be firmly anchored both in a horizontal network of relevant and affected actors from the state, economy, and civil society, and in a multi-level governance system in which local, regional, and national authorities had to agree on the overall strategy and division of labour.

The traditional system of top-down government gave way to a system of collaborative governance (Ansell and Gash 2008; Emerson et al. 2012) that combined professional planning expertise (craft work) with political strategizing and popular support (political work). While the planners can be credited with taking the initiative for the formation of this collaborative multi-level governance system (Bache and Flinders 2004), the formal institutions of government gradually took control over the planning process in the Copenhagen metropolitan area. They played the role both of participants in networked negotiations and of meta-governors that gave direction to the process and sought to align the different actors. The planners became a core part of the formal government institutions. In the process they lost some of their independent and autonomous status, although the Danish Urban Planning Lab continues to exist and still orchestrates important planning discussions.

## Learning from the Copenhagen Experience

Policy-makers who manage policy programmes that are not delivering the desired results tend to look elsewhere to see if they can find inspiration for new and better solutions. According to Rose (1991), they engage in lesson drawing, which involves: (1) searching in time and space for promising alternative policy programmes; (2) abstracting the underlying cause-and-effect model in what is observed; (3) creating a lesson or new programme for action; and (4) estimating the consequences of adopting the lesson. There are limits to this kind of lesson drawing. As Kingdon (1984) points out, policy success often rests on a good deal of luck and the ability to exploit the timing of different events and favourable opportunities in the environment. Moreover, successful policy programmes may be difficult to reproduce in a new context with a different and perhaps less favourable set of conditions (Dolowitz and Marsh 1996). The contextual constraints are particularly clear in the field of planning where it is extremely difficult, and often impossible, to switch to a new urban master plan once the basic infrastructure and neighbourhoods are established. However, planners responsible for developing a new urban area may draw inspiration from successful policy cases and engage in lesson drawing.

It would not take long for an urban planner or policy adviser to identify the Finger Plan as a highly successful case of public planning in the face of rapid urbanization. The question then becomes: What lessons can other prospective planners draw from the Finger Plan? By way of conclusion, we will advance three propositions that draw key lessons from the Finger Plan.

The first proposition is that the Finger Plan built on a match between socio-economic challenges and local translation of inspiration from other countries, while at the same time exploiting contingent events such as the optimistic post-war sentiment to generate a breakthrough for comprehensive planning. This proposition is based on the analysis of the contextual factors. It confirms Pollitt and Bouckaert's model for public governance reform that aims to balance rational attempts to fit problems and solutions to each other while insisting on the importance of less rational events that open a window of opportunity (Pollitt and Bouckaert 2004).

The second proposition is that the robustness of the Finger Plan, which pertains both to its ability to turn problems into opportunities and to its future adaptability and polyvalence vis-à-vis new demands, developments, and political visions, explains its longevity. In the case of the Finger Plan, adaptability is ensured through modularity that enables flexible expansion that adds to the size and complexity of the comprehensive planning system, but without compromising its basic principles.

The third proposition is that support for the well-crafted and robust Finger Plan was ensured by the development of a system of collaborative governance that combined horizontal relations and vertical connections. Multi-actor collaboration enabled the visionary planners to sell their new and bold ideas to executive administrators and elected politicians, and to anchor the implementation and future adjustment of the Finger Plan in public authorities that had the money and organizational capacity to make things happen. The collaborative system of governance created a productive interface between craft work and political work. Professional insights merged with political brokerage, communication, and resource mobilization. The finger metaphor helps to create a boundary object that all the different actors, including the general public, could relate to and discuss.

Successful public governance is often measured in terms of its cost efficiency and its capacity for effective problem-solving. This chapter adds a new and interesting evaluation criterion in terms of policy robustness. Although robustness features prominently in a handful of social science contributions (Hood 1991; Leifer 1991; Marshall 2008; Schoon 2008; Capano and Woo 2017), we need more research on how public governance in general and planning in particular can provide robust solutions in the face of turbulence, and how modularity may help to enhance future adaptability and polyvalence. Concept building must be followed by comparative case studies that allow us to understand the different forms and aspects of robustness, and the role that modularity and other flexibility enhancing mechanisms play in securing robustness.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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## The Norwegian Petroleum Fund as Institutionalized Self-Restraint

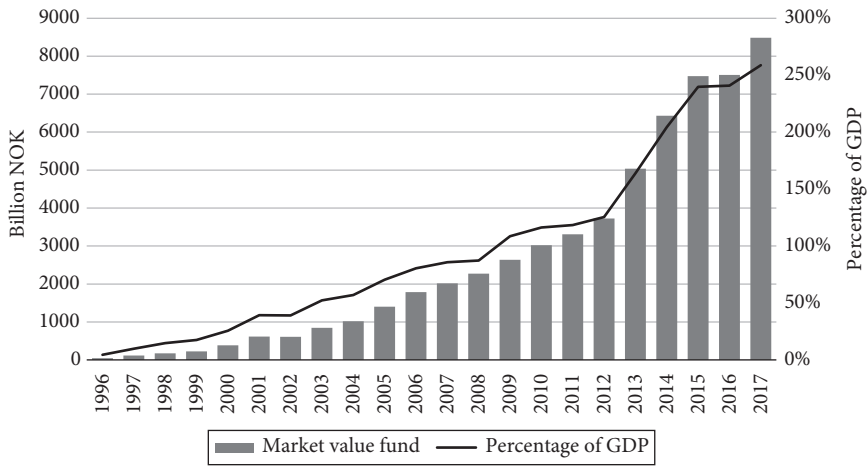
*Camilla Bakken Øvald, Bent Sofus Tranøy, and Ketil Raknes*

### Introduction: A Policy Success

The Norwegian Government Pension Fund Global (popularly known as the Petroleum Fund) is the largest sovereign wealth fund in the world, with a total value of nearly US\$1000 billion (see Figure 13.1). The Norwegian state's ability to invest substantial amounts abroad combined with relatively moderate fiscal spending compares favourably with other countries where governance structures have been exposed to large resource-driven income streams. This macro-economic regime is a shining beacon in an otherwise dark sea of misery tainted by the 'resource curse' (Sachs and Warner 1995; Holden 2013). In this chapter, we seek to elucidate the story behind this success by zooming in on the actors, institutions, and the learning process that were crucial to the establishment and evolution of the fund.

In the OECD economic survey of Norway in 2018, the output growth and the well-being of the population, even with sinking oil prices, is described as 'a testimony to policies that insulate the country from volatile petroleum markets' (OECD 2018: 4). The fund is crucial in funding the Norwegian welfare state; in 2018 transfers from the fund accounted for 18 per cent of the government spending. The size of the fund and the continued high ranking of Norway in reports such as the UN Human Development Report and the World Happiness Report, means that the fund can be deemed a political success. At the macro-level other economic variables tell the same story; the unemployment rate in Norway has been considerably lower compared with other European countries during the last decades (Report to the Storting No. 29 2016–17).

At the time the fund was formally established in 1990, Norway already had a generous, universalistic welfare state and a several decade-long history of successful export performance. In terms of programmatic assessment, the value proposition motivating the creation of the fund was to successfully safeguard and stimulate the economy and finance the welfare state simultaneously, without one getting in the way of the other. The policy was based on a theory of change which says that government spending can contribute to equitably distributed,



**Figure 13.1** The market value of the Government Pension Fund Global, 1996–2017

beneficial social outcomes up to a certain point, but that total spending must be tightly controlled to avoid overheating and undesirable structural change. The policy instrument was a law creating a fund with a mandate to safeguard and build wealth for future generations. Furthermore, at a later stage a rule-based economic policy was added so as to gradually integrate an acceptable amount of petroleum revenues into the domestic economy.

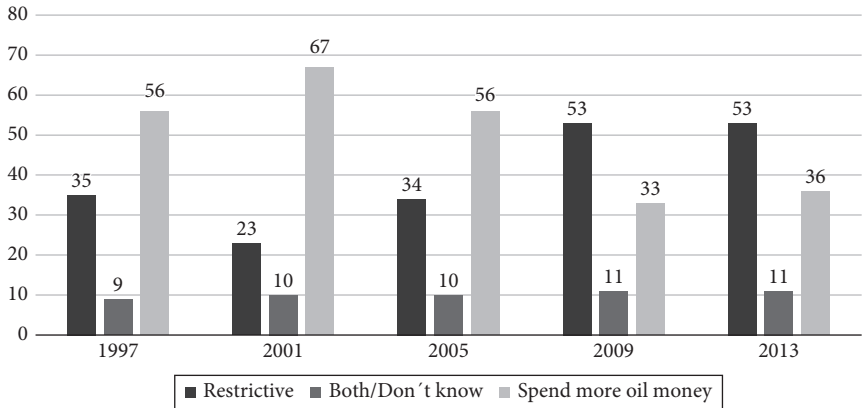
Our study suggests that in the fund's first decade, programmatic success was achieved at the expense of democratic procedural considerations. The deliberative process whereby the institutional core of the fund was established was robust and judicious in the sense that outstanding technical expertise and experience were mobilized. On the other hand, the fund was not distinguished by its social appropriateness or inclusiveness. To the contrary, the decision-making processes were highly closed. Pivotal decisions were all made by a political and technocratic elite comprising key actors from the two main parties and a few mandarins from the Ministry of Finance. Other stakeholders were effectively excluded. Everything was done behind closed doors and there was no broad-based deliberation with regard to the fund's policy goals and institutional arrangements. This policy style prevailed at both critical junctures in 1990 and 1997 when the fund was established and the institutional arrangements were made.

After 1997, when the fund started to grow, public debate around its goals and investment strategies intensified. This forced the policy elites to make adjustments with a view to securing the fund's legitimacy and public support. Pressure on the fledgling fund became especially notable when populist opposition parties from both sides of the political spectrum began to argue for increased public spending. In addition ethical and environmental concerns gained increasing public support.

In response to these pressures, the first adjustment was to construct a fiscal rule which states that transfers from the fund to the central government budget shall, over time, follow the expected real return on the fund, thus enabling but at the same time defining limits to short-term public spending from the fund's resources. Another key adjustment was to include ethical guidelines in the fund's investment strategy.

The gradual inclusion of the concerns of previously sceptical stakeholders and the associated adjustments to the policy regime have successfully cemented the political and public legitimacy of the fund. Today, the fund enjoys elite as well as popular support—the coalition supporting the fund is both broad and deep. For almost twenty years all governments (from both sides of the left–right divide) have stuck to the fiscal rule. The two political parties that used to advocate populist views on spending and ethical concerns respectively, the Progressive Party and the Socialist Left Party, have both held the position of Minister of Finance during the last decade and both have faithfully managed the established economic policy regime without any attempts at implementing significant changes, indicating that association with the fiscal rule enhances rather than diminishes the political capital of voices that were highly critical when in opposition. None of the major corporatist players have ever voiced any opposition to the fund, and popular support for the regime is reflected in opinion data on attitudes to spending of 'oil money', with a clear majority now agreeing that the government should not spend more petroleum revenues than it currently does (see Figure 13.2).

In sum, the fund matches the definition of a policy success outlined in this book. First, it has contributed to creating widely valued social outcomes, while the theorized ends–means relationships underpinning the policy are still valid,



**Figure 13.2** Norwegian voters' attitudes towards the usage of 'oil money' (1997–2013) (in per cent)

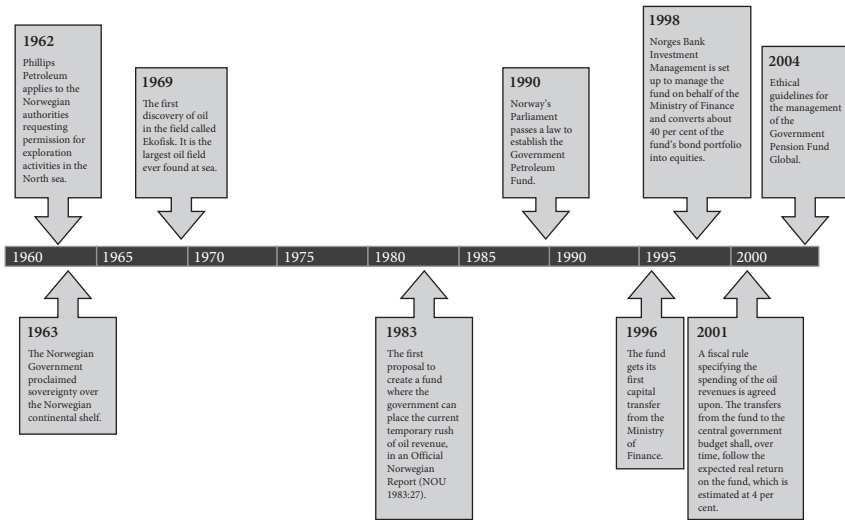
suggesting that the fund has been a lasting programmatic success, lending legitimacy to the institutional set-up. Second, over time the fund has come to enjoy broad political support and has been a success for a considerable period even in the face of changing circumstances. In fact, it could be argued that overall goal attainment in terms of equitably shared beneficial social outcomes is greater than was initially expected.

The history of the Petroleum Fund is to a large extent a history of unexpected growth that led to new political challenges. The Norwegian experience is partly a result of institutional factors such as democratic stability, a non-corrupt bureaucracy, and a long-standing belief that natural resources belong to the people as such and should benefit the whole population (Mehlum et al. 2006; Holden 2013). However, such structural variables only tell part of the story. When natural gas revenue started to pour into the Dutch economy in the 1960s, the Netherlands was a comparable stable democracy with an effective state bureaucracy and yet that country did not manage to integrate gas revenues in a way that supported balanced economic growth and public value, causing what has later been labelled the ‘Dutch disease’, one version of the ‘resource curse’ that can befall resource-rich countries (Corden and Neary 1982).

Furthermore, Norway was not a particularly shining example of good macro-economic management in the two decades that preceded the establishment of the fund in 1990. In the late 1970s, and again in the mid-1980s, the spending of both real and expected oil revenue caused severe problems in the Norwegian economy (Tranøy 2000; Lie and Venneslan 2010). And yet somehow the Norwegians turned the situation around. In this chapter we examine how that could happen. The fund can be seen as the ‘end result’ of a continuous political debate and a process of social learning that began when substantial oil revenues first appeared on the horizon in the early 1970s. We trace the gradually more path-dependent process whereby the regime evolved and hardened into the solid structure we judge it to be today.

The fund was established in 1990 when the Government Petroleum Fund Act (Recommendation to the Odelsting No. 32 1989–90) was passed by a unanimous Storting. At this point in time it was a mere theoretical construct, the fund had no deposits, but expectations of increased petroleum revenues required a political decision on how to organize and manage the fund. In 1997, the government decided to delegate its daily management to Norges Bank and invest part of the portfolio in the stock market (Stoltenberg 2016).

In this chapter we focus on the decisions from 1990 and onwards which cover the choice and design of the fund, its implementation, and, finally, the adjustments and maintenance of the fund (see the timeline in Figure 13.3). The institutional core of the fund has not changed substantially since 1997 even as the institutional structure gradually became more elaborate as new considerations were built into



**Figure 13.3** Timeline of the establishment of the Government Petroleum Fund

it. These two considerations are important in evaluating the process and political success of the fund, and in the maintenance of the policy.<sup>1</sup>

### Context and Challenges

In 1962, the US oil company Phillips Petroleum applied for permission to explore the seabed beneath the territorial waters of Norway. Norwegian authorities were caught unawares by this sudden interest in their continental shelf. Norway did, however, have a history of successfully managing natural resources at the intersection of national interests on one side and foreign capital and know-how on the other. The Industrial Licence Act from the early twentieth century determined that hydroelectric power ultimately belonged to the state, and the dominant ideology was that revenue from natural resources should benefit the population at large (Skredderberget 2015).

The political ambition to establish national control of this newly discovered natural resource was made all the more challenging by the fact that Norway possessed neither the capital nor the knowledge or technology to exploit potential oil discoveries. Norwegian authorities needed to design a regime capable of providing economic incentives for the international oil companies to invest in developing expensive deep-sea technology, while at the same time securing national industrial and economic interests. This balancing act was addressed by means of a national petroleum policy approved in parliament in 1971, listing ten basic principles. These included national control, the development of a national

oil industry, a general rule of bringing all petroleum ashore onto Norwegian soil, and the establishment of a state oil company (Recommendation to the Storting No. 294 1970–1).

The tax system for the petroleum sector is based on the notion that the petroleum sector yields extraordinary revenue (i.e. the oil rent). The system has evolved since the 1970s, but the main idea continues to be the same: to retain incentives for the companies to invest in and produce oil, include the participation of Norwegian industry in the process, and ensure that the government receives a sizeable portion of the revenue (Lie and Venneslan 2010). At present the oil companies have a special tax rate of 53 per cent, making the total level of taxation on profits from oil 78 per cent. The other main source of income are the profits from the export of oil and gas owned directly by the state (the State's Direct Financial Interest, SDFI, see Figure 13.4).

The main challenges included not only the production of oil, but equally importantly the question of how to integrate rent-based revenue into an established domestic order with previously established governance, production, and distributional structure. The main pillars of this order were parliamentary democracy, a strong economist-dominated technocracy, a state-dominated but mostly privately-owned export sector based largely on hydroelectric power, corporatist labour market institutions geared towards defending the competitiveness of the export sector, and a generous, universalistic welfare state.

The combination of corporatist labour market institutions and a universalistic welfare state is the core of what has become known as the Nordic model—a mode of organizing the economy and society that has won international recognition for its ability to socialize risk, deliver economic efficiency and comparatively egalitarian

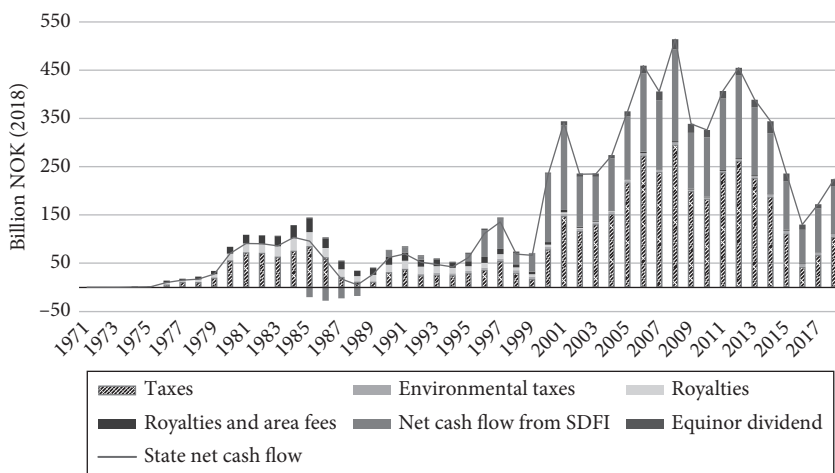


Figure 13.4 The net government cash flow from petroleum activities, 1971–2017

outcomes in a virtuous circle, driven forward by high levels of both intra-personal trust and trust in governing institutions (Rothstein and Stolle 2003).

The economic challenges of large and temporary revenues from petroleum resources were recognized from the very beginning. The idea of investing petroleum revenues abroad was first mentioned in a White Paper in 1974 (Report to the Storting No. 74 1973–4). The ambition was to analyse the dramatic potential consequences of exploiting the significant petroleum-based fortune on the Norwegian economy and society.

The original line of argument was that the people of Norway not only should spend oil wealth on material goods, but that the state should also use it to help build ‘a qualitatively better society’. The White Paper foreshadowed themes that would later gain currency in other circles, such as environmental concerns, encouraging more time for people to take care of each other, and other topics traditionally considered ‘too soft’ for a finance ministry to espouse. The second line of argument concerned how to introduce the proceeds of oil sales into the domestic economy. Put differently, it was about how to build ‘a qualitatively better society’ without incurring unacceptable costs in the form of an excessive rate of structural change.

The idea of saving abroad was mentioned in the White Paper, but not debated in the Storting. It was picked up again in a report from a government commission in 1983 (Norwegian Official Report 1983: 27). It discussed the possibilities of a buffer fund to avoid the negative effects of high volatility in oil prices. The report presented plans that presaged many specifics of the current fund-based regime, but at the time concluded the notion of a fund was not a realistic option.

As the 1980s progressed, investments and their corollary, oil and gas extraction income, grew at such a phenomenal rate that the idea of establishing a fund gained currency, at least metaphorically. By 1989, both the Conservative Party and the Labour Party supported the idea in their respective government long-term programmes (Report to the Storting No. 83 1984–5 and Report to the Storting No. 4 1988–9). When the Conservative Party won the 1989 election, establishing a fund became part of the new government’s policy platform (Lysebuerklæringen 4 October 1989).

### **The Design and Choice of a Fund**

The overall challenge and objective were easily agreed upon, namely to integrate petroleum revenues in a sustainable manner. The arguments were both structural and cyclical: to maintain a viable export sector independent of the petroleum sector and not to allow the national budgets to become too dependent on volatile oil prices.

The choice of policy instruments was more complicated. When the idea of a Petroleum Fund gained traction in the late 1980s, the Ministry of Finance opposed it ferociously. They feared that a Petroleum Fund might lead to increased domestic spending outside the disciplining boundaries of the national budget (Lie and Venneslan 2010). In the late 1980s, echoing both a banking crisis and falling oil prices, the Norwegian economy experienced its worst crisis since the Second World War. The budget deficit was substantial and the thought of future oil revenues well exceeding what was desperately needed to balance the budget seemed less relevant.

However, when Arne Skauge became Minister of Finance in 1989, he instructed the public service to start working on a proposition to the parliament on the principles for a Petroleum Fund. The Ministry of Finance was not enthused by the idea and advised against it. Faced with this reluctance, Skauge was adamant. He made it clear that 'there will be a Petroleum Fund even if I have to write the mandate myself'.<sup>2</sup> According to Skauge 'the civil service has always been afraid of politicians' ability to invent new ways of spending money'. But there were prudent ways to do so. For Skauge too, the threat of the 'resource-curse' loomed large over the decision to establish a Petroleum Fund: 'I was convinced that the main principles of a Petroleum Fund had to be established before the money started pouring in. Once the money was there, politicians and interest groups from across the entire range would scramble to get money for their pet projects.' In an internal memo, the Director General of the Ministry of Finance, Svein Gjedrem, told his colleagues that the political signals concerning the creation of a Petroleum Fund 'were so strong that there is no way around this' (Lie and Venneslan 2010: 347).

The good news for the Ministry was that it had won the internal arguments regarding the principles on which the Petroleum Fund was to be based. During the 1980s, a fault line appeared between advocates of an ambitious industrial policy and those who prioritized fiscal responsibility. It pitted officials from the Ministry of Finance against their counterparts at the Ministry of Industry, who wanted to utilize a prospective Petroleum Fund to finance major industrial projects (Lie and Venneslan 2010). There was support for the expansionist position among politicians from both the Labour Party and the Conservative Party who voiced ideas on the manner in which the Petroleum Fund could aid large national infrastructure projects and the internationalization of Norwegian industry.

However, by the time the proposition to set up the Fund came up, the Ministry of Finance had assumed full control of the main principles for its establishment. All government net revenues from the petroleum sector should be transferred to the Fund, and the Fund would be integrated in the ordinary government budget. Consequently, the Ministry ensured that the money from the Fund could not be used to finance agendas that were not prioritized in the regular budget. Finally, the Government Petroleum Act made it clear that the wealth could only be invested

abroad. According to Gjedrem, the message to the other ministries was clear: 'This reform will be handled by the Ministry of Finance. Special interests can keep their hands off.'<sup>3</sup>

Skauge was trained as an economist and was well acquainted with the civil service in the Ministry of Finance. He respected its macro-economic expertise and followed its advice when it came to the principles for the Petroleum Fund. The proposition went through the government without any noteworthy amendments. And so, all government net revenues from the petroleum sector were to be transferred to the Fund and any withdrawals from the Fund would be integrated in the ordinary government budget. The Ministry thus ensured that proceeds from the Fund could not be used to finance policy initiatives that had lost out in the regular budgetary process.

The compromise between Labour Party and the Conservative Party on how to handle the petroleum wealth echoes a string of compromises in Norwegian politics between the left and right going back to the compromise between labour and capital in 1935 (Tranøy 2010). Before the proposition was sent to parliament, Skauge contacted his opposition counterpart Sigbjørn Johnsen, co-chairman of the Labour Party's Committee of Finance. Johnsen recalls the conversation as having been cordial: 'I told Arne not to worry and that the Labour Party would support the government on this one. These broad compromises are a central part of our political system.'<sup>4</sup> The proposition sailed through the committee easily and on 22 June 1990, the Government Petroleum Fund Act was unanimously approved by the Storting, the Norwegian parliament.

Even though there had been little public debate and no inclusion of powerful interest groups in the Fund's creation, the debate in the Storting revealed that a broad consensus was quickly forming behind its principles. Eilif Meland, the financial spokesperson of the Socialist Left Party, compared the Fund to the bee wax Odysseus had his sailors put in their ears to escape the Sirens' calls. The Fund should protect politicians from voters' and interest groups' pressure to increase domestic spending on the back of the oil money (although from 1996 onwards, when money had started flowing into the Fund, the Socialist Left Party together with the Progressive Party would lose some of its initial restraint and begin to argue for increased domestic spending of oil money and contributed to populist pressure on the government).

The Ministry of Finance was defined as the Fund's formal manager, but the intention was to invest any future revenue in bonds like the other currency reserves held in Norges Bank. The choice of the central bank as manager of the Fund provided an intentional arm's-length distance from the owner and, combined with strict guidelines, out of the reach of powerful interest groups. It was also expected that a central bank had the broad range of knowledge and experience required for managing a state-owned fund, says Tore Eriksen, one of the central

bureaucrats in the Ministry of Finance: 'We believed that Norges Bank had the necessary understanding of the social responsibility a state-owned fund holds.'<sup>5</sup>

The mandate was a vote of confidence in Norges Bank but entailed considerable challenges (Norges Bank Investment Management 2008). In functional terms, it required that Norges Bank develop a commercial culture within its broader role and tradition as a central bank. To meet the need, Norges Bank decided to establish a new investment management unit. On 1 January 1998, Norges Bank Investment Management (NBIM) was established as the operational investment manager.

## Implementation

Throughout the early 1990s, the Petroleum Fund remained a purely theoretical construct that had no money in its account. The Norwegian economy experienced a deep downturn at the time. The prospects of large petroleum revenues and a budget surplus seemed remote. However, when the economy improved in the mid-1990s, the Ministry of Finance made the first deposit in the Fund's account in Norges Bank in May 1996.

After that predictions of future growth in revenues rose rapidly. So did actual revenues: the size of the Fund reached the NOK 100 billion mark as early as 1997. These revenues were higher than anticipated, and the Ministry of Finance felt compelled to start thinking more seriously about long-term returns. Investing in bonds was a safe strategy with minimal risk, but expected returns were low. There is a trade-off between risk and expected return. The Minister of Finance at the time, Jens Stoltenberg, readily agreed that the Fund's present strategy did not get the balance right. He was convinced that the strategy should include stock market investment, and persuaded the government, the parliamentary group, and the parliament's Standing Committee on Finance and Economic Affairs.

The new investment strategy was presented in May 1997 (Report to the Storting No. 2 1995–6). Norges Bank was given the managerial responsibility, but the mandate came with strict guidelines from the Ministry of Finance stating that between 30 and 50 per cent of the Fund's assets should be invested in equity, with a benchmark set by the Ministry and a strict ceiling on the possibilities to deviate from the return on the benchmark portfolio.

The Conservative Party supported this investment strategy, but the other political parties expressed concerns. The idea of the Norwegian state 'speculating' with state revenue in the international stock markets was an unfamiliar notion to Norwegian politicians (Skredderberget 2015). The Labour government did manage to cement the strategy during its term and in September 1997 it lost the general election. The Christian Democratic Party,

the Centre Party, and the Liberal Party were expected to take over after the election and all of them had misgivings about the proposed investment strategy (Stoltenberg 2016).

Enjoying support from both the Labour Party and the Conservative Party, there was a parliamentary majority for the guidelines and investment strategy. Yet the new minority government remained unconvinced, which frustrated Stoltenberg, soon to be the new Labour Party leader, who had developed a sense of urgency about the issue: 'I felt we needed to hurry, we were losing money every day by not investing in the stock markets.'<sup>6</sup> Still in office as a caretaker minister while the new coalition was being formed, Stoltenberg decided to move forward with the new investment strategy and pushed it through the Storting, against advice from his public servants that the topic should be left to the newly elected government. It was a political coup, but skirted around the edges of constitutional propriety (Stoltenberg 2016).

### **Maintenance and Adjustments**

The mandate of the Fund is to safeguard Norwegian financial wealth for future generations in a secure, efficient, responsible, and transparent way, within the constraints laid down by the Ministry of Finance. In the early years all other concerns were met with fierce rejections. The ethical issues addressed by NGOs and some political parties were ignored. On the other hand, the growing populist lobby to spend more money was less easily ignored.

On 17 March 2000, Jens Stoltenberg took office as Prime Minister. His cabinet ran into serious headwinds almost immediately on the issue of the burgeoning Petroleum Fund. Circumstances conspired against Stoltenberg: oil prices rose steadily through 1999 and 2000, and at the same time the volume of Norwegian oil production peaked. The Fund thus grew at a breath-taking pace. The visibility of such a fortune in public savings changed the terms of the political debate in Norway, fuelling the pressure to increase spending.

The state had a burgeoning kitty, yet refused to touch it. The right-wing populist Progress Party saw an opportunity in this situation. There were urgent needs, and plenty of petroleum revenue, why was the government so reluctant? Every time there was a seriously sick child who had to wait for treatment, or a piece of state-of-the-art potentially life-saving medical equipment lacking in a Norwegian hospital, the Progress Party was on the case. When demanding increased spending on any given objective, the Progress Party made a habit of starting sentences with the phrase: 'In (one of) the richest countries in the world, it is a scandal that we cannot even afford ...'. This message was picked up by large sections of the electorate. The Progress Party soared in the polls, while the Labour Party suffered.

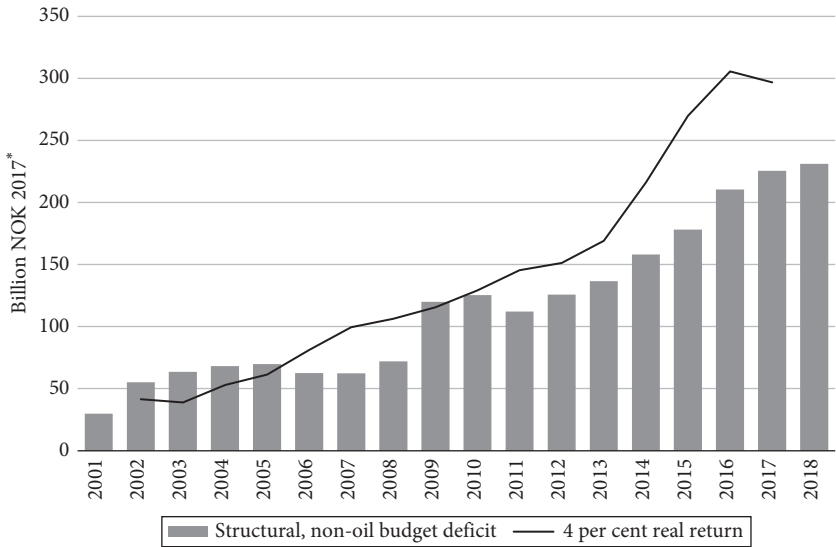
The Ministry of Finance feared that without stricter guidelines, spending would increase and was working on a plan for a gradual increase of oil money within the national budget. If a 'safety valve' was not installed, the whole 'dam' was at risk of breach. It was the nightmare for every finance official socialized into the virtues of fiscal prudence. Something had to be done. Plans for tightening the guidelines were prepared in great secrecy. Only a handful of bureaucrats in the economics section of the Ministry of Finance were involved, along with Stoltenberg, the Minister of Finance and two state secretaries. Several models for forecasting the oil revenue and calculating the rate at which it should be phased into the economy were discussed.

A considerable amount of time was spent on how to frame and communicate the new fiscal rule in a manner that ordinary voters could grasp. Stoltenberg was aware that he had to act as 'the salesman' for the new macro-economic regime: 'My task was when we had concluded . . . to go out and get political approval in the party, the parliamentary group, the Norwegian Confederation of Trade Unions (LO) and from the public at large.'<sup>77</sup> The high level of secrecy limited the inclusion of opposition parties and interest groups in this process. However, Stoltenberg chose to consult with LO, which has historically maintained close ties with the Labour Party. The reason for consulting LO was based on LO's gatekeeper role in major political reforms. For Stoltenberg, LO was the only actor outside his inner circle that he could trust.

The plans were presented in a White Paper published on 29 March 2001 (Report to the Storting No. 29 2000–1). The new fiscal rule's assertion that the annual non-oil deficit should, on average over the economic cycle, be limited to 4 per cent of the fund, was approved by a large parliamentary majority. At the time, 4 per cent was presumed to be the long-term real rate of return from the fund. The target came with some discretionary manoeuvring room, though in a symmetrical fashion so that spending could be above 4 per cent in a downturn and below at times of strong demand and a positive output gap (see Figure 13.5).

At the same time, Norges Bank was released from its formal exchange rate target and introduced a symmetrical inflation target of 2.5 per cent in its place. The argument was that this would maximize currency stability, or at least maintain as orderly a relationship as possible with the euro, Norway's most important trading partners' currency. The analysis was that Norway needed an inflation target slightly above that of the European Central Bank to 'create room' for the now planned-for phasing-in of petroleum-related revenues.

This whole manoeuvre came too late to help Stoltenberg in the elections in the autumn of 2001, but it did strengthen the Fund's legitimacy over time. In the electoral survey of 2001, 56 per cent of respondents answered that they wanted increased petroleum revenue spending, while 35 per cent supported contemporaneous spending levels. By 2009, the tables had turned: 53 per cent were satisfied with spending levels, while 33 wished for higher spending levels. Since 2009,



**Figure 13.5** Government spending of oil revenue as measured by the structural, non-oil budget deficit, and the expected real return of the Pension Fund in billion 2017 kroner

a majority of the Norwegian population have been satisfied with the level of oil money in the state budget (see Figure 13.2). Thus, the fiscal rule was an important adjustment to secure the Fund’s political legitimacy and achieve buy-in, from the Progressive Party in particular. In 2013, Siv Jensen from the Progressive Party became Minister of Finance, and during the preceding election campaign the Progressive Party had already moderated its resistance against the fiscal rule. As Minister of Finance, Jensen maintained the fiscal rule. Like her predecessors, she has continued to praise the Fund and its achievements both in international and national media. Slowly but surely, the Fund and its basic governance principles had become institutionalized.

Yet there was another line of contention: the debate about engaging in ‘ethical’ or socially responsible investing. It had begun almost as soon as the Petroleum Fund actually obtained money to invest. Initially Norges Bank was prone to ridicule the idea and made it appear as the pipedream of ‘irresponsible’ civil society and the left-of-Labour party, the Socialist Left Party (SV). Gradually, however, the discourse changed. Two different processes help account for this. One was set in motion by NGO’s drawing media’s attention to the Fund’s investment in companies engaged in politically unattractive or even illegal business, such as the production of landmines or child labour. It repeatedly provided unpleasant media exposure for any Minister of Finance, prompting them to warm up to explore ways to avoid such embarrassments. The other was a gradual shift in

NBIM's peer community, the financial markets, where the idea of ethical investment was gradually gaining a foothold.

In 2004, the Ministry of Finance adopted ethical guidelines for the management of the Petroleum Fund, and established the independent Council on Ethics. The role of the council is to evaluate whether or not the Fund's investment in specified companies is in compliance with its ethical guidelines. It makes detailed assessments of individual cases and works in a thorough manner, inviting to its hearings representatives from companies under review, and placing strict demands on evidence before allowing itself to recommend divestment. The Council on Ethics advises Norges Bank, which decides on the exclusion of companies or to place companies on an observation list.

The ethical guidelines include two negative mechanisms; one is negative screening to prevent inclusion in the investment universe of companies that themselves, or through entities under their control, manufacture weapons whose normal use violates fundamental humanitarian principles. The other is a facility for divestment from companies where owners systematically breach ethical norms: such as gross or systematic violation of human rights, gross violations of individual rights in war or conflict situations, severe environmental degradation, and gross corruption.

The emphasis on responsible investments coincides with a strengthening trend in international fund management; in many cases financial considerations reflect ethical considerations. The argument is that sound financial investment is an ethical obligation on a par with principles of socially responsible investment (SRI), since the present generation has an obligation to future generations to maintain and increase the wealth they will inherit.

The ethical and social strategy of the Fund has been reviewed several times. A programme of positive selection directed towards green investment began in 2010. It has encouraged efforts to review both the climate change strategy and use of financial havens by companies in which the Fund is invested. Thus, the ethical and social strategies have been important for increasing public deliberation around the Fund and gaining legitimacy among NGOs and civil society. There are several examples of NGO-lobbying campaigns that have resulted in changes in the Fund's portfolio, for example the decision to divest from coal companies in 2015.

### **Assessing the Petroleum Fund**

When we investigated the history of the Fund, a somewhat surprising finding was the small number of players present at the table at the main decision points. The decision-making process was much less consensual and inclusive than was to be expected in a democracy with a strong corporatist tradition. The reform does not sit well with the image of a corporatist democracy where organizations 'take

part in political processes and ensure important considerations are taken' (Nordby 1999: 12).

The Labour Party, the Conservative Party, and the Ministry of Finance make up the Petroleum Fund's 'iron triangle', while interest groups and the smaller parties were effectively kept out of the central decision-making processes. The history of the Fund underscores the privileged role of the Ministry of Finance among the Norwegian ministries (Slagstad 1998; Lie and Venneslan 2010). The closed and exclusive process of the reform may, up to a point, be considered an effect of the highly technical nature of the issues at stake.

The closed nature of the reform process secured programmatic success but the exclusion of central stakeholders did, however, create challenges for the political legitimacy of the Fund. The lack of inclusion facilitated both a populist and an ethical backlash against the Fund. However, the construction of the fiscal rule and the Council on Ethics respectively engaged and 'pulled in' critical stakeholders and over time strengthened and grew the bipartisan consensus behind the principles of the Fund. Thus, when studying policy successes, one should be aware of possible trade-offs between programmatic success on the one hand and processual and political success on the other hand.

The elite-driven decision-making in the first phase of the reform was moderated by the more inclusive strategies followed at later stages in the reform. In retrospect, the decision to draw up the guidelines for the Petroleum Fund as early as in 1990 stands out as particularly fortunate. A political debate on how to deploy the oil money was always going to be easier with an empty bank account than with a burgeoning fund. Thus, the Petroleum Act of 1990 created a strong path dependency that guided policy-makers through the later stages. New policy instruments were developed and adjustments were made as new considerations were built into the institutional structure. But the overarching policy goals of growing the economy and the welfare state harmoniously through carefully controlled spending growth have remained the same.

Framing and agenda-setting are often important variables when studying political success (McCombs and Shaw 1972; Entman 1991). Our findings underscore the importance of agenda-setting and framing for successful reform. A reform is far more likely to be sustainable if the policy is understandable and logical to the public, even when the motives behind the reform are highly complex and theoretical. The fiscal rule corresponded well with established frameworks for how Norway should exploit its national resources. When Stoltenberg launched the fiscal rule, he used the metaphor of sustainable forest management to explain the principle of the fiscal rule to the general public.

While Norway had the institutional capability for reform, it required effective political leadership to capitalize on the opportunity and forge a new institutional legacy that constrained the choices of future governments. In 1990, Skaug's decision to forge ahead with the Government Petroleum Fund Act against the

advice of the Ministry of Finance's mandarins was an important act of political leadership. Jens Stoltenberg was the right man at the right moment both as Minister of Finance in 1997 and Prime Minister in 2001. His implementation of the investment strategy in 1997 was a silent coup, while the creation of the fiscal rule in 2001 was the result of a strong alliance with the administrative elites in the Ministry of Finance. In Stoltenberg, the top bureaucrats in the Ministry of Finance had a partner who both understood them and shared their goals. Furthermore, Stoltenberg moved on to become the pre-eminent salesman for the new macro-economic regime for the remainder of his political career, and later considered the crafting of the fiscal rule to be his finest moment in politics (Stoltenberg 2016).

The vision of the Norwegian Petroleum Fund for its investment portfolio is eternity, and twenty-eight years is too soon to draw any definitive conclusions. The Fund is invested in more than 9,000 companies in seventy-two countries (Norges Bank Investment Management 2017). As a universal owner of 1.4 per cent of the global stock market, the Fund is exposed to unexpected changes and potential crises in the world economy. Another risk factor is the oil price, which is extremely volatile and might reduce the profitable investments in the North Sea.

Even without these risk factors, the Fund has its limits. The real test of the fiscal rule will come from 2020 onwards when the Norwegian state finances will come under increasing pressure. As the number of elderly persons in Norway rises, so will the need for health and care services. Even with a large Petroleum Fund it will be impossible to avoid cuts in the national budget or unpopular tax increases in order to finance healthcare for a rapidly ageing population (Report to the Storting No. 29 2016–17).

So far, the fiscal rule has allowed politicians to shift an increasing stream of oil money into the budget, but that will have to cease in the coming years (see Figures 13.4 and 13.5). Furthermore, 2016 was the first time in the history of the Fund that the public spending was larger than the oil sector revenue. Consequently, the next twenty years will show whether Norwegian political leaders are able to maintain the institutionalized self-restraint and secure the Petroleum Fund for future generations.

### **Institutionalizing Self-Restraint in Public Policy: Policy Transfer from Norway?**

The Norwegian macro-economic regime, balancing current spending with long-term interests, compares favourably to most other cases of large resource-driven income streams. On the one hand, the Norwegian experience is a result of unique factors. On the other hand, there are potential lessons to be learned. One way of slicing our material with a view to identifying possible lessons is to distinguish between macro-historical factors that are difficult to reproduce or change, and

more micro-level organizational solutions and principles of financial management that are more malleable.

Norway had unique institutional capabilities and traditions compared to many other countries in similarly resource-rich circumstances. According to Rothstein and Uslaner (2005), a long legacy of egalitarian distribution can at the same time facilitate, and be reinforced by, universalistic welfare institutions which in turn help build and solidify interpersonal as well as trust in institutions. In contrast to this, most other countries with large oil revenues such as Nigeria, Russia, Venezuela, and Saudi Arabia have political systems and political traditions that are far from the Norwegian experience. As Rothstein and Uslaner (2005: 71) observe: 'Poor and inegalitarian countries thus find themselves trapped in a situation of continuing inequality, mistrust, and dysfunctional institutions. High levels of inequality contribute to lower levels of trust, which lessen political and societal support for the state to collect resources for launching and implementing universal welfare programs in an uncorrupted and nondiscriminatory way.'

Thus, in a developing country with high levels of inequality, it is much harder—and probably less reasonable—to convince decision-makers not to invest the revenue in domestic projects (Holden 2013), and we might add: projects that will often favour one domestic group over another. Thus, *The Economist* is probably right when it states that others could learn from the structures of the fund 'but would struggle to mimic the Nordic values that underpin them' (*The Economist* 2016).

The Norwegian government receives numerous requests from countries that wish to learn from the Norwegian experience, and the Oil for Development Programme was initiated in 2005. Through this programme, Norway shares its experience in managing oil and gas resources and revenues. Relevant subjects 'downstream' include how the division of labour and chain of governance runs between parliament, the Ministry of Finance, Norges Bank, and NBIM. Similar lessons regarding the organization of the 'upstream' process are also sought-after and taught. The demand for Norwegian lessons are not, however, restricted to oil producers. As the theory of the resource curse assumes, the relevant level of abstraction is probably neither petroleum nor energy, but resources. A case in point is Chile which has established funds to manage revenues from the sale of copper on world markets.

A less ambitious level of lesson-drawing is to move from cases to mechanisms. One mechanism that we see as having contributed greatly to the success of the Fund is related to discounting rates. Behavioural economics have shown that humans tend to discount the future at a much higher rate than is normally assumed by neoclassical economics. This has been taken advantage of by the renowned behavioural economist Richard Thaler with his concept for private pension plans, called 'save more tomorrow' (Thaler and Benartzi 2004). The point is that it is much easier to get employees to agree to set aside more of future

income increases than it is to make them take monies out of their current income. Arne Skauge's move when Norway was 'broke' in 1990 fits this logic perfectly. His own words on this bear repeating: 'the main principles of a Petroleum Fund had to be established before the money started pouring in. Once the money was there, politicians and interest groups from across the entire range would scramble to get money for their pet projects.'<sup>8</sup> Organizing for restraint in boom times was an act of foresight and self-discipline that contemporary policy-makers can continue to look up to.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

### **Notes**

1. Building on the perspective of George and Bennett (2005), we have approached four critical moments/phases in the development of the fund (1990, 1997, 2001, 2004) as distinct case studies using multiple data collection methods. The material consists of qualitative interviews, political memoirs, media coverage, official Norwegian reports, White Papers, records of political decision-making processes, and parliamentary debates. The original data collected for this chapter consisted of semi-structured qualitative interviews (Kvale 1997; Alvesson and Sköldberg 2017) with nine political and administrative leaders who played central decision-making roles at the various decision points. The list of interviewees includes five former Ministers of Finance, one former Prime Minister and Minister of Finance, and two former top bureaucrats in the Ministry of Finance, one of whom later became governor of the Central Bank, while the other had earlier served as economic advisor to the Prime Minister.
2. Source of Skauge quotes: A. Skauge, personal communication, 16 February 2017.
3. S. Gjedrem, personal communication, 27 February 2017.
4. S. Johnsen, personal communication, 14 March 2017.
5. T. Eriksen, personal communication, 28 February 2017.
6. J. Stoltenberg, personal communication, 6 October 2017.
7. J. Stoltenberg, personal communication, 6 October 2017.
8. A. Skauge, personal communication, 16 February 2017.

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# New Zealand's Economic Turnaround

## How Public Policy Innovation Catalysed Economic Growth

*Michael Mintrom and Madeline Thomas*

### Introduction

On 14 June 1984, New Zealand's Prime Minister, Sir Robert Muldoon, announced a snap general election, to be held the following month. Muldoon, then in his sixties, had served continuously as both Prime Minister and Minister of Finance since 1975. As Prime Minister, Muldoon wielded significant power in his cabinet and in the conservative National Party. His election announcement was calculated to catch the more left-leaning Labour Party opposition off guard. But Muldoon's snap election announcement saw hubris triumph over astute political judgement. On 14 July 1984, David Lange, a charismatic politician in his early forties, a lawyer by profession with a quick and cutting wit, led the Labour Party to victory in an electoral landslide.

Following the general election of July 1984, there was a broadly shared sense that the country faced new possibilities. Those new possibilities were seized, but in ways that many people did not expect. Significant public policy innovations were introduced. In the process, considerable economic and political disruption ensued. Disputes concerning economic management and social policy within the Labour Party saw the National Party win the 1990 general election. The newly-elected National Government broadly accepted the policy settings it inherited. Policy development continued across the spectrum of government activities under the direction of various Labour- and National-led governments over the subsequent decades. Nonetheless, the key public policies adopted between 1984 and 1990 remain in place and have been the foundation for later policy development.

### A Policy Success?

Starting in 1984, David Lange and a very capable group of cabinet colleagues introduced a comprehensive and intellectually coherent range of public policy innovations. They had major impacts on the functioning of both the New Zealand

economy and the New Zealand public sector. Here we discuss four areas of innovation: (1) reduction of market interventions; (2) simplification of the tax system and introduction of a goods and services tax; (3) creation of state-owned enterprises and subsequent privatization efforts; and (4) introduction of independence for the Reserve Bank in driving monetary policy. The success of public policies can be assessed from a number of perspectives. These policy innovations have now remained in place for decades. Thus, judged by endurance, they have been highly successful. We also consider their success from programmatic, process, and political perspectives.

From a *programmatic* perspective, the changes in economic policy were intended to reduce government interventions in the economy and, in the process, improve the government's fiscal position. A highly coherent theory of change guided the development of these policy innovations. After a relatively short time, it was clear that the changes were producing beneficial outcomes. However, there were adjustment costs. These manifest themselves most starkly in unemployment figures, which rose during the 1980s, and took many years to decline.

From a *process* perspective, the policy innovations were well designed and generally well managed. Changes to market interventions and taxes were able to be implemented swiftly. In the case of the introduction of the goods and services tax (GST), implementation was delayed to ensure it would work effectively. Creation of state-owned enterprises took much more planning. The subsequent privatization process did not always go smoothly. The change to monetary policy was carefully planned and implemented. Reform of market interventions and the creation of state-owned enterprises contributed to unemployment. Other than this, there were limited negative consequences of these policy innovations.

From a *political* perspective, the story is more complicated. These policy innovations generated losses for certain sectors of the economy, and those who bore the brunt voiced their opposition. The government elected in 1984 was returned to power in 1987 after a strong electoral win. However, shortly afterwards, the governing coalition began to fragment. The epicentre of this fragmentation was the relationship between Prime Minister David Lange and Minister of Finance Roger Douglas. That relationship deteriorated as Roger Douglas pushed to extend the logic of the limited state through extensive sale of government assets and changes in social policy. David Lange pushed back, voicing his concern over the social costs of the reforms that had already been adopted.

The story we tell has been told before in different ways. Economists have tended to view the innovations positively. Using a set of key indicators, they have shown that the policy changes were both dramatic in how they halted specific past practices and significant in the positive impacts they delivered (Bollard 1994; Brash 1996; Evans et al. 1996). In contrast, various assessments have viewed these policy reforms negatively. In such interpretations, the changes have been considered as unnecessarily radical, given prevailing economic conditions at the time

they began (Goldfinch and Malpass 2007). The policy innovations have also been construed as following too slavishly the predominant international fashion in economic thinking at that time (Larner 1997; Goldfinch 1998). Others have pointed to both the economic and social costs of adjustment and have suggested the changes did more damage than good (Kelsey 1997; Dalziel 2002). Still others have noted how the policy innovations served to reduce the reach of the state and have suggested that the end result was a significant redistribution of power into the hands of globalized financial elites (Easton 1997; Jesson 1999).

Our contribution involves analysing the economic turnaround as a public policy success. We take as our starting point the comprehensive assessments provided by well-placed economic observers of this period (Bollard 1994; Evans et al. 1996). We acknowledge the critiques. The reforms contributed to significant short-term stress in the New Zealand economy in the form of increased unemployment. This had highly damaging effects on vulnerable individuals, families, and communities. In addition, aspects of the privatization process were poorly handled. Where we depart from the critics is in our view of plausible alternative reform paths. No critical assessment has posited a counterfactual set of reforms that would have been achievable and more desirable than the chosen path. Paul Dalziel (2002) comes closest to offering such an assessment—but that assessment discounts the seriousness of the imbalances in the New Zealand economy in mid-1984.

We next contextualize New Zealand's economic situation prior to 1984 and outline the four key policy innovations implemented between 1984 and 1990. In the decades since the reform period, these reforms have acquired strong political legitimacy. They have been accepted by successive governments embracing a range of different philosophical perspectives concerning good political and economic management.

### **Context, Challenges, and Agents of Reform**

Many commentators have described the New Zealand economy in 1984 as dysfunctional due to excessive government interventions. David Lange quipped that under the Muldoon government, 'We ended up being run very similarly to a Polish shipyard' (Lange as quoted in *New Zealand Herald* 2005). That was an exaggeration (Goldfinch and Malpass 2007). Nonetheless, it has now been clearly documented that the economy at that time was subject to many unsustainable policies (Bollard 1994; Evans et al. 1996). They emerged from a specific historical period, running from the end of the Second World War through to the mid-1970s. During that period, New Zealanders enjoyed high living standards relative to citizens of other countries (Easton 1997; Greasley and Oxley 2000). Policy approaches taken during those years of prosperity, which had seemed beneficial

to the country at the time, proved damaging when applied by Muldoon during his time as Prime Minister and Minister of Finance. His approach to economic management became out of step with the new orthodoxy in economic thinking that had been emerging internationally since the early 1960s. (Overviews of that new orthodoxy have been produced by, among others, Friedman 1962, 1977; Greenspan 2008; and Yergin and Stanislaw 2002.)

It is useful to review the contextual factors and policy choices that created the economic and government management challenges the incoming Fourth Labour Government faced in 1984. New Zealand became wealthy during the twentieth century through the export of meat, wool, and dairy products (Hawke 1985). Most of those products were supplied to Great Britain. As early as the Great Depression, political leaders in New Zealand recognized there were risks in this economic model. Whenever the economy of Great Britain weakened, the New Zealand economy weakened too. In response, governments acted to safeguard the New Zealand economy. One such action involved promoting the development of a significant manufacturing sector. By placing high tariffs on imported items, the government provided protection to fledgling industries. The strategy was quite successful. Nonetheless, high tariffs made many imported goods expensive to consumers. The grumbling this caused was delayed largely because the overall economy was doing well. Those people who desired imported goods over domestic substitutes were prosperous enough to pay the higher prices that the tariffs created. The result was bearable so long as average incomes were relatively high.

New Zealand developed a comprehensive welfare state during the twentieth century. This was built on systems established earlier (Oliver 1988; Mintrom and Boston 2019). Compulsory public education was introduced in the late nineteenth century. This was followed by the creation of systems to support public health. Rudimentary measures to provide income support to the most needy also dated back to the nineteenth century. Following the Great Depression, these forms of social security were expanded to include an unemployment benefit. During the years of growing prosperity after the Second World War, elements of the welfare state were expanded. In the 1970s, two expensive additions were made. The first was the introduction of the Domestic Purposes Benefit to support solo parents who could not participate in the workforce. Introduced in 1973, this was primarily a benefit for unmarried mothers and it resulted in far less adoptions of children born out of wedlock. The second addition was the creation of National Superannuation in 1977, under Muldoon's National Government. This was a generous pension payable from general taxes to all people over a designated age of retirement. It was not means tested. As the welfare state expanded over several decades, the government bureaucracy needed to maintain it also grew incrementally. Consequently, many systems of service provision were built around approaches established long before the middle of the twentieth century. Inefficiencies were noted (Polaschek 1958). However, there was no political appetite for reform.

Beginning in the mid-1970s, New Zealand started to experience levels of unemployment that were unusual, given it had enjoyed decades of full employment. This unemployment was driven by several factors. With Great Britain joining the European Community in 1973, the long-guaranteed market for New Zealand agricultural exports shrunk. Reduced export earnings dampened demand for local manufactured products. Unemployment rose among unskilled agricultural workers and unskilled factory workers. The international oil shocks of 1973–4 and 1978–9 further adversely affected the New Zealand economy. Being highly dependent on foreign oil supplies, New Zealand was susceptible to the sharp price increases instigated by the OPEC oil cartel. In response, the National Government led by Robert Muldoon took various actions. The most significant was the introduction of a major infrastructure building programme. Announced in 1977 under the label ‘Think Big’, the programme was intended to deliver two positive effects for New Zealand. First, it was expected to further insulate the New Zealand economy from international market changes. The logic was that if the country produced more domestic energy and switched to the use of energy sources that the country had in abundance—such as natural gas and hydroelectricity—then susceptibility to the adverse effects of international shocks would decline. The second intended effect was to create more work, in the same way that infrastructural projects in the 1930s had made use of surplus labour and kept many households afloat during the Great Depression. However, the extra employment generated by these projects was modest, due to significant advances in construction technology over prior decades.

New Zealand government revenues throughout the twentieth century were based primarily upon company and income taxes. Over years of economic prosperity, incremental increases in marginal income tax rates were judged broadly acceptable. By the late 1970s, high income earners were subject to a marginal tax rate of 66 cents in the dollar. As economic conditions worsened in the late 1970s and early 1980s, the Muldoon government began imposing new, highly targeted forms of taxation as revenue-raising initiatives. These produced various economic distortions. The National Government used other regulatory actions to address growing inflation. These included the imposition in 1982 of a general freeze on wages and prices. Efforts were also made to fix interest rates.

By 1984, the New Zealand economy was subject to extensive government intervention. There was a popular but expensive welfare state. The government ran many businesses associated with the delivery of infrastructure. In addition, the government was continuing to administer an elaborate system of tariffs on imported goods, and various forms of financial subsidies to the manufacturing and agricultural sectors. Individuals and households were feeling the effects of high taxes and various regulations intended to moderate the effects of New Zealand’s long-term decline in economic prosperity. Despite it all, the

economy was performing poorly. Policy actions that might have worked during a time of economic prosperity were no longer having positive effects. Sentiment grew that the government was exercising too much control over economic activity.

In describing this background, it is useful to note two other matters. First, during the early 1980s, the attention of many New Zealanders and their politicians was absorbed not by issues of economic performance and management but by two other public issues. These were New Zealand's sporting contacts with South Africa and the country's stance on nuclear warfare. A tour of New Zealand by the South African Springboks rugby team in 1981 had generated high levels of political unrest. Sporting contact with South Africa was viewed as lending support to that country's apartheid regime. By allowing that tour to continue, Robert Muldoon had gained many detractors (Fougere 1989). While the National Party subsequently won the election of 1981, they returned to power with a slim majority in parliament. With respect to nuclear issues, many New Zealanders were concerned that defence alignments with the United States were forcing the country to support a repellent form of weaponry. The Labour Party made clear in the early 1980s that, should it become the government, it would declare New Zealand to be nuclear free (Clements 2015).

The second matter to note concerns the development of alternative conceptions of economic management. Significantly, economic management was not at all central to the political campaign rhetoric or the party leader debates that took place in the month leading up to Election Day 1984. David Lange, who was about to lead the Labour Party to electoral victory has been clear on this. 'The fact of it is that Labour went into the election without an agreed economic policy' (2005: 163). He has elaborated.

Our [Labour Party] differences over economic policy were not played out in public in the way we had argued about the nuclear-free policy. Towards the end of 1983 [Roger] Douglas [who was the party's finance spokesperson and would become the Minister of Finance after the July 1984 election] produced an economic policy package. . . . It was by any test a radical document. . . . I remember being surprised but not in the least perturbed. I expected him to think outside the square. The package was a long way from becoming policy. It would go to caucus and policy council and it would be thrashed about at the party conference in the second half of 1984. (Lange 2005: 162–3)

The anticipated debate never happened. The Douglas proposals received mixed responses in the party. A rival view was put forward that acknowledged the need for economic adjustment but assumed that the government would continue to play a leading role in economic activity. Geoffrey Palmer, who was deputy leader of the Labour Party and who would become Deputy Prime Minister after the July 1984 election, wrote a short paper to reconcile different viewpoints. When the snap election was called, Palmer's paper became the party's default policy.

How the Labour Party struck upon its economic policy tells us something about lack of agreement within the party and the parliamentary caucus from the outset. There are other details worth noting. Most importantly, the economic policy package presented by Roger Douglas was informed by advice he had received from the Treasury. When David Lange assumed leadership of the Labour Party in February 1983, he appointed Roger Douglas as his shadow Minister of Finance. Lange 'expected him to prepare for the day when the Muldoon government would be gone' (Lange 2005: 154). As shadow Minister of Finance, Roger Douglas had a direct line of communication with the Treasury and its senior staff from February 1983. At this time, the Treasury had established a group of analysts in a division called Economics II. This division was led by Roger Kerr and it comprised between ten and fifteen economists. Many of them had postgraduate degrees in economics and broadly supported the Chicago School view that limited government and reliance on market processes were key to economic efficiency. Roger Kerr established a culture within Economics II whereby efforts to address challenging policy questions would begin with careful reading of relevant analysis in current economics journals. Through a long-established process of 'rotation' of economic analysts every few years across divisions of Treasury, the culture of the organization was such that analysts well beyond Economics II were informed by this approach to working on economic issues. Roger Kerr was key to creating a think tank atmosphere in Treasury and emphasizing the importance of clear expression in the presentation of policy advice. (Kerr left the Treasury in 1986 to lead the New Zealand Business Roundtable, a think tank that would have considerable influence on economic policy for the next two decades.)

New Zealand's economic problems were connected to a highly interventionist form of economic management. The changing global economic context and the rise of free-market economic orthodoxy suggested such policy mechanisms were out-dated. People in and around New Zealand government, including Roger Douglas and Treasury officials, recognized this.

### **Policy Design and Choice**

When David Lange and his fellow cabinet members were sworn into office, all were aware that drastic change was needed in the role played by government in the New Zealand economy. In those days, the New Zealand dollar was fixed at a constant level against the United States dollar, with that level being determined by the government of the day. During the brief election campaign, talk arose that the New Zealand dollar was over-valued and that a Labour Party electoral victory would be followed by a significant devaluation. Speculators began to sell NZ dollars and buy foreign currency, with the intention of selling that foreign currency at a profit once devaluation had occurred. Sell off of the NZ dollar forced

the government to draw down its foreign capital reserves. Following the Labour Party victory, senior officials from the Reserve Bank and Treasury advised that currency trading should be curtailed until a devaluation had taken place. Robert Muldoon reluctantly agreed to demands from the incoming government to immediately devalue the NZ dollar by 20 per cent. This action stemmed the losses from the government's foreign capital reserves. But the crisis made clear that old ways of doing things were not sustainable. Roger Douglas (1993: 17), who was about to assume the role of Minister of Finance in the new government, later grouped the fixed exchange rate and the run on the dollar with a range of other government interventions in the economy that 'brought us to our knees in 1984'.

The Labour Party delivered on an election promise and held The Economic Summit Conference at Parliament Buildings over three days in September 1984. It was attended by representatives from government departments, the trade union movement, the business community, the primary production sector and social, community, and other groups. David Lange chaired the event. The Summit produced a communiqué unanimously endorsed by all delegates. It stated: 'The conference agrees that sound economic management must have five basic policy objectives—sustainable economic growth, full employment, price stability, external balance and an equitable distribution of income—while fully respecting social and cultural values and avoiding undue environmental costs' (ESC Secretariat 1984: 302–3). At the same time, the participants exhibited distinct differences in what they cared most about (Dalziel 1986). This was an early indicator of the dilemmas David Lange would confront as Prime Minister.

A significant programme of public policy innovation was about to occur. Here, we discuss: (1) market interventions; (2) taxation; (3) state-owned enterprises and privatization; and (4) monetary policy. An unusual degree of intellectual effort went into policy design at this time. Throughout the period 1984–90, the New Zealand Treasury was the most influential source of policy advice to the government. All of the initiatives to be discussed had their origin in deliberations between Roger Douglas, as Minister of Finance, and Treasury officials. Of the relationship between Douglas and the Treasury, David Lange observed, 'Theirs was a perfect marriage' (Lange 2005: 192). Treasury analysts showed a great desire to engage with relevant literature and to seek insight from colleagues in other departments and from external experts as they pursued their planning work. Further, many policy proposals were developed in ways that allowed for high levels of public consultation. Debate within cabinet and associated cabinet committees was vigorous. Evidence for the careful policy design work this entailed is most readily found in the Treasury's post-election briefing papers produced in 1984 and 1987.

The Treasury's post-election briefing papers of 1984 were subsequently made public as *Economic Management*. This book provided an intellectually coherent blueprint for how the incoming government could go about implementing

economic reforms. Most importantly, the message of the briefing papers was that market mechanisms tended to be superior to administrative systems for efficiently allocating resources in society. The papers proposed that efforts be made to promote greater efficiency in many areas of government activity. It was suggested that this could be done by reform of taxation and by having government entities operate consistent with the practices of private sector firms.

The Treasury produced another highly influential set of briefing papers for the incoming government in 1987. Titled *Government Management*, the 1987 document discussed the role and limits of government and desirable ways to restructure the public sector. In addition, it provided a thorough discussion of appropriate directions for reform of social policy and reiterated many points made in 1984's *Economic Management* concerning appropriate management of the macro-economy. Christopher Hood in his classic 1991 article on the New Public Management (NPM) said of *Government Management* that it 'comes closest to a coherent NPM "manifesto", given that much of the academic literature on the subject either lacks full-scale elaboration or enthusiastic commitment to NPM' (Hood 1991: 6).

### Market Interventions

While David Lange was chairing the Economic Summit Conference and engaging in various prime ministerial activities outside the economic domain, Roger Douglas was working with the Treasury on the government's first budget, delivered in November 1984. This budget made provision for the phased reduction of tariff protections for import-substituting industries and removal of a range of tax concessions and subsidies for the farming sector. The wage and price freeze introduced in 1982 was to end. By announcing these policy changes, Roger Douglas revealed a preference for having markets and prices direct the allocation of resources in the economy, rather than arbitrary systems of government interventions. Consistent with this theme, Douglas announced that a comprehensive review of the tax system would be undertaken in 1985, paving the way for widening the tax base. He said that greater efficiency would improve New Zealand's economic performance but would not necessarily ensure that the benefits would be shared fairly. Therefore, he announced that the government would carry out a longer-term review of social policies to protect vulnerable groups and guaranteed adequate access to resources. (Subsequently, a Royal Commission on Social Policy was established in 1986.) The budget included a package to provide substantial immediate relief to low-income families with dependent children. It also increased most other benefits and allocated more funds to education and healthcare. The budget introduced a surcharge on the additional income earned by superannuitants. This was unpopular with the

elderly. However, it confirmed that the government was willing to remove pockets of privilege.

## Taxation

The Fourth Labour Government recognized that the taxation system it inherited encouraged misallocation of resources. Too much weight was placed on the direct taxation of personal incomes. Because the overall tax base was narrow, average and marginal income tax rates were high. There was a view that this regime was encouraging tax avoidance and tax evasion. The government's long-term objective was to simplify the tax system, broaden the tax base, and flatten the tax scale. Significant tax design work ensued, drawing on expertise both within and outside of government. In 1986, all wholesale sales taxes were abolished, and replaced with a broad-based value-added tax (the Goods and Services Tax) with a single rate of 10 per cent (raised in 1989 to 12.5 per cent). The Goods and Services Tax (GST) included everything except financial services in the tax net. This was done in recognition that only by taking this approach would economic distortions be avoided and the compliance costs involved in collecting the tax be minimized. At the same time, cuts were made in the rate of income tax: an earlier five-rate scale was cut to three rates, the highest rate being 48 cents in the dollar, down from 66 cents. This scale was simplified even more in 1988 with a two-rate scale of 24 per cent and 33 per cent. The company tax rate was reduced from 48 per cent to 33 per cent, in recognition of the desirability of having the company tax rate equal to the top personal rate. The overall effect of these measures was to reduce the proportion of tax revenues derived from income taxes. Consequently, New Zealand's tax structure came to be viewed internationally as one for the least distortionary.

## State-Owned Enterprises and Privatization

When the Fourth Labour Government assumed office, the government owned and operated many services that could potentially operate in private hands, or at least in a business-like fashion. These services included the Bank of New Zealand, Air New Zealand, an international shipping line, and all electricity generation and distribution facilities. During its time in power, the Fourth Labour Government established such activities as state-owned enterprises (SOEs). In its 1984 briefing to the incoming government, *Economic Management*, the Treasury had given initial advice regarding the merits of placing some government activities on a more commercial footing. At this time, other governments around the world had begun to step back from the control and ownership of many previously state-owned and operated

assets. For example, under Margaret Thatcher's leadership, the Conservative government in Britain was then implementing a major programme of commercialization and privatization of government activities (Abromeit 1988; Jenkinson and Mayer 1988). Roger Douglas (1993: 178) recalled:

My first attempt to obtain agreement on a comprehensive approach to State-owned enterprise reform was in May 1985. I wanted to transform them into competitive State-owned businesses by removing their monopoly status wherever possible, and transferring any of their non-commercial obligations to other government agencies. Managers could then become personally accountable for SOE performance.

The view was that many government activities that could and should operate on a commercial basis and face competition were actually a drain on public resources. Further, those presiding over them lacked accountability for their decisions.

In December 1985, the government announced the principles it would apply to SOEs in the future. These principles were subsequently incorporated into legislation. The Attorney General and Deputy Prime Minister, Geoffrey Palmer, developed an umbrella statute to streamline the reform process. This became the State-Owned Enterprises Act, adopted in December 1986, and which came into effect in April 1987. At that time, nine government entities became SOEs. In December 1987, Roger Douglas announced the government's intention of significantly reducing its debt position through a programme of asset sales. During the next two years, major privatizations included the Bank of New Zealand, Petrocorp, New Zealand Steel, the New Zealand Shipping Corporation, State Insurance, and Telecom.

The changing status of these operations certainly resulted in greater efficiency. This was manifest in both lower production costs and improvements in customer services. There were two downsides. First, the privatization process did not run smoothly in several instances. We discuss this in the section 'Problems with Privatization'. Second, the promotion of more efficient operations in several large industries contributed in the short term to increased levels of unemployment. These two matters tended to obscure many of the benefits that resulted for New Zealand from the state-owned enterprises and privatization agenda (Brash 1996).

## Monetary Policy

Following the exchange rate crisis of July 1984, the Fourth Labour Government was keen to develop policy approaches that would, as Roger Douglas put it, 'Muldoon proof' key aspects of monetary policy (quoted in Brash 1996: 14). Two actions were taken towards this goal, both of which removed much of the

potential for any government to capriciously intervene in the workings of the broader monetary system.

In March 1985, Roger Douglas announced that the New Zealand dollar would be floated. This was a significant move. It followed discussions between the Reserve Bank and the Prime Minister and cabinet (Lange 2005: 207). If the New Zealand dollar had been floating in 1984, the exchange rate crisis of July 1984 would never have happened. Under the change, the Reserve Bank would no longer announce official buy and sell rates for the New Zealand dollar. The Reserve Bank was not required to withdraw completely from the market. It was still instructed to act to meet the government's requirements for foreign exchange. This was important for debt servicing. The Bank could also monitor market trends and developments through minor market dealings. It also retained the option of entering the market during episodes of undue volatility to smooth exchange rate fluctuations (Reserve Bank of New Zealand 1986: 14).

In May 1989, the government introduced the Reserve Bank of New Zealand Bill into parliament where it was passed unanimously. This legislation was world-leading with respect to the level of independence that it accorded to the Reserve Bank. In subsequent years, many governments developed legislative frameworks for their central banks that were closely informed by the New Zealand model (Bernanke and Mishkin 1997). The legislation was based on several key principles. It was acknowledged that monetary policy can affect the rate of inflation. However, monetary policy should not be manipulated to promote faster rates of growth or to sustain higher levels of inflation. The Reserve Bank Act explicitly stated that monetary policy must be used for the sole task of 'achieving and maintaining stability in the general level of prices'. In practice, written Policy Target Agreements are signed between the Minister of Finance and the Bank's Governor. This target was generally kept in the range of 0 to 2 per cent per annum. The framework has proven very successful. Since its enactment, inflation in New Zealand has been kept under tight control—a major improvement over the situation in the period from the mid-1970s to the mid-1980s.

### **Delivery, Legitimacy, and Endurance of the Reforms**

The public policy innovations introduced by the Fourth Labour Government (1984–90) have stood the test of time. While unemployment continued to rise during the government's term in office, inflation was slowly brought into check. Likewise, the government's debt situation slowly came under control, although little debt reduction happened prior to 1990. Here, we discuss the delivery, legitimacy, and endurance of the innovations.

All the innovations endured—including the privatization of government assets, which was the most controversial. With the exception of the privatization

programme, they were accorded a high degree of legitimacy from the outset. It was well understood that market interventions had become burdensome and frequently ineffectual during the Muldoon years. While the removal of subsidies to the farming sector brought a share of pain, that pain was relieved by removal of many import protections. The move to a more independent Reserve Bank came after several years of a floating New Zealand dollar, which was also viewed as a key element of market liberalization. It was non-controversial.

With respect to changes in the taxation system, the flattening of the income tax scale was generally viewed favourably. Some members of the Labour Party expressed concern that this was benefiting the wealthy and middle class over the lower classes. But this was a minority view. Likewise, there were inevitable complaints about the introduction of the goods and services tax. However, the comprehensive nature of the tax, and efforts made to compensate the worst-off consumers via incremental adjustments in welfare benefits ensured that the grumbling rapidly dissipated. The creation of state-owned enterprises also acquired rapid legitimacy. While it added to unemployment levels, the move to achieve greater efficiency in these organizations also resulted in improved service provision for citizen-consumers.

The privatization programme was much more problematic. That is because asset sales can be complicated—implementation challenges were greater in this element of the reforms than in any other discussed above. A fair amount of privatization was initiated before 1990, and the National Government elected in 1990 continued the programme. This suggests that, overall, privatization was a policy success. But it created major debate within the Labour government and the Labour Party. Further, while this initiative was underway, Roger Douglas was strongly advocating in cabinet for major changes to social policy. In this, he was spurred on by advice from the Treasury, as illustrated in *Government Management* (Treasury 1987). David Lange's serious misgivings regarding the merits of privatization and radical proposals for changes to social policy created a rift between Lange and Douglas.

### Problems with Privatization

During his budget speech in parliament in June 1987, Roger Douglas announced a programme of asset sales to reduce government debt. Earlier in the year, an experiment with partial privatization had occurred, when the government allowed the Bank of New Zealand to raise capital through selling shares to the public. Reflecting concerns within the broader Labour Party, David Lange was uneasy with this new development in the policy innovations that Roger Douglas was introducing. Following the Labour government re-election in August 1987, Lange made changes in his cabinet designed to reduce Roger Douglas's influence.

While Douglas remained Minister of Finance, those who had supported him as associate finance ministers were moved to other portfolios. One of those was Richard Prebble, who became Minister for State Owned Enterprises. Other elements of the cabinet changes were designed to protect the social policy portfolios from major reform efforts.

As Minister for State Owned Enterprises, Richard Prebble received his advice from the Treasury and he remained close in his engagements with Roger Douglas. Given Douglas's prior announcement to privatize assets, it now fell to Prebble to preside over the process of getting various SOEs ready for sale. Concerned by how asset sales might be perceived by the Labour Party and the broader public, in November 1988, David Lange moved to establish a review of the privatization process. His view was that ministers needed to be distanced from the process, to avoid perceptions of undue influence and corruption. When Richard Prebble refused to consult the Labour Party over the sale of the Shipping Corporation, Lange removed him from his role as Minister for State Owned Enterprises. In a subsequent television interview, Prebble said that Lange was acting like a dictator.

The inevitable happened: Lange sacked Prebble from the cabinet. The privatization process continued. Views on how it fared are mixed. Jarrod Kerr and colleagues (2007) provide a positive assessment, noting that the asset sales greatly increased the size and value of the New Zealand share market, and that those who bought shares in privatized companies tended to receive better returns than the market average. Others have been more critical. For example, Brian Gaynor (2000) has suggested that the government could have received more revenue from its various partial and full asset sales had it managed the sales process more carefully. A common view is that several wealthy New Zealanders and their companies benefited greatly from the privatization process at the expense of the government and taxpayers (Jesson 1999). Certainly, there was a degree of exuberance and naivety about early aspects of the process. A fair assessment would be that some sales were poorly managed. The government needed to rely upon third parties to coordinate sales. This did not always go well. But there was also a lot of learning during the implementation process, which stretched over more than a decade.

### The Government Falls Apart, The Reforms Endure

Although few significant changes were made to social policy during the period from 1984–90, discussion of social policy became a further site of significant contestation within the Fourth Labour Government. Roger Douglas and Treasury advisers went to great lengths to dominate social policy discussions. When Douglas launched the privatization programme in December 1987, he also announced plans to reduce the income tax to a flat rate and to introduce a

Guaranteed Minimum Family Income (GMFI). This announcement was viewed as cutting across more consultative efforts regarding the direction of social policy—most notably the work of the Royal Commission on Social Policy. In January 1988, David Lange curtailed the flat tax and GMFI changes. From then on, tensions between David Lange and Roger Douglas precipitated the demise of the Fourth Labour Government.

After Richard Prebble's sacking from cabinet in November 1988, the next month David Lange accepted Roger Douglas's reluctant resignation. In August 1989, when his Labour caucus colleagues voted for Roger Douglas to return to cabinet, David Lange resigned as Prime Minister. The reform agenda of the Fourth Labour Government ended. Former Deputy Prime Minister Geoffrey Palmer became Prime Minister, lasting in the role for little over a year. He was succeeded by Mike Moore in September 1990. The next month, Moore led the Labour Party into the general election. The Labour Party lost in a landslide to the National Party. Once acrimony between Lange and Douglas boiled over into cabinet, the Fourth Labour Government lost confidence in itself and, inevitably, the confidence of the electorate.

The election of 1990 was not so much a referendum on the appropriateness of the Fourth Labour Government's public policy innovations. Rather, it was a referendum on what politicians could now most effectively lead the government into the future. Even though a new government came to power in 1990, it did nothing to overturn the policies that Labour had introduced. Indeed, the new National Government took those policies as foundations and built upon them.

## **Analysis and Conclusions**

In the early 1980s, global events and the New Zealand government's responses to them drove the country towards economic collapse. Debt, inflation, and unemployment grew. To address the crisis, the Fourth Labour Government introduced public policy innovations in the style of what came to be called the New Public Management. The innovations set New Zealand on a path towards much improved economic conditions. Since then, governments displaying a variety of ideological commitments faced opportunities to abandon the innovations. While there has certainly been evolution and adjustment, the policies introduced in those years remain in place. That said, as a small trading nation, New Zealand will always be vulnerable to changing global market conditions. The policy innovations clarified what actions might be taken to maintain broadly positive economic conditions in the face of continuous challenges.

Given the unique nature of New Zealand democracy, its location, and its economic foundations, care must be taken in drawing lessons for other countries from this policy success. In closing, we suggest several lessons for policy designers.

Periods can arise when those in power are unwilling to make policy changes, even when evidence suggests change is necessary. When this happened in New Zealand in the early 1980s, key advisers kept working at developing their arguments for why change was needed and what changes would be most appropriate. They prepared for a change of government. The relationship between the Treasury and Roger Douglas was fundamental.

The case also seems to support the view that policy innovation occurs when political actors take advantage of windows of opportunity (Kingdon 1995). In 1984, it was clear that old ways of managing the economy were no longer working. There was no hope that economic circumstances would improve by doing more of what had been done in the past. What makes this case particularly interesting is that when we stand back from the cut-and-thrust of the politics of the period, we see a major battle of ideas was in play. New ideas about how to govern an economy were rapidly implemented. The short-term benefits that came from the policy innovations were sufficient to sustain their political legitimacy. That legitimacy ensured the innovations remained in place and could subsequently deliver longer-term benefits.

This case also underscores that sound policy innovation takes time. Time is required to determine appropriate directions forward and to consult about design issues. Through listening and working with others—even those who might have strong objections to a proposal—it is possible for advocates of change to improve policy design and build a strong coalition to support change. The converse is also true. Trying to win debates without listening closely to others can derail change efforts and generate mistrust. Lost trust can be difficult to regain. The policy innovations discussed here certainly exhibited intellectual coherence. However, intellectual coherence is not a substitute for building and maintaining a powerful advocacy coalition.

Given the pressures that central figures in the Fourth Labour Government confronted, and other pressures that they created for themselves by pursuing a fast-paced reform programme, perhaps it was inevitable that various forms of interpersonal acrimony would develop. Further, given that the Labour Party had many members who continued to believe in the power of government to do good things in society, in retrospect it is hardly surprising that big clashes occurred in cabinet. It is fruitful to reflect on this. What approaches to policy discussion, the implementation of the privatization programme, and overall political management might have allowed this government to serve for longer? Looking back, Roger Douglas took the view that moving fast on multiple policy fronts was the only way to secure fundamental changes. However, subsequent New Zealand governments have achieved important reforms while moving more slowly and working to ensure implementation is well managed. For example, the National-led coalition of 2009–17 established a new programme of privatization of government assets. Important work was done that drew on lessons from the past and that met

considerable success. This suggests moving fast is not the only game in town. Careful implementation planning is just as important as careful policy design.

The policy innovations introduced from 1984–90 also demonstrate that achieving success in one area of policy innovation can sometimes lay strong foundations for achieving success in others. The reformers in New Zealand learned a lot about how the operations of the core public service could be improved through placing state trading activities on a commercial footing. They desired to transfer those lessons to social policy design. However, that pursuit of intellectual coherence was undercut by lack of sophistication in the assessment of the political feasibility of such an agenda.

Notwithstanding the significant bumps in its trajectory, New Zealand's economic turnaround has been a major public policy success. Innovative public policy changes catalysed economic growth. In the process, much was learned about the role of government in the economy, how government might be effectively managed, and how advisory systems might be structured to attend both to present challenges and the stewardship for the future. While problems certainly arose, the principles of policy design pursued during this reform period continue to be of relevance in many areas of public policy, well beyond those we have discussed.

### **Additional version of this case**

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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# Germany's Labour Market Policies

## How the Sick Man of Europe Performed a Second Economic Miracle

*Florian Spohr*

### **Introduction: A Sick Man's Recovery**

Not even two decades ago Germany was widely derided as 'the sick man of the Euro' (The Economist 1999). A 'slow-motion country' (Franz and Immerfall 2003), stagnant, and ridden by political paralysis in reforming its permanent problem (Trampusch 2003), the rigid labour market. Times have changed, and Germany has since been praised as an 'economic superstar' (Dustmann et al. 2014), a 'jobs miracle' (Krugman 2009), and a 'labour market miracle' (Burda and Hunt 2011). It has come to be held up as a 'strong reference model for other countries' and for 'effective, evidence-based policymaking' (Rinne and Zimmermann 2013: 18, 19).

How has this big change of fortune and reputation been achieved? This chapter tells the story of how the turnaround was the product of a combination of structural reforms from 2002 onwards and short-term measures in face of the global recession starting in 2008. Both sets of measures reinforced one another, as they both followed an approach of 'putting work first' (i.e. maximizing employment).

The prioritization of employment implied a paradigm shift in Germany, which had a long-standing reputation as a passive welfare state. The step change towards active and rapid integration into work as a policy priority was triggered by the so-called Hartz reforms, implemented between 2002 and 2005. Job search assistance and monitoring gained importance, whereas ineffective job creation schemes were abolished or reduced. These activation-focused reforms successfully tackled structural unemployment and increased the overall employment rate. They strengthened Germany's economic resilience during the 2008 economic crisis, though crucial in mitigating the impact of the recession on Germany's labour market were the short-time work allowance, a time-limited state subsidy, and instruments of working-time flexibility at the firm level to adjust working hours to match a decline in demand, as well as two closely spaced stimulus packages in 2008 and 2009.

The German success story is one of good reform crafting, political leadership, and astute macro-economic crisis management benefiting from the fortuitous

circumstances in which it occurred. It is also a tale of winners and losers. The next section will discuss the substantive thrust as well as the contested nature of German labour market policies. A political assessment of the Hartz reforms classifies them as a conflicted success, one that was shaped by significant contestation between supporters and opponents and yet enjoyed broad public support and legitimacy (for the measures taken during the recession).

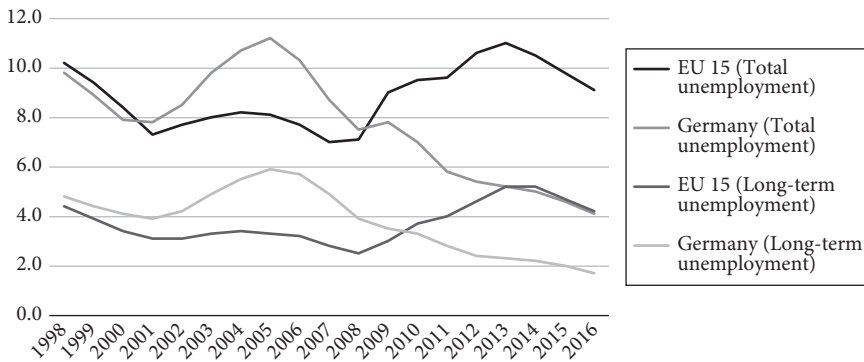
### **Assessment: A Conflicted Success**

The change in German labour market policies was underpinned philosophically by the ‘work first’ approach that has made inroads into macro-economic theory and policy since the 1990s. The approach is defined by its overall philosophy that any job is a good job and that the best way to succeed in the labour market is to join it. Employment is both the goal and the expectation (Brown 1997). The goal to lower unemployment *and* to increase employment meant a paradigm shift in German welfare state’s policy philosophy, which traditionally had been dominated by income maintenance concerns. High unemployment had long been addressed by taking surplus labour out of the labour market using early retirement schemes, and shifting the unemployed to benefits and programmes that did not conduce towards swift reintegration into the labour market (Eichhorst et al. 2006).

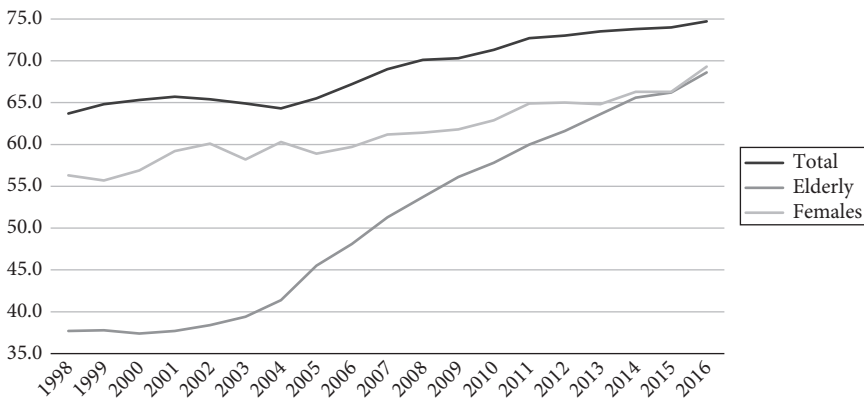
### **Programmatic Assessment**

Programmatically the German labour market policies of the 2000s were a great success to the extent that they delivered on their core purpose: they significantly enhanced employment, reduced unemployment, and continued to do so even during the 2008 economic crisis. The Hartz reforms’ explicit focus on integration into work increased the overall matching efficiency and the flexibility of the German labour market. By enhancing commodification, the degree to which individuals are dependent on the market for income and compensation (Esping-Andersen 1990), more unemployed took up less-paid work (Bonin 2013: 148), which resulted in smaller wage pressure during collective negotiations. Combined with a decrease in collective agreements this led to an average reduction of 2 per cent of unit labour costs in Germany between 2000 and 2007, compared with an average increase of 22 per cent amongst all other OECD countries in the same period (Dingeldey 2007; Caliendo and Hogenacker 2012; Mohr 2012). These measures resulted in a decrease of unemployment that started in 2005 and that became even more impressive when it continued following the global recession of 2008/9. Figure 15.1 highlights Germany’s remarkable record when compared to that of the average of the EU fifteen states.

The reforms enabled the effective tackling of unemployment even during the worst recession in post-war history which acted as a major test for the economy's robustness (Rinne and Zimmermann 2013). Stronger incentives to work and better matching between labour demand and supply in the period before the recession were considered as one of the main reasons for the mild increase in unemployment during this time (Caliendo and Hogenacker 2012). In addition, stimulus packages, the short-time work allowance, and instruments to increase working-time flexibility proved to be successful, both from an economic and socio-political point of view (Bothfeld et al. 2012). By enabling German firms to retain skilled workers and securing individuals' on-the-job skills, these measures were in line with a work first approach. Subsequently, the positioning of German firms on a global scale recovered and Germany experienced its highest levels of employment ever (Hassel 2015), spurred on by the rising employment rates of elderly and female workers in particular (see Figure 15.2).



**Figure 15.1** Germany's and EU unemployment rates, 1998–2016 (percentage of active population)



**Figure 15.2** Germany's employment rates, 1998–2016 (percentage of population)

### Process Assessment

In terms of process assessment, Germany's labour market policies successfully contrast the difficulty of accomplishing significant change in public policies. Historical institutionalism assumes initial choices to increase the cost of adopting once-possible alternatives; formal and informal 'veto-points' tend to lock existing policy arrangements into place and push reform agendas in the direction of incremental adjustments to existing arrangements (Pierson 2001). The processual success was to disrupt path dependency and incrementalism by circumventing stalemate in the corporatist policymaking with the convening of a commission, the Hartz Committee, to prepare a reform of the labour market. Although the restructuring of policy design processes enhanced the problem-solving capacity, it reduced procedural justice since social partnership negotiations serve the legitimization of government actions; governments especially incorporate trade unions into policy-making and implementation for their own political support (Hassel 2009).

### Political Assessment

In political assessment terms, Germany's labour market reforms were not a complete but more like a 'conflicted success' (McConnell 2010). Their passage and impacts were heavily contested between supporters and opponents, particularly their goals of recalibration and cost containment in labour market policies. While business and employer associations as well as conservative and liberal parties supported the Hartz reforms, unions, social welfare organizations, leftist parties, and parts of the public criticized social cutbacks. The case suggests that unambiguous, balanced, un-muddled policy success is hard to achieve in the 'new politics of the welfare state', where restructuring 'generally requires officials to pursue unpopular policies that must withstand the scrutiny of both voters and well-entrenched networks of interest groups' (Pierson 1996: 143–4).

Not only does a trade-off between different success dimensions exist (in our case programmatic at the cost of process and political performance), but perspectives necessarily differ. Success is subjective; there is a high level of conflict over whether the policy has succeeded or failed. Depending on whether the focus is on the success resulting from specific measures such as the lowering of unemployment rates, or the failures associated with their outcomes such as a growing low-wage sector, supporters and critics portray the paradigm change initiated with the Hartz reforms as either a 'blessing' (Straubhaar 2012) or a 'misery' (Dörre 2013). The assessment differs between scholars focusing on macro-economic effects who argue that a more flexible German labour market was necessary (Krugman 2009; Straubhaar 2012; Bonin 2013) and those focusing on social impacts assessing them as a 'producer of poverty' (Butterwegge 2015) and a 'working-poor trap' (Unger 2015).

Identifying the winners and losers of the last two decades of German labour market policies is a complex task. While economy overall and employers are clearly on the winning side, labour market outsiders also benefited from measures such as job placements and counselling (made available to the unemployed without the right to claim social insurance benefits). Until 2005, the granting of active measures was according to the principle of equivalence between contributions and benefits restricted to (former) labour market participants who qualified for social insurance-based schemes (Gronbach 2012: 47–8). In the conservative welfare regime (Esping-Andersen 1990), labour market insiders benefit from such a status-preserving policy—even at the cost of higher job entry barriers for outsiders (Klenk 2012). The Hartz reforms' partial deviation from the conservative regime (Spohr 2016) placed formerly well-earning unemployed in a worse position. Germany's elaborate schemes of status-protecting income replacement were reduced to twelve months, respective eighteen months for older unemployed. However, job insiders, in particular skilled workers in the manufacturing sectors, benefited from the short-term allowance and the stimulus packages aiming at job security.

### Endurance Assessment

Conflicted success is still a 'success' in the sense that policy norms and instruments survived intact (McConnell 2010: 58–61). Indeed, until now the most controversial parts of the Hartz IV law have not been terminated or substantially changed and no fundamental revision of the work first paradigm has occurred. The relative robustness of success can also be illustrated by highlighting the fact that during the economic recession, unions and employer organizations were reincorporated into policymaking to build a broad political coalition. The social partners' rapid consensus to implement the short-time work allowance is regarded as a fundamental criterion for the success of this measure, since it was embedded in other flexibility strategies at the firm level (Bogedan 2012; Eichhorst and Weishaupt 2013). So, over time, both the inclusiveness (a process component) and breadth and depth of the societal legitimacy (a political component) of German labour market policies have improved. The overall endurance of success can therefore be rated highly.

### **Policy Narrative: A One-Two Punch on Unemployment**

#### Stalemate: German Labour Market Policies in the 1990s

German Labour market policies have traditionally been shaped by values and characteristics of the Bismarckian social security system. Since this model is primarily financed by contributions, it pursues an equivalence of contributions and benefits. In doing so, the German welfare state is a prime example of the

conservative welfare regime, for which the preservation of social status is central (Esping-Andersen 1990). This manifested itself most clearly in its dualist system of unemployment benefits, where entitlements varied according to an applicant's previous employment record. While those without entitlement to social insurance benefits received the means-tested *Sozialhilfe* (social benefit), previously permanently employed were granted generous income-oriented benefits of long duration. For up to thirty-two months of unemployment, the contribution-based *Arbeitslosengeld* (unemployment benefit) functioned as wage substitution and was followed by the *Arbeitslosenhilfe* (unemployment assistance), an income-oriented benefit usually notably above the social benefits.

The pronounced status-preserving function of German labour market policies had four adverse consequences for the integration of the unemployed into work. First, linking unemployment benefits to the former salary set a high reservation wage, which some economists and politicians assume to dampen incentives to take up work although no empirical findings prove this lock-in effect (Bothfeld et al. 2012: 342). Second, the unemployed were only obliged to take up work matching their qualifications and experience. The principle of occupational protection defined the suitable job an unemployed had to accept as more or less adequate to the position held before. Third, policies aimed to secure employment of the contribution payer perceived as (male) breadwinner. During periods of rising unemployment, the priority was on excluding certain groups from the labour market. Early retirement schemes lowered employment rates of the elderly, and tax advantages for married sole earners acted as incentives for one spouse to not work (Heinze 2006: 53). These measures curtailed market participation of the elderly and women (see Figure 15.2). Fourth, employment promotion and labour market protection focused on (male) skilled workers. The downside of this approach is growing social inequality and labour market segmentation between regular and discontinuously occupied persons, particularly a near-permanent exclusion of low qualified labour (Bothfeld et al. 2012).

Whereas at the beginning of the 1990s unemployment was relatively low in Germany, it rose between 1991 and 1998 from 5.5 to 9.8 per cent, which was particularly concerning since the EU average level of unemployment remained constant at the same time. This relative deterioration could mainly be attributed to the consequences of the German reunification in the year 1990. The originally West German labour market regulation that was adopted after unification excluded large parts of East Germany's often low-skilled workforce, since their productivity growth lagged behind their wage growth (Heinze 2006). In this unique situation, a massive expansion of job creation schemes and short-time work were regarded as a necessity to compensate the economic losers of Germany's reunification. That attempt, however, brought no large-scale reintegration into the labour market (Heinelt and Weck 1998; Heinelt 2003).

A low employment rate in combination with high expenditures on labour market policies increased non-wage labour costs in Germany's contribution-based unemployment insurance system. High labour costs represent a competitive disadvantage in the European Common Market and act as a barrier for labour market outsiders by hampering the expansion of employment in the low-wage sector. For example, the slow growth of jobs in the service sector was considered as a reason that a large part of the population remained inactive (Heinze 2006) and may have contributed to an increase in long-term unemployment from 3.1 per cent in the year 1993 to 4.7 per cent five years later.

Concerns about the state of the labour market dominated Germany's 1998 federal election campaign. After sixteen years the coalition of Christian Democrats (CDU/CSU) and Liberals (FDP) led by Chancellor Helmut Kohl that had overseen unification was voted out of office and replaced by a coalition of Social Democrats (SPD) and the Greens. In his new government's first policy statement, Chancellor Gerhard Schröder (SPD) named the high unemployment rate the most pressing and painful problem (Schröder 1998) and promised to reduce the number of unemployed from 4.2 million to less than 3.5 million within his first term. Unemployment policy was now *Chefsache*, and the necessary reform effort would be driven by the Chancellery.

Grouped around the German Chancellery were the main advocates of work first policies who touted labour market reform as the solution to the problems of low employment, high expenditures on benefits, and the absence of incentives and assistance for the unemployed to find work (Spohr 2015, 2016). The so-called 'Blair/Schröder manifesto'—co-authored by Schröder and British Prime Minister Tony Blair, made a first attempt to set a 'new supply-side agenda for the left'. It gave priority to 'investment in human and social capital' in combination with policies according to 'the principle of rights and responsibilities going together'. Long-term unemployed were expected to reintegrate into the labour market. Additional policies to 'make work pay' for individuals and families as well as the introduction of a low-wage sector were announced (Blair and Schröder 1999).

However, the defined goals of equal opportunity, social integration, and full employment challenged the Bismarckian perception of a status-preserving welfare state. Labour market deregulation and the principle that social rights entail the duty to reintegrate into work were new at the time in Germany. Hence, the Blair/Schröder manifesto met with resistance from sections of Schröder's own Social Democratic party, the unions, and the public (Schmidt 2000; Heinelt 2003). The critics focused on preserving existing jobs through high dismissal protection and by reducing labour supply via early retirement—even though this raised entry barriers for outsiders (Klenk 2012). The size and vehemence of the backlash led Chancellor Schröder to a momentary retreat. This was part of a pattern. Particularly in Germany, where the broad middle class's sense of entitlement protects the welfare state from radical reforms

(Merkel 2001), efforts to reduce expenditure by cutting benefits or tightening eligibility can threaten broad voting blocs. The political costs of adopting radical reforms were considerable, and hence incremental, path-dependent policy evolution was the norm (Pierson 2001).

The corporatist structure of Germany's prevailing policy style formed another hurdle for deep policy change. German corporatism is characterized by large interest organizations cooperating amongst themselves and with ministers, parliamentarians, members of the civil service, and representatives of interest groups. Particularly in labour market policy, proposals for change are more often than not pre-cooked and smoothed over in negotiations between trade unions and employer groups. Public policymaking in effect becomes a function of bargaining between the social partners rather than the political programme of the government of the day. Those 'social partners' naturally only reach settlements that are to their mutual advantage (Lehmbruch 1979; Czada 2003).

Initially, Schröder's red-green coalition government relied on this established pattern of policymaking and proposed a tripartite social pact, the *Bündnis für Arbeit* (Alliance for Jobs). As part of crafting this pact, the Chancellery set up a benchmarking group to identify proposals for an enhancement of the employment rate. The group suggested to widen the low-wage sector by introducing non-tariff zones, and to strengthen the incentives to take up low-paid jobs by tightening eligibility and integrating the two types of benefit schemes for long-term unemployed (*Arbeitslosenhilfe* and *Sozialhilfe*) on a low level (Fels et al. 1999). Fearing an erosion of standard wages (Patzwaldt 2007), the unions vetoed these proposals. In general, given the social pact's goal of cost containment, the proportional interest representation of government, unions, and employers in the pact's steering committee resulted in a permanent stalemate. The social partners were simply unwilling to make concessions (Schmid 2003), revealing the institutional limitations of corporatist bargaining: despite the growing need for deep reform, none was forthcoming.

This stalemate persisted throughout the coalition's first four-year term. Although the Chancellery was aware that much more needed to be done in labour market policy, in the run-up to the 2002 federal elections no one in the coalition was willing to touch this political 'hot potato'. This confirmed Tufte's (1978) assumption that cutbacks are mostly made after elections, while before them governments are prone to implement social policies to the benefit of voters (see also Vis 2010, 2016).

### A First Punch: The Hartz Reforms

In a situation where welfare state restructuring requires governments to pursue policies that are unpopular among voters and interest groups, timing is important.

At certain times, circumstances may make it much easier to get a policy adopted than at others. Such a 'window of opportunity' when change is possible (Kingdon 2003; Zahariadis 2007) opened in January 2002. Uncovered manipulated statistics in the Federal Labour Office (FLO) caused a political scandal (*Vermittlungsskandal*) and highlighted labour market policies to be ineffective. The FLO had falsified its success rate, claiming it had found work for around half of the unemployed while in fact it had only placed less than one in five of its clients into work. A subsequent investigation found that 70 per cent of employment cases were being mishandled (Gaskarth 2014: 10).

This high-profile scandal provided Chancellor Schröder with both the incentive and the momentum to momentarily circumnavigate corporatist structures and seize the initiative on labour market policy. He convened a blue-ribbon commission to prepare a reform of the FLO. The so called 'Hartz Committee' (after its chair Peter Hartz, a human resources executive at the Volkswagen AG and a well-known advocate of new employment programmes) became the key actor in the policy design process. Ostensibly coordinated by the Ministry of Labour, overall control of the Committee's work remained at the Chancellery, operating discreetly in the background (Schmid 2003).

The Hartz Committee helped to circumvent the veto-prone corporatist policy formulation. The recent scandal had delegitimized the social partners who were involved in the implementation of policies and in the administration of the FLO. Although some members of the commission were employed by the peak bodies of unions and employers, they were handpicked by the Chancellery and Peter Hartz. They were selected according to whether they took a sanguine view of free market forces, were willing to compromise, and agreed to not represent the interests of their associations. Notably, the two most important employers' organizations, the German Confederation of Employers' Associations (BDA) and Federation of German Industry (BDI), as well as the German Confederation of Trade Unions (DGB) were not included. The incorporation of technical expertise and reduced participation of interest groups enabled a more evidence-based approach to design policies that had been consistently rejected by organized interests within the *Bündnis für Arbeit*. The other side of the coin of this more constrained and top-down approach was that key stakeholders felt excluded and claimed the process lacked legitimacy.

In June 2002, Peter Hartz released interim conclusions to test the public opinion. On the wings of broadly positive responses in mass media, among economic actors and in academia, Schröder announced that the Hartz Committee's concepts would be inscribed into law, even before the commission had drawn up its full report. The final report was released six weeks before the 2002 election. Its thirteen 'innovation modules' recommended a shift towards an activating labour market policy aiming at a rapid integration into work (Kommission Moderne Dienstleistungen am Arbeitsmarkt 2002). Schröder campaigned on his

commitment to the Hartz reform package, announcing if he were to be re-elected Chancellor, it would be a key component of the coalition agreement in the case of re-election. It proved to be a vote-winner: indeed, public support for the Hartz Concept contributed to what ended up as surprising electoral victory of the red-green coalition.

The decision-making process was shaped by a steering group formed to force the reforms through including Chancellor Schröder, Peter Hartz, and Wolfgang Clement, head of the new Ministry of Economics and Labour. Strategic concessions to the unions and to the conservative majority in the *Bundesrat*—Germany's upper house representing the federated states (*Länder*)—ensured the bills' unusually speedy passage (Spohr 2015: 193–4). At the same time, the reform package was carefully sequenced; those measures that were politically and technically easiest to implement were adopted first to enhance momentum and create 'quick wins' (Gaskarth 2014).

The Hartz agenda was legislated in four laws. The first and the second law came into effect on 1 January 2003. *Hartz I* introduced stricter availability criteria by redefining the concept of 'reasonable employment'. Its interpretation meant that the long-term unemployed had to accept almost any job offer regardless of their former living standards or their achieved educational status. In addition, the burden of proof determining whether a job offer was reasonable was reversed: it was no longer the employment agency making the case for the reasonableness of the job offered; instead the client had to demonstrate its unreasonableness. At the same time, *Hartz I* increased the support for vocational education and deregulated temporary work by setting up *Personal-Service-Agenturen* (staff services agencies) operating as temporary employment agencies to place unemployed with employers. *Hartz II* introduced new schemes to subsidize employment in short-term and part-time roles (*Minijobs* and *Midijobs*) with higher thresholds for taxes and social insurance payments for employees and less worker protection, as a means to encourage employers to hire more staff. A grant for entrepreneurs, known as *Ich-AG* (Me, Inc.), was introduced to encourage unemployed people to start their own businesses.

The first two Hartz laws had an ambivalent impact. Although more long-term unemployed took up work and the low-wage sector expanded as intended, temporary work, *Mini-* and *Midijobs* hardly built a bridge into regular employment (Beckmann 2019), but rather forced people into low-wage jobs, thus leading to a growing number of 'working poor'.

*Hartz III* came into effect on 1 January 2004 and reformed job centres according to the New Public Management philosophy to put a stronger emphasis on job search. It increased the number of employment agents significantly to improve job placement. This organizational restructuring enabled a better matching of unemployed with measures supporting job search and training. It has since come to be regarded as one of the most impactful reforms (Bonin 2013).

The most controversial element of the reforms and the main reason for the conflicted nature of its success came into effect with *Hartz IV* on 1 January 2005. The maximum duration of the insurance-based unemployment benefit (*Arbeitslosengeld I*) was reduced to eighteen months for persons older than 55 and twelve months for regular unemployed. Since then, only the short-term unemployed receive an earnings-related benefit at 60–67 per cent of their previous net income, depending on family status, and the long-term unemployed were only entitled to the tax-funded and means-tested *Arbeitslosengeld II* (*ALG II*, commonly known as *Hartz IV*), which integrated the former *Arbeitslosenhilfe* and *Sozialhilfe* into a new unemployment benefit at the level of basic social assistance. For people in this category any job offer could be deemed reasonable. *ALG II* is means-tested, including property value, which serves as an additional incentive to take up lower paid jobs before falling into long-term unemployment. Especially among the highly qualified, this contributed to a significant decline in short-term unemployment (Clauss and Schnabel 2008).

*Hartz IV* became the symbol for the break with the principles of the Bismarckian 'social insurance state'. While the Christian-Democratic and Liberal opposition parties and employers supported the reforms, trade unions and welfare organizations protested against cuts in unemployment benefits. Opposition was strongest in East Germany where the long-term unemployed had been entitled to relatively high and unlimited earnings-related benefits, a legacy of GDR-era full employment policies. The flat-rate benefit *ALG II* was perceived as a severe loss of entitlement (Eichhorst et al. 2006). Voter discontent with the Hartz reforms eventually resulted in a significant decline in political support for the Social Democrats and in the autumn of 2005 the red-green government was defeated in general elections.

The period following the passage and implementation of the *Hartz I–IV* laws was characterized by ongoing programme evaluation as well as abortive attempts to wind back certain measures. In 2007, the so-called 'grand coalition' of Christian Democrats and Social Democrats led by Chancellor Angela Merkel extended the maximum duration of the insurance-based *Arbeitslosengeld I* for the elderly up to twenty-four months. Although the government justified the move as a necessary correction in the interest of social justice, it also reconfirmed its commitment to the work first approach by introducing wage subsidies of up to 50 per cent and one-year grace periods for firms hiring unemployed of over 50 years of age.

Effective programme evaluation underpinned periodic fine-tuning of the reforms. The Labour Market Instruments Reorientation Act (*Gesetz zur Neuausrichtung der arbeitsmarktpolitischen Instrumente*) of 21 December 2008 reduced the range of policy instruments and made them more manageable for employment agencies. Job creation and rotation schemes that had had little impact were terminated; other measures that had shown potential were reinforced. Successful instruments for temporary work, activation and job placement were

merged in a single measure (*Maßnahmen zur Aktivierung und beruflichen Eingliederung*, § 45 SGB III). A new budget for job search assistance (§ 45 SGB III) was introduced, uniting existing support to take up vocational training or work (Oschmiansky and Ebach 2012; Rinne and Zimmermann 2013).

### A Second Punch: Tackling Recession

Following the Hartz reforms the German labour market made impressive progress in reducing unemployment. Long-term unemployment decreased whereas employment of elderly workers increased (as shown in Figures 15.1 and 15.2). Low-skilled labour became more productive. These developments put the economy into a relatively strong position when in late 2008 the crisis hit the country (Rinne and Zimmermann 2012). The 'Great Recession' of 2008–9 was the worst global recession since the 'Great Depression' in the 1930s. It caused a general economic decline, particularly in North America and Europe, and changed the context of German labour market policies. The first consequences became visible in Germany's main economic pillars: exports and manufacturing. At the end of 2008, order volumes in the metal and the chemical industry declined dramatically by 35 and 20 per cent respectively (Haipeter 2012: 392–3) and posed a threat to Germany's fledgling economic recovery.

The government reacted in November 2008 with a relatively modest stimulus package of 11.8 billion euros. It included tax reliefs for firms and private households to stabilize consumption and an extension of the short-time work allowance (*Kurzarbeitergeld*) from twelve to initially eighteen months. The short-time work allowance is a time-limited state subsidy from the Federal Employment Agency to adjust working hours due to a cyclical decline in demand. Its extension was appreciated by employers as well as unions, since it had proven to be effective in past crises. Given the speed and depth of the global economic downturn, unions demanded another stimulus package just weeks after the first one was announced. They suggested a scrapping bonus for old passenger cars to stimulate consumers to buy new ones (Brenke 2010; Eichhorst and Weishaupt 2013).

In December 2008, a crisis summit was held to stem the tide. For the first time in years the government resurrected the corporatist scenario and invited top officials from employers' associations and unions as well as senior corporate leaders to the Chancellery. This *Konjunkturgipfel* was designed to incorporate the social partners in the policy design, but stopped short of trying to revive old-style social pacts as an institutionalized pattern of policymaking. No mutual commitments or regular consultations ensued from the summit (Rehder 2009: 270; Haipeter 2012). The main purpose of the summit was to orchestrate a show of unity and dramatize that the crisis was being managed responsibly.

At the peak of the crisis, unions and employer associations formed an alliance of convenience to achieve a superordinate goal: maintain Germany's industrial strength while securing employment. The global recession mainly affected Germany's export-oriented manufacturing sector, where skilled labour in the best-managed and successful companies had become increasingly scarce. Against the broader background of population ageing and expected future shortages of skilled labour, firms had a strong interest in retaining their qualified workforce even while exports were momentarily falling. This aligned with the unions' lobbying for measures to secure employment and to stimulate demand while riding out the crisis (Haipeter 2012: 391–3; Rinne and Zimmermann 2012).

Capitalizing on this convergence, in January 2009 the government launched a second stimulus package, worth 50 billion euros. It encompassed public investment in education, training, and infrastructure. The duration of the short-time work allowance was expanded to twenty-four months and restructured with the Federal Employment Agency footing half of the social insurance contributions bill. In addition, a car allowance rebate system (*Abwrackprämie*, 'cash for clunkers') subsidized the acquisition of new cars, supporting car manufacturers on a global scale with a particular focus on the protection of skilled workers in export-oriented industries. This measure alone is estimated to have saved at least 20,000 jobs (Eichhorst and Weishaupt 2013: 321–2; Hassel 2015: 119).

However, the crucial labour market policy in mitigating the recession's impact was short-term employment, a policy that had been used immediately after German reunification to curb rising unemployment (Heinelt and Weck 1998; Schmid 2017). Its theory was that keeping people in jobs contributes to the maintenance of skills, because a longer time in unemployment devalues human capital. The same logic was applied in 2009. To improve employees' employability, the short-time work allowance was constructed in a way that costs for firms were lowest when short-term employment was combined with qualification measures (Bogedan 2012). At its peak, 1.14 million workers were protected from unemployment through the scheme, mostly in the manufacturing sector (Seeleib-Kaiser 2015: 192).

German firms also did their share of the work, which proved crucial to Germany's exceptional labour market performance during the economic crisis. They chose to keep rather than shed labour. Drawing on a suite of flexible labour market instruments that had evolved incrementally over the past thirty years, firms had some margin for manoeuvre in using internal flexibility to protect their investment in skilled workers (Caliendo and Hogenacker 2012: 13; Reisenbichler and Morgan 2012). Accordingly, at the peak of the crisis, in May 2009, nearly one million workers in the metal industry (more than one in four) were in short-term employment (Haipeter 2012: 399).

The short-time work allowance and the instruments of working-time flexibility are estimated to have preserved between 600,000 (Brenke 2010: 45; Eichhorst

and Weishaupt 2013: 322) and 1.2 million jobs (Haipeteter 2012: 401). From the employees' perspective, these measures helped them keep their jobs. From the firms' perspective, it had a long-term positive effect on unit labour costs. With demand bouncing back by 2010, German firms were in a great position to step in, and the German economy experienced the highest employment levels ever (Hassel 2015: 120–1).

### **Conclusions: Lessons, and Challenges**

What broader insights and lessons emerge from the German experience in labour market policy? It should be acknowledged that policy mixes like the Hartz reforms—activating the unemployed, improving their employability, and making low-skilled labour productive—had already been implemented quite successfully in social democratic Scandinavian welfare states such as Denmark and Sweden as well as in liberal Anglo-Saxon systems such as the United Kingdom and the United States since the 1980s. Clearly, these work first measures have proved to be transferable across different economic contexts, and for that reason both the European Employment Strategy and the OECD Jobs Strategy promote them.

The second part of the German success story—its measures taken during the economic crisis—is more contingent upon its pre-existing economic model (Hassel 2015). This limits how broadly this strategy can be applied to other countries where conditions such as an export-oriented economy and a system of industrial relations that prioritizes job security over wage increases do not apply. Tariff policies regulations taken by the social partners before the crisis enabled firms to keep their workforce, but such options for a collective reduction or redistribution of work time do not exist in many other countries. In addition, it is doubtful whether securing jobs through a flexible management of working time would have proved sustainable and effective had the crisis not been cut short by the export-driven upswing since the second half of the year 2009. Thus, astute macro-economic crisis management went hand in hand with considerable luck, which cannot be replicated (Haipeter 2012: 402; Knuth 2015).

Despite these limitations in generalizing this case as a blueprint for labour market policy success, four lessons might be drawn for policy design, political management, and policy leadership. The first lesson is to implement a policy idea, not an ideological dogma. Neither 'austerity' nor 'deregulation' has been at the centre of the reforms. Actually, money spent on labour market policies has not been reduced but redistributed from passive benefits to job seeker services and activating measures for the unemployed and other target groups (Spohr 2015: 200). The deregulatory component of the Hartz reforms (e.g. the cutting of dismissal protection) was modest and was not essential to their success. Indeed,

the Hartz reforms have mostly been about bringing people into real work rather than keeping them on benefits or occupied in public employment and training programmes. The same goes for 'austerity' measures: there were no spending cuts for their own sake, but rather adjustments and consolidation of previous spending levels (Rinne and Zimmermann 2013; Knuth 2015). At the same time, there was purposeful, growth-oriented public investment. Even though economic liberals warned against repetition of the failures of a Keynesian policy when the first calls for stimulus packages occurred (e.g. Straubhaar et al. 2009), the German government successfully implemented a 'virtually Keynesian employment policy' (Schmid 2017: 14) in line with its Hartz-led work first approach. Its crisis measures were generally short-term, closely monitored, and included education and training. The use of public resources to foster growth was successful because it was combined with structural labour market reforms.

A second lesson is that flexible adjustment of the policy instrument mix makes an important contribution to reaching the overall policy objectives (Sabatier and Weible 2007). Ongoing programme evaluation provided early warning of ineffective policy instruments, which were then duly terminated, reduced in scope, or eclipsed by shifting the weight of the effort towards other instruments (Rinne and Zimmermann 2013: 17–19). It was of fundamental importance for Germany's labour market success to adjust instruments to changing circumstances and new information once the new paradigm was put into practice. As Chancellor Schröder had observed early on, 'trial and error is an important principle here. It seems to become even more important when we see how complex these industrialized societies are these days' (Fröhlich 2000: 140). This gave licence to a preparedness to correct even recently implemented measures. Today, hardly any of the instruments introduced with *Hartz I* and *Hartz II* are being applied, as Germany's economic circumstances have changed.

Third, to secure success over time a 'strategic centre' with a stable guiding coalition of key actors is important (Rüb et al. 2009). The modernist faction of the red-green coalition grouped around the German Chancellery acted as a policy entrepreneur (Kingdon 2003; Zahariadis 2007), advocating work first policies as solutions for the problems of the German labour market of the late 1990s. After the *Vermittlungsskandal* opened a window of opportunity to set a work first agenda, it began to act as a strategic centre steering the policy vision towards realization. Policy continuity was enhanced in the switchover to the grand coalition following the 2007 elections by the SPD holding on to the labour market portfolio. Olaf Scholz, who as the Social Democrats' secretary general had campaigned for the Hartz reforms, became minister of labour and social affairs. He acted as the main driver of prolonging the short-term employment allowance and setting up the car allowance rebate scheme. Acting in tandem with Frank-Walter Steinmeier, who had risen from head of the Chancellery under Schröder to deputy-chancellor in Merkel's grand coalition government, Scholz imposed the stimulus

packages, deftly sidestepping concerns from parts of Merkel's CDU/CSU, the senior coalition partner.

Fourth, strategic sequencing of processes is an important precondition for introducing reforms in difficult structural and institutional contexts. Dismantling the corporatist structures had to take place before the 'adhocratic' structure of the Hartz Committee could gain the weight that it did. Unusually in German politics, the composition of the Hartz Committee was not about inclusion and consensus but about expertise and a will to compromise—a logic of selecting players in collaborative problem-solving efforts that is more conducive to policy innovation (Crosby et al. 2017). Once the work first paradigm was enshrined in the Hartz reform laws, it became important to reincorporate the social partners to enhance the legitimacy of the new policies and to ensure their effective implementation. Furthermore, Germany's job miracle also resulted from the timely reactivation of old corporatist practices and virtues during the economic recession (Haipeter 2012). The broad alignment of labour and capital that was forged in 2008–9 helped to avert a labour market crisis through rapid consensus to implement the short-time work allowance (Bogedan 2012: 139; Eichhorst and Weishaupt 2013: 313).

Can the German success continue? We should not forget that the case portrayed here has been a conflicted success. Even to date, there is no societal consensus on the core objectives of labour market policies, and there is a widespread sense of injustice. The new normal of basic income support and the duty to reintegrate into *any* work jars with long-held normative principles of status preservation and contribution-equivalence in the German welfare state. The silent shift in values implicit in the Hartz reforms was never satisfactorily legitimized (Eichhorst et al. 2006; Bothfeld et al. 2012). Today, more than five million German workers are in precarious jobs. Temporary work—Mini- and Midijobs—and the subsidizing of low wages with social benefits have contributed to one of the world's fastest growing low-wage sectors. It has proven to be a working poor trap (Unger 2015), and the jury is still out on the effectiveness of subsequent compensatory measures—such as the introduction of a statutory minimum wage (Knuth 2015).

A further challenge over the next decades lies in the potential clash between technological change demanding a large supply of workers with new skill sets and the ageing of the German population which will reduce overall labour supply substantially (Caliendo and Hogenacker 2012). Hence, German labour market policies need to further improve general qualification and employability of the workforce, also regarding the medium- and long-term impacts of the demographic 'jolt' resulting from the 2015–16 refugee inflows, which present yet another major contingency testing the robustness of Germany's labour market policies. The Hartz reforms focused primarily on job integration and the stimulus packages during the economic crisis preserved and enhanced the skills of workers already

employed. Labour market access is a necessary but not sufficient condition for social integration (Bothfeld et al. 2012: 343). Sustained investment in human-capital oriented policies will be needed to keep the former sick man healthy in future, and to lift the prospects of the hard core of two million unemployed whose predicament continues to cast a shadow over the German job miracle.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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## Healing the Ozone Layer

### The Montreal Protocol and the Lessons and Limits of a Global Governance Success Story

*Frederike Albrecht and Charles F. Parker*

#### Introduction

The Montreal Protocol—the international regime designed to protect the stratospheric ozone layer—has widely been hailed as the gold standard of global environmental governance and is one of the few examples showing that international institutional cooperative arrangements can successfully solve complex transnational problems. Although the stratospheric ozone layer still bears the impacts of ozone depleting substances (ODSs), the problem of ozone depletion is on its way to being solved and the ‘ozone hole’ has started healing due to the protocol. What explains this success and what can we learn from it in tackling other complex global environmental problems such as climate change?

The ozone layer is crucial to protecting the earth from the sun’s ultraviolet radiation and is essential for absorbing ultraviolet B radiation, which, in large amounts, could seriously harm all plant, human, and animal life (Solomon 2008). In response to scientific evidence that man-made chemicals, chlorofluorocarbons (CFCs), posed a serious threat to stratospheric ozone the nations of the world first negotiated a framework convention, the 1985 Vienna Convention for the Protection of the Ozone Layer, and then, in response to new scientific evidence that confirmed the Antarctic ‘ozone hole’, added a regulatory agreement, the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer. The Montreal Protocol has dramatically reduced ozone-depleting chemicals and the ozone layer has been projected to recover by the end of the century, although some recently discovered challenges may demand further amendments.

In this chapter, we examine how the Montreal Protocol was designed and implemented in a way that has allowed it to successfully overcome a number of challenges that most international environmental regimes must face: how to attract sufficient participation, how to promote compliance and manage non-compliance, how to strengthen commitments over time, how to neutralize or co-opt potential ‘veto players’, how to make the costs of implementation affordable, how to

leverage public opinion in support of the regime's goals, and, ultimately, how to promote the behavioural and policy changes needed to solve the problems and achieve the goals the regime was designed to address. We will conclude that while some of the reasons for the Montreal Protocol's success, such as access to available and affordable ODS substitutes, are not easy to replicate, there are many other elements of this story that can be utilized when thinking about how to design solutions to other transnational environmental problems.

### **Assessing the Montreal Protocol**

There is a strong case that the Montreal Protocol has performed well on all four dimensions of policy assessment used in this volume. To date, the protocol has been a *programmatic* success in achieving its stated objectives and has made progress towards achieving its overarching goals, which were to protect human health and the environment against the adverse effects of activities that deplete the ozone layer. As a result of their protocol obligations, countries have phased out 98 per cent of ODS globally compared to 1986 levels (Ministry for the Environment and Stats NZ 2017: 46). In 2014, the US National Oceanic and Atmospheric Administration (NOAA) found that, after a peak in the year 2000, the atmospheric abundance of many ODSs had sunk under 1980 levels and predicted that the CFCs abundance would also fall below the levels of 1980 before 2050. This positive development can be connected directly to the Montreal Protocol (NOAA 2014). The worldwide production of ODSs has plummeted from some 1.2 million tons in 1986 to 80,000 tons in 2006 to being nearly eliminated in 2016 at 23,000 tons. Global ODS consumption has seen a similar trend dropping from 1.3 million tons in 1986 to 86,000 tons in 2006 and 22,000 tons in 2016 (UNEP Ozone Secretariat 2018). In fact, according to the Ozone Secretariat, in absence of the protocol, global CFC consumption would have been about 3 million tons in 2010 and would have reached 8 million tons in 2060, which would have resulted in a 50 per cent depletion of the ozone layer by 2035 (UNEP Ozone Secretariat 2018).

In sum, there is strong scientific evidence that the Montreal Protocol is indeed reaching the objectives it was designed to address. Achieving the objective to phase out ODSs is illustrative of its programmatic success. In addition, one of the goals of the policy, to close the 'ozone hole', is well on its way to be achieved. In 2018, researchers at NASA showed for the first time, through satellite observations, that the 'ozone hole' is recovering due to the reduction of chlorine from ODSs as a direct result of the Montreal Protocol (Strahan and Douglass 2018).

The second goal of the Montreal Protocol, improving public health by decreasing skin cancer risk, also has been deemed a success (Chipperfield et al. 2015). Although annual rates of new skin cancers in the USA and Europe are still

increasing (CDC 2018; Boyle et al. 2004), we cannot attribute these numbers solely to the ozone layer because there are more factors than ozone depletion that affect skin cancer risk, e.g. the increased usage of tanning beds. Assessment models ran by scholars that took into account the difference between the ozone layer with and without the protocol's regulations, estimate that roughly 2 million cases of skin cancer will be prevented annually by the year 2030 due to the Montreal Protocol (van Dijk et al. 2013). This suggests that there is already a positive public health effect due to action taken under the protocol, and this effect should increase in the future. Thus, the Montreal Protocol appears to have delivered on its goal of reducing skin cancer risks and protecting human health, adding to its programmatic success.

This evidence illustrates that the Montreal Protocol is clearly making progress in achieving its objectives to protect the ozone layer through a phase-out of ODSs. In addition to the ODS reduction achievements, the Ozone Secretariat also points to a number of other important accomplishments, including high compliance rates, the successful utilization of scientific evidence as a basis for policy decisions, the delivery of health, climate, and environmental benefits, and utilization of the financial mechanisms to support developing countries in achieving their reduction obligations (UNEP Ozone Secretariat 2015).

*Politically* the protocol has succeeded in attracting the participation and support of a broad coalition of developed and developing countries. The strong global commitment to the protocol is underscored by the fact that it has achieved universal support and has been ratified by 197 parties. Being part of the protocol had positive effects on countries' reputation and political capital because the ozone depletion posed a risk for environment and public health that was shared globally. By implication, contributing to eliminating this risk would also provide globally shared environmental and public health benefits. The Montreal Protocol has also succeeded, after initial opposition, in winning the support of industry (Parson 1993: 46). By providing a stable and predictable framework that allowed industry to transition away from ODSs to newer, less harmful, and affordable substitutes the protocol has been good for industry and the environment (Haq et al. 2001: 134–5; Rae 2012).

In *process* terms, the structure and management of negotiations contributed to reaching a strong and innovative international regulatory agreement. The flexible design, system for implementation, and compliance procedures of the Montreal Protocol have created effective processes that have contributed to its success in attracting universal participation, increasing its ambition over time, and achieving stated objectives. The flexible design that operates according to the precautionary principle resulted in setting stringent ODS abatement targets before the science was conclusive and allowed ambition to be increased once the science indicated that stronger action was needed. The inclusion of trade sanctions against non-parties and the provision of financial incentives to developing countries

encouraged countries to join the protocol and helped to rather quickly achieve full participation.

The protocol ensured that all parties had the financial and practical possibility to implement its required provisions, such as enacting national controls, by granting a certain degree of freedom during the process and offering financial help to developing countries. Hence, the process could be perceived by all participants as sufficiently fair and legitimate to encourage participation and compliance. The protocol's non-compliance procedures have made it possible to utilize both positive incentives, such as funding and technical assistance, as well as the threat to cut off funding or enact sanctions to encourage adherence with its obligations. Not only have the initially agreed upon ODSs been successfully phased out, the protocol, aided by provisions for regular meetings and scheduled expert assessments and treaty reviews, has also undergone several amendments which added new substances to be phased out over time. The implementation of these amendments is another dimension of the procedural success of the policy.

In terms of *endurance*, the protocol has repeatedly succeeded in adapting and updating its objectives and instruments. To remain effective over time, environmental regimes must be able to adjust and adapt to changing circumstances that occur after the initial agreement. The Montreal Protocol has proven to be adept at responding to new information and challenges by strengthening its provisions (Young 2011). Annual meetings combined with periodic scientific assessments and treaty reviews have facilitated a process that has allowed the Montreal Protocol to update its targets and increase its ambition while maintaining political support among its members. The protocol's Meeting of the Parties (MOP) has acted repeatedly to accelerate phase-out schedules for individual ODSs already covered and by adding additional chemicals to the list of those covered under the terms of the agreement as soon as more ambitious goals became economically and politically feasible (Andersen and Sarma 2002; Parson 2003). Its control provisions were strengthened through five amendments, which accelerated phase-outs and added additional substances, adopted in London (1990), Copenhagen (1992), Montreal (1997), Beijing (1999), and Kigali (2016).

Adding new families of chemicals to the list of those scheduled for phase-out under the Montreal Protocol requires a decision on the part of the MOP and acceptance on the part of member states. This stringent requirement has not been an obstacle to strengthening commitments. Moreover, the initial success of the agreement appears to have shaped virtuous cycles that have lowered the cost of compliance through institutionalized deliberation and adjustment routines during the MOPs. The Montreal Protocol now covers some 100 hazardous chemicals. Interestingly, some of the ODSs are greenhouse gases (GHG) that also contribute to climate change and the implementation of and compliance to the Montreal Protocol was so successful that research found the Montreal Protocol to have had more benefits for climate change mitigation than the Kyoto

Protocol (Velders et al. 2007). It has been estimated, for example, that the total climate change mitigation through GHG reduction provided by the Montreal Protocol was ten to twenty times more effective than the reduction from the Kyoto Protocol's first commitment period (Xu et al. 2013). It has also been claimed that a reduction of hydrofluorocarbons (HFCs) through the Montreal Protocol could prevent up to 0.5°C temperature increase by 2100 through substantial GHG emissions reduction (Zaelke et al. 2018). HFCs, which had not been addressed in the protocol previously, have been taken up under the latest developments of the MOP. An amendment to phase down HFCs was adopted in 2016 in Kigali, Rwanda (Bergeson 2017). The ratification of the Kigali Amendment by the member states is currently ongoing and it will enter into force in 2019 (European Commission 2017). By August 2018, 42 out of 197 member states had accepted or ratified the amendment.

### **The Challenge: Healing and Protecting a Global Open Access Resource**

Solving vexing transnational problems such as stratospheric ozone depletion requires states to agree to the nature of the problem, negotiate an agreement to solve the problem, and then make the agreement work. Past experience and research on international cooperation and efficacy of global institutions demonstrates this is difficult to do effectively for a variety of reasons (Miles et al. 2002; Breitmeier et al. 2006; Young 2011). There is the sheer complexity of many transnational issues. Multilateral negotiations on issues such as ozone depletion or climate change often involve over 190 countries and touch on a wide range of issues in multiple policy areas. And then there is the difficulty of agreeing to a negotiating agenda (Young 1991): even when most states agree that an issue is important, they often have conflicting views on how the problem should be framed and which solutions should be pursued. Also, there are the various configurations of interests among the parties and the challenges this presents to burden sharing. Determining what is fair can be difficult to agree on and there are often multiple views regarding what is equitable (Keohane and Oppenheimer 2016). Veto players and public opinion can be complicating factors to reaching an agreement and then making it work once agreed. The difficulties of cooperation are also compounded by multiple levels of uncertainty. Actors don't know at the outset whether proposed solutions will work, whether the costs of cooperation will be worth the benefits, nor whether other states will actually honour the commitments they make. Finally, once an agreement is reached, if it is to succeed it must attract a sufficient number of key states to participate, states must honour the commitments they have made and comply with the agreement's rules (Parker 2001, 2013).

The degradation of the ozone layer presented a classic common pool resource problem. Healing and protecting it from further degradation would only be successful if these underlying collective action problems could be solved on a global level: all large-scale producers and consumers of ODSs (namely CFCs and halons) needed to commit to a global cooperative solution. The atmosphere is a resource that all actors, nation-states and industries have open access to. However, to the extent it is used, i.e. through the emission of ODSs, the resource is affected and degrades continuously. In the absence of a comprehensive governance arrangement it was impossible to exclude actors from harming the ozone layer through emissions of ODSs negatively affecting global society (Epstein et al. 2014).

Hardin (1968) famously claimed that common pool resources of this type will always be overused and ultimately destroyed due to rivalry in consumption and the non-excludability of users. He predicted that the rational interests of involved actors to maximize their own benefits will increase the use of the resource to its destruction. To this day researchers remain sceptical as to whether the international society is capable of sidestepping this tragedy of the commons in relation to global open access resources, such as the earth's atmosphere (Araral 2013).

In the case of the ozone layer, the resource's very attributes complicate the situation and the search for a workable solution (Agrawal 2003; Epstein et al. 2013). First, the ozone layer is of global importance but effectively invisible. It is also highly mobile, implying that the emission of ODSs does not result in direct local consequences while also making it difficult for involved parties to see clear benefits for any efforts to protect and heal the ozone layer. In addition, because it takes a long time for the ozone layer to recover from the effects of ODSs, the value of potential, but distant, benefits may not motivate participating actors that desire more immediate gains (Epstein et al. 2014). While these resource characteristics make it potentially more difficult for countries to become motivated to engage in global cooperation and reduce emissions, they also highlight the fact that only a truly global solution (without free riders) can solve the problem, as shifting emissions to other, non-participating countries would undermine the effectiveness of any non-comprehensive regime.

The main actors involved in the process of finding a governance arrangement that would restrict the emission of ODSs for the protection of the ozone layer included nation-states and international organizations including NGOs, the European Economic Community (EEC), and, since 1972, the United Nations Environmental Programme, which went on to host many meetings and initiatives in this area. The industrial sector, notably in the form of ODS producers, also participated in the negotiations. The interests of these actors diverged widely. Some aimed for an international agreement, others felt national regulations alone would be sufficient, and some rejected the proposition that a policy to protect the ozone layer was needed at all.

Different clusters of nation-states were influential in shaping, or resisting, the negotiations to address ozone depletion. The lead states in the process, Canada, Finland, Norway, Sweden, and the United States, eventually formed a coalition to push aggressively for a global policy to reduce ODSs (Wettestad 2002). Many of these countries implemented national regulations comparatively early on, partly in collaboration with their industrial sectors. In the United States, for example, domestic politics, environmental concerns, and pressure from a major lawsuit had put ozone protection on the political agenda, which motivated American negotiators to push for a strong global agreement (Parson 1993).

Due to the economic importance of ODS chemicals, there was also a number of countries that opposed a control regime. Producer countries, represented by the European Economic Community (whose position was controlled by France, Italy, and the UK), Japan, and the Soviet Union formed one potential veto coalition. Another potential veto coalition was composed of several large developing countries, such as Brazil, China, India, and Indonesia, which wanted the option to produce ODSs in the future. Crafting an agreement that would be supported by all these factions was a tall order. UNEP and its Executive Director, Mostafa Tolba, played a central role in overcoming these obstacles by repeatedly organizing international meetings and providing a forum for negotiations. As we will discuss, Tolba's leadership was instrumental in helping the various countries reach consensus through informal deliberations in the final stages of negotiations (Andersen and Sarma 2002).

## **The Road to Montreal**

### **The Role of Scientific Evidence**

Concerns about the potential depletion of the ozone layer by human activities were first raised in the early 1970s in relation to supersonic transport. Although initial scientific studies on stratospheric chlorine in Europe and the United States did not arrive at definitive conclusions, they attracted public attention and a policy debate ensued over ozone. One of the controversies and disagreements between actors regarded how much scientific certainty was needed to justify policy action to protect the ozone layer (Parson 2003). In the following years, attention shifted from supersonic transport to the role of CFCs and their potential negative impact on the ozone layer. Early studies, such as Molina and Rowland's (1974) discovery of the effect of ODSs on the ozone layer, found that ozone was negatively affected by CFCs in the stratosphere, but did not quantify or predict the loss in ozone yet. This research prompted a rapid increase in scientific attention and spurred policy responses in Canada, the European Economic Community, Sweden, and the United States to restrict the use of CFCs, mainly in aerosols (Andersen and Sarma 2002; Parson 2003). Between 1978 and the final negotiations that led to

the Montreal Protocol, the scientific evidence and predictions of ozone depletion varied significantly. Predicted ozone layer depletion ranged from 15 per cent in 1978 to 3–5 per cent in 1982.

Scientific knowledge can be an important factor in informing policy-makers about the severity of an emerging problem and contributing the needed pressure to overcome collective action problems (Epstein et al. 2014). However, before a firm scientific consensus is reached, users of a common pool resource will often resist regulation and offer competing interpretations of uncertain knowledge (Stern 2011). This was certainly the case in the debate over ozone protection and made the establishment of international controls extremely difficult. The variation in scientific estimates regarding potential depletion allowed several countries to reject the necessity of an international policy regulating ODS use. For example, the United Kingdom was sceptical whether regulation over a longer period would be necessary as ozone layer depletion estimates had been reduced between 1978 and 1982. Japan also repeatedly rejected any proposal to protect the ozone layer until further scientific evidence had been compiled (Andersen and Sarma 2002).

A breakthrough in the public debate and in the negotiations was achieved when research provided additional hard evidence that ozone depletion was a threat to the environment and public health. In 1985, the scientific discovery of the so-called ‘ozone hole’ demonstrated that the loss of ozone was much larger than could be accounted for with existing scientific models (Farman et al. 1985; Solomon et al. 1986). This discovery served as a dramatic focusing event and the resulting increase in global public attention to the problem of ozone depletion created a sense of urgency about the need for a robust global policy solution.

### Support among the General Public and Industry

In addition to key nation-states and environmental NGOs, the coalition that formed around what would eventually become the Montreal Protocol also included other actors, such as specific industrial producers of ODSs, which helped to create broad public legitimacy for the agreement. In the case of ozone depletion, most of the industrial sector opposed CFC controls initially, but after 1986 industries themselves started to call for controls. When one of the leading CFC producers, the US chemical giant DuPont (25 per cent global market share in the mid-1980s), decided to support the phasing out of many chlorofluorocarbons and halons this made a big difference in reaching an agreement and to later efforts to accelerate phase-out schedules under the protocol (Parson 1993).

In addition, increasing scientific evidence and the discovery of the ‘ozone hole’ created an international public discourse on the issue and how to address it. Already in the late 1970s, researchers provided evidence that ‘a decline of ozone

by 1 per cent would ultimately lead to a 4 per cent increase in skin cancer incidence' (Andersen and Sarma 2002: 49). In combination with the detection of a hole in the ozone layer, the connection between a damaged ozone layer and increased risk for skin cancer sparked international debate. Ozone depletion became framed as a matter of public health (Armstrong 1994; Martens 1998). Fears for a dramatic rise in the incidence of melanomas and glaucoma connected to increased exposure to solar radiation as a result of the thinning of the ozone layer were an important factor that created public support for an agreement to protect and heal the ozone layer. Ultimately, the damaged ozone layer became a 'hot crisis' (Ungar 1998: 510) in the media and among the general public. This upped the ante for governments. Signing up to the protocol morphed from a political liability (opposed by big corporate interests) into a political asset (now supported by important segments of industry, research, the healthcare sector, and the public at large), thus lowering the threshold for doing so and locking in the commitment once it had been made (Patashnik 2008).

### The Protocol Design and Negotiation Process

Sweden, Finland, and Norway took a prominent role in the early negotiations and drafted the Nordic Proposal that aimed at eliminating the use of certain CFCs in non-essential aerosols in 1983. This first proposal was the draft which would be developed into the Montreal Protocol over the following four years. The proposal met with both support (Denmark, United States, and Australia) and opposition (Japan and United Kingdom). In 1985, twenty countries and the EEC signed the Vienna Convention, the first international agreement on the protection of the ozone layer. But the framework refrained from imposing any reduction obligations on the parties and instead served the purpose of providing monitoring and data exchanges regarding the ozone layer (Skjaerseth 1992). Article 2b laid out future efforts to be taken by parties of the convention, which consisted of cooperation to achieve legislative and administrative measures to protect and heal the ozone layer (Andersen and Sarma 2002).

In the meantime, the Nordic countries had formed the Toronto Group together with Canada and the United States to draft a new proposal which suggested a reduction of the total CFC use in non-essential aerosols. The proposal was met with criticism from the EEC, which countered the draft with a suggestion to not restrict regulations on aerosols and instead regulate the total use and production of specific CFCs. A debate emerged between the EEC and the Toronto Group on which measures were appropriate, during which both parties accused each other's proposals of failing to solve the actual problem of ozone depletion. By March 1985, the situation around these different approaches had not improved. Negotiations on the proposal had not progressed significantly and '[d]espite many

attempts to take at least a first step to control CFCs, the governments failed to agree on anything concrete' (Andersen and Sarma 2002: 64).

The impasse had to be broken. The various camps jockeyed for position and in the following two years, a number of additional proposals were drafted by the EEC, Canada, the United States, and the Soviet Union. The EEC advocated cutting the total production of CFCs by 20 per cent. Canada suggested a global ODS emissions limit that would be allocated proportionally to countries depending on their population and gross national product. The United States suggested a freeze on consumption instead of production of CFCs, followed by a phased reduction of 95 per cent (Parson 1993). This proposal was supported by the Nordic countries and Switzerland. The Soviet Union suggested controlling the production of certain CFCs and freezing CFC production no earlier than in the year 2000 (Andersen and Sarma 2002).

A breakthrough in the negotiations was reached in 1987. One of the main drivers to reach a consensus was Mostafa Tolba, the then Executive Director of UNEP. He was largely responsible for a proposal draft in 1987 that summarized control measures without demanding commitment from parties. Tolba emphasized the importance of informal consultations, which he used to work up a draft proposal, as he found that during informal discussions representatives were more willing to rethink the positions of their governments. Emerging interpersonal respect and trust among representatives over time also made negotiations easier (Andersen and Sarma 2002).

Following Tolba's draft proposal, more than fifty countries, multiple industry organizations, environmental NGOs, the UN, and a host of other actors took part in the final, intense, negotiations in 1987 which concluded with an agreement. Compromises were reached, for example, to make compliance with the agreement easier for countries where future CFC production had already been planned, such as the Soviet Union, Japan, and Luxembourg. Five CFCs and three halons fell under the agreement in the Montreal Protocol. The decision to focus on the production and consumption of chemicals instead of their use in different sectors made it possible for actors such as Japan to find alternatives for their most commonly used ODSs while reducing other gases.

The Montreal Protocol sought to achieve a reduction of both production and consumption by 50 per cent of the aforementioned ODSs. In 1990, this objective was upgraded to achieving a total phase-out of these ODSs by the year 2000. The protocol furthermore offered special conditions to developing countries in order to not harm progress in their development. The repeated international negotiations, debates on various drafts for a proposal, and the compromises in the final agreement to accommodate the specific needs and interests of particular countries can be assessed as a successful policy process (Andersen and Sarma 2002). One year after the protocol's entry in force, in 1990, it had been signed by fifty-eight parties that accounted for 90 per cent of the global CFC and halon production and

consumption. Over time, additional countries joined and at present the Montreal Protocol has achieved the universal ratification of 197 parties.

A crucial aspect of the Montreal Protocol was its success in overcoming collective action problems. Widespread participation was vital, because if the agreement was to work no substantial consumers or producers of ODSs could remain outside the agreement. To prevent the relocation of production facilities to countries that did not join the protocol and to create an incentive for participation, the deal included trade provisions. These provisions restricted trade in CFCs and ODSs with non-parties (Wettestad 2002). There was in-built momentum for change (Patashnik 2008): once the main producing countries joined the protocol, it was only a matter of time before all countries had to join or risk not having access to key chemicals. In 1990, the parties also decided to establish a Multilateral Fund to encourage developing countries to join the process by providing them with financial and technical support to phase out their use of ODSs (Andersen and Sarma 2002).

### **How the Protocol Gained Its Strength**

The Montreal Protocol would not be a true success story without key elements that facilitated its implementation and earned it widespread legitimacy for its policy obligations. First, universal ratification has prevented free riding. Second, high levels of compliance with the phase-out obligations have been achieved by virtually all member states. ODSs (CFCs, halons, carbon tetrachloride, methyl chloroform, and chlorobromomethane) reached a 98 per cent phase-out by 2010 (which was the scheduled goal); the remaining 2 per cent are hydrochlorofluorocarbons (HCFCs). For HCFCs, the current goal is to achieve phase-out by 2020, which is an acceleration of the previous deadline of 2030 (UNEP Ozone Secretariat 2015).

### **Coping with Compliance Challenges and Costs**

Compliance has been described as the Achilles' heel of international environmental regimes (Young 2011). Those who are opposed to the creation of a regime, or participation in one, often cite the high costs involved with implementation to justify their opposition. Technological innovation can often provide a solution. Once a regime is in place and those actors involved in implementation begin to give attention to how to do so efficiently, innovations can emerge that make compliance less costly than initially expected. The ozone regime is a good example of this (Haq et al. 2001). Producers found affordable alternatives for many ODSs and these replacements sometimes turned out to be less expensive than the

original chemicals. The efficiencies that were realized in the initial implementation of the protocol have paved the way to making it easier to strengthen commitments, even those that were the subject of contentious bargaining at the outset.

Research on environmental cooperation has emphasized the importance of monitoring and enforcement mechanisms as essential attributes to promote compliance with agreements that govern common pool resources, such as the atmosphere (Ostrom 1990; Stern 2011). In addition, procedures to facilitate communication and deliberation among the partners of common pool resource governance arrangements increase the likelihood of overcoming collective action problems and preventing the free riding of actors who might attempt to use the resource without complying with the agreed upon rules (Ostrom 1990, 2010). These basic assumptions can also be found in relation to research on international regimes, which has highlighted the importance of an institutional design that includes both management and enforcement features to help encourage compliance (Parker 2001).

The 'management' approach has stressed the importance of transparency, dialogue among the agreement's parties, dispute resolution procedures, and technical and financial assistance to promote compliance. The 'enforcement' approach has stressed monitoring activities in conjunction with potent sanctions. Overall, the management approach has been found to maximize compliance better in some settings than enforcement, even in regulatory regimes (Chayes and Chayes 1995; Young 2011). Ideally, to get the best of both worlds, multilateral agreements should be equipped with mechanisms that provide incentives (resource carrots) for compliance while applying strong sanctions (costly sticks) for non-compliance (Parker 2011).

A study of the Montreal Protocol's non-compliance procedures found that its implementation committee was most effective when the management and enforcement approaches to compliance were blended (Victor 1998). 'Management avoids the most severe and unproductive antagonism, but the credible threat of tougher actions, including sanctions, helps ensure cooperation, especially when dealing with parties who are unswayed by management alone' (Victor 1998: 139). Thus, the mechanisms utilized to promote compliance with the agreement's obligations have been effective and illustrate further why the protocol is both a procedural and programmatic success.

### Assistance for Developing Countries

Making financial assistance available to member states that agreed to strengthen their commitments under the Montreal Protocol was a crucial factor that facilitated the commitment and political support of developing countries. In the case of the Montreal Protocol, financial arrangements are available to provide assistance

to those willing to strengthen their commitments. In 1990, an amendment was added, which created the Montreal Protocol Multilateral Fund as a way to help developing countries (known as Art. 5 parties) to shift to non-ODSs or to pursue development without relying on ODSs. Thus, the regime fairly distributed costs and prevented developing countries being forced to act as free riders due to restricted compliance capacity. It has also increased the inclusion and participation of partners, facilitating the maintenance of the maximum winning coalitions that are generally associated with successful international environmental regimes (Young 2011).

### Distributed Leadership

The effective exercise of different modes of leadership (Parker and Karlsson 2014), including scientific, political, and entrepreneurial leadership, from a number of key actors has been a crucial determinant in the Montreal Protocol's success. Scientific leadership has been important in pinpointing the effect of ODSs on the stratosphere and in identifying the core environmental and public health issues that were at stake. Authoritative scientific reports on these threats have repeatedly provided an impetus for action for negotiators and the parties. For example, reports exposing the probable health impacts of the loss of stratospheric ozone that came out during the mid-1980s had a strong effect on the provisions that were included in the 1987 Montreal Protocol and, as new scientific evidence became available, on the subsequent amendments to the agreement that accelerated the phase-out schedules and added additional ODSs for elimination.

Political leadership was taken by a diverse group of actors at different stages. The Nordic countries, led by Sweden, were particularly influential in launching the process to negotiate an international agreement to protect the ozone layer (Parson 1993: 37). Throughout the process, the Nordics, along with like-minded countries such as Canada, New Zealand, and Switzerland, were continuously involved in drafting proposals and coordinating diplomatic efforts to reach a deal (Wettestad 2002: 160–1). The United States was also an important leader. In the early stages, the United States primarily provided intellectual and scientific leadership on the issue of ozone depletion. Then, starting in 1986, after domestic decisions to reduce CFC use, the United States exerted its diplomatic muscle by taking a strong leadership role in the negotiations (Parson 1993; Wettestad 2002).

Finally, entrepreneurial leadership by UNEP's leader Tolba, as we have discussed above, proved pivotal in achieving agreement on the Montreal Protocol. In the post-creation phase, the Ozone Secretariat has assumed the entrepreneurial leadership mantle and has skilfully worked to ensure the successful implementation of the agreement and to help facilitate adjustments that have increased the agreement's scope and ambition. It has done so by organizing informal and formal

meetings of the parties, proposing draft language for treaty amendments, forming review panels, and involving itself in reporting and compliance issues (Wettestad 2002: 162). In sum, the Ozone Secretariat's role has contributed to the creation of positive feedback loops that have facilitated repeated adjustments in the policy demands of the protocol in a manner that enabled fair access for all parties to participate and influence the process, while at the same time helping the parties deliver on their obligations.

### **Lessons Learned and Future Challenges**

Social science research on collective action problems and common pool resources in the 1960s and 1970s was largely occupied with pointing out the difficulty, and even impossibility, of cooperation among diverse groups of actors and predicted a tragic fate for public access resources. The negotiations, the agreement, and the implementation of the Montreal Protocol nevertheless demonstrates that it is feasible to overcome collective action problems (e.g. Hardin 1968; Olson 1971)—even on a global scale, even when the resources in question are difficult to understand, and even if the measurable effects of policies enacted to address the problem have relatively long time horizons before their benefits are apparent.

The protocol effectively addresses the governance of the atmosphere as a global public access resource. The international negotiations surrounding climate change and greenhouse gas emissions must also address the governance of the atmosphere, and the Montreal Protocol provides an instructive case in point on how to overcome collective action problems, bring together heterogeneous actors to reach a common agreement, prevent free riding, and adjust to new scientific realities.

There are factors, however, that limit the Montreal Protocol's applicability to other environmental challenges such as confronting climate change. First, the reduction of ODSs was comparatively simple; it involved controlling a set of specific industrial gases for which substitutes were available and the alternatives, which were quickly developed, also proved to be cheaper than the harmful substances they replaced. Reducing greenhouse gas emissions to address the problem of climate change is considerably more complex and will require more far-reaching societal transitions involving the energy, transport, and agricultural sectors, among others. Moreover, each sector contains powerful veto actors, such as the fossil fuel industry. Second, key countries with major ODS producing industries actively supported an agreement and provided leadership. In contrast, the international effort to address climate change has lacked leaders that are widely seen to be acting for the common good to solve the problem of global warming (Parker et al. 2015). Third, with regard to the problem of stratospheric ozone depletion, the issues of impact, fairness, and equity were clear and fairly easy to address. The effects of ozone depletion are spread across the globe and all

countries are affected. Moreover, the normal North–South divide between the developed and developing world, which we see, for example, with climate change, has not been at play to the same extent here. The developed world is in just as much immediate risk due to ozone depletion and the Multilateral Ozone Fund can provide the capacity-building help and funding that keeps the costs of involvement for developing countries affordable (Wettestad 2002).

That said, there are lessons that are potentially relevant for other transnational environmental challenges, even ones for which we do not have simple technological solutions. An interesting aspect of the Montreal Protocol success story is how the accumulation of scientific evidence served as a catalyst for cooperation both for reaching a deal and for increasing ambition and strengthening commitments over time. It illustrates the importance and potential impact of scientific knowledge for forging collective solutions to environmental challenges. Regarding implementation, the Montreal Protocol provides good examples of fruitful strategies to facilitate compliance and build confidence through a calibrated combination of management and enforcement approaches. Moreover, although it will be far more difficult to accomplish for the reasons laid out above, climate change will ultimately need to be solved by finding substitutes for fossil fuels and providing financial help for the least able countries. This will not be easy and time will tell if the Paris Agreement and the Green Climate Fund are up to this epic challenge.

How then should we assess the international effort to address the challenge of ozone depletion? Has the Montreal Protocol saved the ozone layer for all time? Until recently, assessments of ozone depletion were very optimistic about healing the entire ozone layer. The 2014 scientific assessment identified a stable ozone column since the year 2000 and predicted a full recovery of the ozone layer by the end of the century (WMO et al. 2014). Scholars also found clear evidence that the depletion of the ozone layer would have been worse without the Montreal Protocol (Chipperfield et al. 2015). In addition, the latest evidence shows that the protocol has been successful in starting the healing process needed to repair the ozone hole (Strahan and Douglass 2018).

However, recent research has identified that the ozone column is declining again between the latitudes 60°N and 60°S, i.e. most of the world, where potential harm due to more intense UV radiation may be dramatic (Ball et al. 2018). Explanations range from an alteration of atmospheric circulation through climate change that shifts ozone, to negative effects of very short-lived chemicals found in, e.g. solvents and degreasing agents, which are not addressed by the Montreal Protocol (Hossaini et al. 2017; Ball et al. 2018). One of these damaging chemicals is even used to produce ODS replacements (Hossaini et al. 2017). These results, and the accompanying scientific uncertainty, require further investigation and raise questions concerning whether the overall impressive achievements of the protocol, so far, will be sufficient to repair the ozone layer as projected.

To date, the Montreal Protocol has been a programmatic, political, and procedural success that has, moreover, endured over time. It has achieved the specific objectives it set for itself by phasing out many harmful substances and it has contributed to the closing of the Antarctic ozone hole. However, although it clearly has had positive impacts on public health and in addressing ozone depletion, a complete recovery of the ozone layer has yet to be secured. Nonetheless, the Montreal Protocol's successful track record of adjusting ambition in light of new scientific evidence, if it continues, suggests that the prospect of eventually healing the ozone layer is still within reach.

### Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at [www.centreforpublicimpact.org/observatory](http://www.centreforpublicimpact.org/observatory).

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