

Pussyfooting with Dr Pangloss

Put all the civil service spending reviews of recent years together and they still won't plug the black hole in government finances, says **Dan Lewis**

Britain still has a great civil service. It remains largely politically independent, corruption-free and has a genuine ethos of public service. Take a look around the world and you can still say that this is unusual.

Yet in today's world, it's not enough. The business of government – over 40 per cent of our economy – will have to become much more efficient. And there are two inescapable reasons for this: unsustainable public spending increases by Gordon Brown, and the private sector's declining competitiveness in the face of global competition. The only solution is to reallocate capital from the public sector to the private sector, while making government more efficient.

There really is no choice. As many economic commentators would attest, United Kingdom's plc economic backdrop is anything but rosy. Arguably, just like West Germany in the 1980s, the UK is sleepwalking, eyes wide shut into a decade of low growth.

If we could but wake up, the signs are there for all to see. Unemployment is now at a three-year high, having increased for 12 straight months in a row. Last year was the weakest year of growth since 1992, a mere 1.8 per cent, well under Gordon Brown's Treasury's forecast of 3 to 3.5 per cent. Worse still, in 2006, another slow year beckons. Ernst and Young's Item Club anticipate a mere 2.3 per cent this year – below the level needed to reduce unemployment and raise tax receipts and, of course, fund public services.

So much for the signs of a slowdown; the forces driving it have been in place for some time now, aided and abetted by economic mismanagement. When my report, *The Essential Guide to British Quangos 2005* was published last year, the media were more interested in my exposure of the British Potato Council than asking the hard questions about the cost of today's government. Yet for me, the whole rationale for achieving efficiency in government had become unarguable. The pensions crisis was in no small way caused by the government's imposition of a tax on share dividends. The black hole in government finances, perhaps a structural £10bn, was mitigated by borrowing in the boom years of the past. According to a recent report by the Institute for Fiscal Studies, this gap may have to be plugged by a penny on income tax.

And then there are the areas we don't really have any control over at all:



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- A prospective shrinkage in the working population which has just peaked;
- A decline in revenue from North Sea oil and gas, where fields are emptying;
- The rising costs of energy;
- Globalisation providing many alternative choices for higher margin and faster returns on capital, much of which will no longer be domiciled in the UK;
- A consequent decline in foreign direct investment; and
- A decline in the negotiating power in trade issues of the UK government through a weakening European Union.

The consequence is a continued decline in tax revenues to fund the UK government's commitments. But critically, for all of the above reasons, the pot is diminishing for the private sector as well, but at a faster rate. Like it or not, on current trends, there

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just will not be enough capital for the private sector to invest and achieve the leap in productivity growth that is required to overcome the competitive challenges of the next 20 years.

That's why minds are focusing on making government achieve more with less, to subject the public sector to greater competitive pressures and to achieve productivity growth per government employee far ahead of the decline in government revenue.

To its credit, the government has to some extent acknowledged the problem. Three reviews were duly commissioned known as the Gershon Efficiency Review, the Turnbull Professionalism Review and the Lyons Review into public sector relocation.

On behalf of the Treasury, Sir Peter Gershon produced a promising report, entitled *Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency*. This was meant to recommend efficiencies that could release new funds by 2007/8, thanks to new methods of procurement and amongst others, a streamlining of back office functions and transactional services.

Some successes have been achieved, not least in procurement. But for the most visible of the reforms to the public eye, eliminating 84,150 civil service posts, it's depressing that very few of these have been achieved at all. According to Matthew Elliott of the Taxpayer's Alliance and author of the *Bumper Guide to Government Waste*, of the 30,000 in the Department for Work and Pensions defined as expendable, by December 2005, not one had been let go.

The Turnbull Review meanwhile, proved from an economic point of view to be irrelevant, with a planned weeding-out of the worst-performing 20 per cent of the 4,000 members of the senior civil service, for retraining, redeployment or dismissal.

The Lyons Review, on the other hand, has certainly achieved some cost savings, by relocating government out of central London, probably the second-most expensive city on earth. But is all of this really enough? The honest answer has to be no.

The savings from the Gershon Review amount to £21.5bn, an amount easily dwarfed by the historic and planned increases in public spending by Gordon Brown. According to Matthew Elliott, who believes £83bn of savings are possible, “Sir Peter Gershon was asked to look at the problem

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from an insider's perspective... he was hardly likely to conclude that the vast amounts injected into the system by the government had been wasted.”

The Tories, meanwhile, thanks to the supreme efforts of the former MP Howard Flight, came up with the James Review, which planned for £31.5bn of cost savings. Yet it's the manifesto-independent reviews into government waste that go furthest. Edward Leigh MP, chairman of the public accounts committee, believes that £58bn is achievable. And would you believe it, the European Central Bank puts it at £82bn. It reaches this figure through a comparative study of state spending and optimal taxation in Western Europe.

According to a report by David B. Smith, chief economist at Williams de Broe, because of the lower productivity of the public sector, for every one per cent increase in government expenditure, the economy's annual growth rate declines by 0.14 per cent. Government efforts so far have not been able to reverse this. In recent months, there has been a seismic shift in public opinion. People have shown themselves to be very receptive to stories of public waste, and less and less tolerant to increased taxation.

It's time to raise our sights on reducing government expenditure, and the civil service would be all the better for it. Government can set the policy framework and the targets, but the market should deliver public services. The opportunity to enjoy higher productivity and living standards than our competitors is within our grasp. The civil service will have to contribute savings if we are to succeed.

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