University of New England

School of Economics

The Impact of Alternative Styles of Policy Leadership on the Direction of Local Government Reform

by

J.L. Wallis and B.E. Dollery

No. 2001-11 – June 2001

Working Paper Series in Economics

The Impact of Alternative Styles of Policy Leadership on the Direction of Local Government Reform

J.L. Wallis and B.E. Dollery**

Abstract

The impact a shift from strong to an empathetic style of policy leadership in central government can have on the direction of local government reform is considered in the British context where the Thatcherite attempt to supply the strong leadership required to overcome resistance to its fiscal policy gave rise to a "minimalist" policy of reducing council discretion over services and revenue-raising. The local government policy subsystem seems to have been particularly susceptible to the accumulation of disappointment with the inflexibility of this government's leadership style. The shift toward a more "activist" approach to local government policy by the Blair government may therefore be linked to its attempt to pursue the more empathetic leadership style associated with "Third Way" governments.

Key Words: Leadership style, government failure, 'Third Way' politics

** Joe Wallis is a Senior Lecturer in Economics at the University of Otago, Dunedin, New Zealand Brian Dollery is a Professor in the School of Economics at the University of New England. Contact information: School of Economics, University of New England, Armidale, NSW 2351, Australia. Email: bdollery@metz.une.edu.au.

The Impact of Alternative Styles of Policy Leadership on the Direction of Local Government Reform

1. Introduction

Over the last two decades a global wave of local government reform has taken place against a background of far-reaching economic and political changes and a radical reconstruction of economic policy regimes. These changes have been most dramatic in the developing and transitional countries that have implemented comprehensive reform programs (CRPs) based on the "Washington consensus" that recommends the abandonment of Keynesian demand management and import-substituting industrialization policies in favour of a strategy that focuses on "macroeconomic stabilization" (of debt and inflation) and "structural adjustment" through market-oriented reforms " (Williamson, 1994; Rodrik, 1996). It is against this background that there has been a convergent global trend toward "modernization" and greater complexity in the local public sector, despite considerable cross-country diversity in the functions undertaken by local government, the sources of local government revenue and the principles governing the relations between the State and local government. According to Naschold (1997, pp. 5-6), the type of administrative modernization that has been advanced in the local government arena can be viewed as "a relatively linear, institutional evaluatory process of constant differentiation and performance improvement on the part of 'modern' administrations: from feudal authoritarian councillors to the Weberian type of bureaucracy as rational administration to modern client-oriented and results-centred forms of organization".

An important factor contributing to this shift has been the application of the doctrines of what has been called the "New Public Management"(NPM) at the local as well as the central level of government. Although there are variations in the way NPM has been applied in different countries, it has generally involved a move away from a procedurally based system of public administration by emphasising the importance of "hands-on" professional management and the "freedom to manage", the introduction of performance appraisal with explicit performance standards, and a greater use of output controls with their stress on results rather than procedures (Barzelay, 1992; Hood, 1991, 1994; Peters, 1996).

This paper will argue that the direction in which central government seeks to steer these processes of local government modernization will be related to the style of policy leadership that is being exercised at the different stages of a more comprehensive reform process that seeks to reconstruct public policy according to principles derived from a government failure paradigm. Despite its relative neglect of leadership theory by economists, traditions of inquiry into this phenomenon have been particularly prominent in philosophy, politics, anthropology, psychology, sociology and history. Moreover, insights from all these traditions have been integrated into studies of management and organizational behavior that have been of both an academic and popular nature (a particularly comprehensive survey of these studies is provided by Bass, 1990). Distinctions are repeatedly made in this literature between styles of leadership that are

'democratic', 'participative', 'group-developing', 'relations-centered', 'supportive' and 'considerate', on the one hand, and those which are 'autoritative', 'dominating', 'directive', 'autocratic', 'task-orientated' and persuasive on the other hand. Bass (1990, p.33) suggests that "it is possible to encapsulate many of these typologies into the autocratic versus democratic dichotomy". However, we will largely follow a trichotomy proposed by Little (1988) since the three styles of leadership he differentiates would all seem to be capable of contributing, at some stage, to the advancement of the "paradigmatic reform process" that provides the context for the local government reforms we will be considering.

In the first place, there is the "inspirational" style exhibited by leaders who tend to be "political Pandoras, liberating hopes. unrealistic, inventive imprudent, careless, enraptured with change and the future" (1988, p.5). Secondly, there is the "strong" style exhibited by leaders who "prefer to implement ideas rather than to debate them" (Little 1988, p.45). Although they are "deliberately unvisionary and unexciting" (p.5) they have a reputation for decisive action based on "simple, tangible goals, minimal entanglements and reluctance to compromise" (p.15). Thirdly, there are leaders who exercise what Little calls a "group" style of leadership. They "are reluctantly aggressive and tend to idealize solidarity, equality and consultative processes" (p.6). Little tends to see them as more appealing but less effective than strong leaders. We would suggest that this conclusion is dependent on the context of 1980s politics that Little is studying and fails to appreciate the effectiveness of the style of leadership offered in the 1990s by leaders such as Clinton in the US and Blair in the UK. This style can be more helpfully characterized as "empathetic" since while it encompasses the more inclusive style that Little associates

with Group Leaders, it dispenses with the nostalgia that can make this style of leadership irrelevant in the aftermath of radical change and emphasizes the necessity of "adjusting to the new realities".

In examining the conditions under which each of these leadership styles is likely to prevail and the influence they are likely to have on the direction of local government reform, the paper divides itself into three main sections. Section 2 examines the relationship between the strong leadership style, macroeconomic strategy and what we call a "minimalist approach" to local government policy. We will focus our attention in this section on a range of initiatives taken the Thatcher government in the UK since this government appears to have stood out in terms of the way it pursued a minimalist agenda of reducing local discretion over services and revenue-raising. Moreover, local government appears to have been the area of public policy in which it was susceptible to an accumulation of disappointments that eventually catalyzed a shift away from its strong leadership style. Section 3 will then examine how these disappointments may be countered by the emergence of the style of empathetic policy leadership undertaken by so-called "Third Way" governments. The way in which the Blair government has taken a more activist approach to local government reform as an important element of its Third Way program will be considered as well as the sources of incoherence in this approach that may, in the future, cause policy leaders to disengage from subsystems such as that surrounding local government. We argue that this disengagement is likely to characterize the successful consolidation of a paradigmatic reform process and go on to compare, in section 4, the linear concept of modernization with our more cyclical perspective of local government reform by way of conclusion to this paper.

2. Strong Leadership and Minimalist Local Government Policy

The impressive volume of case study literature on the reform experiences of countries that have sought to reconstruct their economic policy to bring it into line with the Washington consensus has tended to focus less on the rationale for this shift than on the reasons for the observed unevenness in its implementation. One factor that is often cited as contributing to this unevenness in implementation is the strength and effectiveness of the policy leadership exercised by the governments concerned (Krueger, 1993; Williamson, 1994; Dunham and Kelegama, 1997; Wallis, 1999). This appears to have been a lesson that was widely drawn from reform experiences in the UK where a striking feature of the Conservative Thatcher-led and (to a lesser extent) Major-led administrations seems to have been the way they sought to maintain an impression of strong policy leadership. Although some may insist that, to a degree that varied from case to case, there may have been a gap between the image and reality of Thatcherite strong leadership, a belief in the necessity of maintaining this style does seem to have been an important aspect of the approach to policy implementation that this government espoused.

The Thatcher government tended to see local governments as a significant source of resistance to its macroeconomic strategy of government expenditure restraint. This view appears to have been based, at least in part, on the belief that even after restructuring, local authorities will have a spending bias since the benefits of their

services are, for the most part, concentrated within their benefit regions while the costs may be either less "visible" or more widely dispersed. They cannot therefore be trusted to co-operate with the central government, particularly where the restraint of government expenditure is a major element of public policy.

Indeed, from this perspective, there are a number of non co-operative strategies these actors can deploy in response to a cut in central funding to the local government. In the first place, they can compensate for the reduction in central funding by using their discretion to raise revenue from other sources. In particular, they can either increase locally levied rates or taxes or they can raise the user charges on services supplied by local natural monopolies owned by local authorities. Secondly, they can strategically cut services in a way that intensifies the public backlash to funding cuts by either reducing the quality of selected services or biasing local government spending to consumption rather than investment, deliberately allowing infrastructure to run down to the point where it can only be upgraded with a significant injection of central government funding. A minimalist local government policy would therefore combine measures that reduce the scope for agent discretion at the local level while at the same time strengthening the voice and exit mechanisms that can be activated in response to the fiscally irresponsible use of this discretion. More generally, it would be guided by the *residuality principle* which holds "that local government should be selected only where the benefits of such an option exceed all other institutional arrangements" (Wallis, 1999, p.375). As a result local governments would be expected to play a minimal role in the local economy that restricts them to the provision of those local public goods in respects of which the benefits from decentralization significantly exceed the costs associated with potential agency failure.

It should be borne that the minimalist orientation of Thatcherite local government policy was, if anything, strengthened by the fact that during the Conservative government's period in office the preponderance of local authorities were Labour-led and "generally sought to expand municipal socialism via an enlarged welfare state" (Bailey, 1999). This was, of course, completely at odds with the Thatcherite commmitment to "rolling back the state" and lay behind the seeming ironic tendency of the government to combine a policy of reducing state intervention in the market with one that, at the same time, stepped up central intervention in local government affairs.

In a highly critical review of the way the Thatcher government implemented its local government policy, Rhodes (1992) describes the 1980s as "an era of repetitive legislation" (p.54) within which "there were some 40 Acts affecting local government in general and local government finance in particular" (p.50) with laws being "made and remade . . . because of the high degree of uncertainty surrounding their viability" (p.55). The cumulative impact of this repetitive process does, however, appear to have significantly impinged on the two major areas of local government discretion. We will consider each of these, in turn.

Measures to Reduce Local Service Discretion

In general, central government is more capable of reducing local discretion in respect of those services that are either contracted out to local governments by its agencies or that must be provided by these bodies as a statutory duty compared to those that are provided on the basis of purely permissive powers (such as leisure). The Thatcher government made this an important feature of its education policy when it introduced legislation that

allowed individual schools to "opt-out" of local government control and be funded directly by central government. The intention was that, in response to financial inducements, the majority of schools would become "grant-maintained" with central government effectively purchasing school places and requiring them to provide minimum education standards. Bailey (1999, pp.274-5), however, reports that by 1997 when the newly-elected Labor government announced that no more schools would be allowed to opt-out of local authority control, less than 3 per cent of primary schools and 18 per cent of state secondary schools had actually availed themselves of this option.

More generally, this type of exit mechanism can be strengthened when local authorities are required to extend, as far as feasible, the practice of financing service provision through user charges rather than compulsory local rates and taxes since this gives individual consumers the freedom to "opt out" of specific services if they are dissatisfied with their cost and/or quality. Similarly, the introduction of vouchers exchangeable both within and without the jurisdiction, like school vouchers, allow citizens to switch to alternative providers and place pressure on local authorities to be more efficient and responsive.

The centralizing tendency of a "strong leadership coalition" (SLC) such as the Thatcher government may also be reflected in its tendency to establish non-elected agencies (NEAs) to advance single, well-specified goals that fall within the wider range of concerns of local governments. Since these NEAs operate alongside local authorities, a "polycentric policy terrain" (Rhodes, 1997) can emerge that places these two types of organization in a situation of "structural dependence" on one another. From the perspective of a SLC this may be a welcome development since it opens up a new

10

channel of influence and leverage over local government. It may, however, be less welcome by local authorities since, as Bailey (1999, p. 269) has observed "the increasing fragmentation of UK public decision-making during the 1980s through specially appointed central government agencies with explicit remits and special boundaries (especially for local economic development initiatives) was in direct and uneasy contrast with the consolidating, over-arching corporatist approach of local government".

A SLC may, however, seek to diminish local discretion over services more directly through a re-assignment of responsibilities. It could relieve local government of some services and provide them directly from the center or reassign their provision to NEAs or voluntary organizations or profit-making businesses. This re-assignment may be based on an re-assessment of comparative institutional advantage that takes into account the presumed greater susceptibility of local authorities to government failure.

With the extension of NPM principles to the local public sector, it may become increasingly feasible for local authorities to unilaterally decide to contract out some of the services they provide and privatize trading enterprises they own. A SLC may, however, be unwilling to allow these decisions to remain subject to the discretion of local governments. In the UK, for example, the Thatcher government introduced compulsory competitive tendering (CCT) in 1980 for local government's construction-related activities, including new building and renewal, building repairs and maintenance, and highways construction and maintenance. It later extended CCT to the internal cleaning of buildings, refuse collection, street cleaning, school and welfare catering, vehicle maintenance, grounds, maintenance and management of sports and leisure services. It is

apparent that a similar compulsory approach could be applied with respect to the privatization of local government-owned trading enterprises.

Measures to Reduce Local Financial Discretion

The main concern a SLC has about local governments is likely to revolve around the ways in which they finance their activities since these bodies can thwart top-down pressures to cut their spending by simply offsetting any reduction in central grants with an increase in local rates and taxes. Any attempt to curb or limit the tax-raising powers of local government does, however, strike at the very basis of local government autonomy since, as Bailey (1999, p.177) points out:

> "The economic rationale for local governments to have their own tax-raising powers is grounded in Oates' decentralization theorem . . . Local governments without tax-raising powers are effectively agencies of central government."

Minimalists would tend to argue that any decline in local autonomy resulting from their proposals to reform local government finance is a price that needs to be paid to advance their goal of strengthening local accountability by "introducing a clear link between the provision of services, paying for them and voting in local elections" (Rhodes, 1992, p. 51). The Thatcher government clearly took the public choice-theoretic view that this led to "an in-built tendency for voters to vote for excessive local government spending" (Bailey, 1999, p. 267). The successive reforms of local government finance by this government culminated in a 1990 package that addressed the three main areas where the system was thought to weaken accountability for fiscal irresponsibility at the local level.

The first area related to the grant system that British central governments have used since 1966 to equalize the taxable resources of local authorities while taking account of the various demographic, geographical, social, environmental and other factors that were thought to affect their need to spend. The Thatcher government considered that this system provided too strong an incentive for high-spending authorities to further increase their spending so as to secure larger grants and, accordingly, replaced it in 1980 with a new block grant that was designed to increase financial pressure on local authorities to bring their expenditure into line with targets set by central government. Expenditure in excess of the "Grant-Related Expenditure Assessment" (GREA) thus attracted an additional block grant at a diminishing or "tapered" rate so as to increase the cost to local taxpayers of such excess spending. As a result of its increasing unease with the way the complexity of this system blurred local accountability, the Thatcher replaced it in 1990 with a new "Revenue Support Grant". This comprised two main elements: a standard grant paid as an equal fixed sum per head of adult population in all local authorities in support of the generality of services; and a lump-sum needs grant that varied according with differences in the assessed need to spend per head. In general, then, reforms of the grant system in the UK reflected a minimalist concern with reducing fiscal illusion and ensuring that grants are mainly lump sum so that they have only an income and not a substitution effect since they do not change the relative price of the grant-aided service.

A second major area of concern for the Thatcher government was with the property tax system local authorities used to raise general revenue. The tenuous link this system allowed to develop between tax liability and voting was thought to be most problematic with respect to the property tax levied on businesses since local businesses

usually have no vote. Moreover, this government came to see relatively high local business taxes as a significant supply-side constraint on the efficiency of local economies. Bailey (1999, p.174) points out in this regard that:

> "Despite the lack of clear empirical evidence about the impact (if any) of locally variable business property taxes on the location of firms, during the 1980s and 1990s, the UK government believed that relatively high rates for the local business property tax caused significant crowding-out at the local level by detering investment by locally-indigenous firms, by causing local firms to exit the locality, and by detering inward investment by firms from outwith the jurisdiction."

Although the Thatcher government had taken on powers to cap local tax rates, it eventually decided to remove this business property tax from local government control in 1990 by introducing a single uniform tax rate on business properties, the proceeds of which were paid into a national pool that was, in turn, distributed as an equal amount per head of population. The local business tax was thus transformed into an "assigned revenue" that was in practice not markedly different from the other grants made to local authorities. The base on which local authorities could raise their own tax revenue outside of the control of central government was thus significantly narrowed by this measure.

Perhaps the most radical and controversial component of the 1990 package was the replacement of the local residential property tax with a local poll tax - a flat-rate, locally variable, tax payable by all adults resident within a local authority's jursidiction. Poll taxes are generally thought to come closest to the type of lump sum tax that avoids the substitution effects associated with most other feasible forms of taxation. However,

14

their implementation at the local level in the UK was mainly designed to establish a tight correspondence between tax liability and vote eligibility. The greater incentives voters would have under this system to reinforce central pressures on local authorities to restrain their spending were augmented by the very high "gearing effects" that arose from the dependence of these bodies on central grants. As Bailey (1999, p. 92) explains:

> "On average, about 80 per cent of British local government's income net of charges is financed by central government grants . . . This creates a *gearing effect* whereby, on average, British local governments would have to have to raise the tax by 5 per cent or so in order to increase their net expenditure by 1 per cent."

Despite these purported advantages the Thatcher government soon encountered strong resistance in its drive to implement this tax. Its poll tax proposals had attracted little support in the local government policy community due to "its distributional consequences, its deleterious effects on local government and local democracy, its impracticability and the high administrative costs, especially those of trying to trace all adults in order to raise tax payments from them" (Bailey, 1999, p.164). Recalcitrant councils were thus able to enlist the support of the large numbers of predominantly urban citizens who were made worse off by this tax to put pressure on government to reverse this component of its reform package. The effectiveness of this campaign is not just reflected in the replacement of the poll tax by a new form of local residential property tax (council tax) in 1993, but also in the part it has been claimed to play in the replacement of Thatcher by Major as Prime Minister in the Conservative Cabinet.

SLCs in other countries might not be able to go as far as the UK in limiting local financial discretion since Britain stands out in terms of the narrowness of the local

government tax base and the control over local finance central government is able to exert through its comprehensive equalizing grant system. Indeed, the experiments in implementing a uniform business property tax rate and a local poll tax appear to be unique. The UK experience in this regard does, however, illustrate the inherent tendency of a SLC to over-reach itself and create a climate within which there can be a growing demand for a change in leadership style. The direction this shift in style is likely to take and the possible tendency that can emerge for a more activist approach to be taken in local government policy must now be considered.

3. Empathetic Policy Leadership and a More Activist Approach to Local Government Reform

The literature on paradigmatic policy change (Haggard and Kaufman, 1992; Hall, 1993; Krueger, 1993; Wallis, 1999; Williamson, 1994) generally holds that strong leadership is the most effective style during the implementation phase of this process over the course of which the advocates of a new paradigm secure positions of authority and alter existing organizational and decision-making arrangements according to principles derived from the new paradigm (Hall, 1993, p.285). The climate of confusion that tends to prevail as "the accumulation of anomalies" cause an "erosion of authority" of the old paradigm so that a number of rival and "incommensurable" paradigms are pushed forward for consideration may give rise to a demand for "strong leadership" to "bring hardness in decision making and clear purpose where before there was irresolution and drift" (Little, 1988, p.5).

However, if a strong leadership style comes to prevail during the implementation phase, its characteristic inflexibility may, however, cause disappointments to accumulate in a way that eventually causes a pervasive climate of anxiety to surround the policy process. This climate of anxiety is likely to be most effectively countered by an empathetic style of policy leadership. The members of the coalition that seeks to supply this style of leadership will be characteristically engaged on quest for greater policy flexibility within the boundaries of the new paradigm that has been imposed by the SLC. At the same time they will seek to differentiate their leadership style from that of both inspirational and strong leaders. Unlike inspirational leaders they will not challenge the authority of the new reigning paradigm. Rather they will tend to challenge its narrow interpretation by the SLC. They will typically argue that it permits a broader range of goals to be pursued through a wider range of instruments, institutions and participating actors than those which were deployed the SLC they are seeking to succeed. They will further differentiate themselves from strong leaders by their active concern for groups that have been disadvantaged by the adjustment process. Their quest for flexibility will thus also encompass a search for policies that facilitate the adjustment of these groups to the new realities. Moreover, empathetic leaders are more likely to collaborate with these groups and attempt to encourage and empower an area and community-based leadership that can function as the catalytic focus of initiatives to enhance their adjustment capacity.

A "Third Way"?

The tendency for a shift from a strong to a more empathetic leadership style to lead to a more activist approach to local government is also evident in various advanced countries,

particularly those that have recently elected centre-left governments that have committed themselves to the pursuit of a "Third Way" between the new classical neo-liberalism of their predecessors and old-style Keynesian interventionism. The Clinton government in the US, the Schroeder government in Germany and the Blair government in the UK have all presented themselves as exponents of Third Way policies. Their claims that this marks a distinctive approach have been disputed by critics, such as Reich (1999), who typically suggest that it is "nothing more than a watered down version of the neo-liberal policies pursued by Thatcher and Reagan" (Eichbaum, 2000, p38). Giddens (1998), however, has argued strongly that the Third Way needs to be taken seriously as a program in the making. Eichbaum (2000, pp. 46-48) has summarized the main features of this program as follows:

> "For Giddens . . . a Third Way program . . . includes the refurbishment, if not the remaking, of a democratic state - some reform and reinvention of government, the measured use of market mechanisms, and upwards and downwards devolution of government consistent with the challenges of globalisation (and supranational institutions) on the one hand, and greater local governance on the other. The program also includes a refurbishment of civil society, largely by means of partnerships between local communities and the government . . . Education and training become key ingredients in a public policy mix designed to facilitate access to paid work, participation in the labor market being viewed as the basis for economic and social participation . . . Therefore, within the domestic context the role of the state, as an investment state, is a facilitative one."

A Third Way program can thus be seen as part of a move to supply a more empathetic style of policy leadership that both seeks to build on the historic achievement of "strong" predecessors in implementing a paradigmatic reconstruction of public policy while, at the same time, focusing on the facilitative functions of the state that are likely to assume particular importance as the reform process moves into what Haggard and Kaufman (1992) call its "consolidation" phase.

Third Way governments such as those of Clinton and Blair have claimed to have been influenced by "New Keynesian" economists such as Taylor (1986), Akerlof and Yellen (1986), Mankiw and Romer (1991), Greenwald and Stiglitz (1993) and Romer (1993) who have sought to develop an approach to macroeconomic policymaking through which monetary policy could reduce instability in GDP and unemployment without destroying the credibility of inflation targets and fiscal policy could allow a more flexible use of budget surpluses.. However, unlike their predecessors, Third Way governments advocate "reinventing government" (Osborne and Gaebler, 1992) rather than "rolling back the state". This shift in focus has been conceived as "a shift from government to governance" (Bailey, 1999, p.271). In analysing this shift other scholars have emphasized the catalytic role state actors can play in engaging societal actors in network relationships through which they can strive to steer the policy process toward the realization of shared goals (Rhodes 1997; Stoker 1998; Jessop 1995). We must now focus on the specific initiatives the Blair government has taken to strengthen the capacity of local governments to contribute to its overall governance since this would seem to be a key area in which its program mix and style of leadership have built upon, and yet been differentiated from, that of its predecessor.

The Activist Approach to Local Government of the Blair Government

Following its election in the UK in 1997, the Blair-led Labour government wasted little time in announcing its intention to co-opt local authorities into making a significant contribution to the delivery of its domestic policy agenda. The stream of consultation documents issued in 1998 and the main provisions of the legislation enacted in 1999 indicate that local government policy would combine elements of continuity and change in a number of ways that we consider to be characteristic of a government seeking to shift from a strong to a more empathetic style of policy leadership.

In the first place, the Blair government has sought to capitalize on the organizational changes that have occurred in the local sector as councils have sought to restructure themselves to cope better with the top-down pressures placed on them by the previous government. It has both endorsed a modernization process that encompasses a shift twoard "microcorporatist networked organizations dominated by meeting the needs of consumption rather than of production" (Bailey, 1999, p.262) and has also sought to make "modernization" a condition for the devolution of new powers and responsibilities". Secondly, it has sought to broaden the model of the "enabling authority" that its predecessor had identified as emerging from its drive to separate the purchasing and provision of local public services. Its view was that a model local authority would enable persons and communities as well as businesses to have a role in shaping and providing these services (Bailey, 1999, pp. 270-1). Thirdly, the Blair government sought to "continue the trend, developed by the previous administration, of promoting solutions derived from the ethos of the New Public Management" (Brooks, 2000, p.598). It does,

however, attempt to broaden the focus of NPM from a drive to cut the costs of delivering tightly specified outputs to an approach that attempts to make local authorities, along with all other public agencies, responsible, first of all, for the outcomes of "citizen-centered services". According to Blair (1998, p.63), his declared ambition was to lead "a government that focuses on the outcomes it wants to achieve, devolves responsibility to those who can achieve those outcomes and then intervenes in inverse proportion to success."

The cornerstone of this "outcomes-focused" approach appears to be the "Best Value" regime that was implemented through the Local Government Act of 1999. By extending its regulations to all rather than just "defined" activities of local government, by requiring "continuous improvement" rather than just periodic market testing, by deploying a wider range of "tests of competitiveness, by promoting partnerships in which collaboration rather than competition is promoted, by emphasizing the need to improve service standards as well as drive down costs and by introducing regular inspections of all local authority services, the Blair government appears to be pioneering an approach to local government regulation that is more comprehensive and flexible than what existed before" (Martin, 2000, p.224).

A major lesson this government appears to have drawn from the Thatcherite experience in reforming local government is that an adversarial central-local relationship can make it more difficult to achieve a top-down effectiveness in policy implementation (Rhodes, 1992). The new government's commitment to improve central-local relations was initially signalled by its signing in 1997 of the European Charter on Local Self-Government and by its formation of the "central-local partnership" as a forum for

discussion between ministers and local authority leaders. It has relied more on persuasion and exhortation rather than the detailed legislation and prescription that characterized its predecessor's approach as it has sought to work with the policy networks that surround the Local Government Association (LGA) in promoting the "modernization" of British local government. It has also sought to allocate the auditing and inspection functions required by the Best Value regulatory framework to intermediary organizations such as the Audit Commission and the LGA.

This collaborative approach has also characterized a number of recent central government initiatives that have the activist goal of enhancing the capacity of local authorities to implement the new regime. These include its active support of the establishment by the LGA of an "Improvement and Development Agency" (IDeA) to promote peer review of authorities' existing capabilities and to assist them acquire the skills needed to provide local community leadership and deliver high quality services. They have also involved the "Beacon Council Scheme" under which those authorities that are judged to have provided "excellent services" and that have shared their expertise with other councils are rewarded with greater freedom and flexibility when setting their council tax, planning capital expenditure and undertaking initiatives that are currently *ultra vires*. Brooks (2000, p.399) has pointed out that while, on the one hand, "rewarding those local authorities that excel in meeting their objectives with special privileges is a departure from the punitive methods of previous regimes", the scope of this regulatory framework has been significantly enlarged since "in the past, statutory duties were mostly confined to local government functions, whereas the present administration plans to regulate the political practice and management of local authorities' business" (p.398).

Generally, the Blair government appears to have taken the activist view that, once they have been "modernized", local authorities can be allowed to realize their comparative institutional advantage in the provision of "community governance". Through its Department of the Environment, Transport and the Regions (DETR), it has announced that it intends to intends to, firstly, impose a new obligation on councils "to promote the economic, social and environmental well-being of their areas" and secondly "strengthen councils' powers to enter into partnerships" (DETR, 1998, p.80). With regard to this new obligation, Brooks (2000, p. 604) has commented that:

"This new duty will require local authorities to place sustainable development of their localities at the centre of their activities. By considering economic, social and environmental factors, local authorities will act as a catalyst to develop a strategy for the area and to co-ordinate organizations and bodies which operate in a locality. With planning partnerships and development strategies, local authorities will use community consultation and scrutiny to highlight issues that are of concern to the locality. This is a departure from previous models of local government, which were preoccupied with the structure and functions of institutions."

The Blair government proposes to enhance the capacity of local authorities to play this role in two main ways: by encouraging new forms of executive leadership; and by insisting that new forms of participatory democracy be introduced.

With regard to the executive direction of local authorities, the Blair government is proposing to replace the council committee structure that has traditionally performed both executive and legislative functions in local government, with three forms of executive

leadership. Councils will thus be allowed to choose whether their executive structure will comprise one of the following: a directly elected mayor with a cabinet of senior councilors; a cabinet with a leader appointed or elected from councilors; or a directly elected mayor with a council manager. The so-called "back-bench councilors" that emerge under these arrangements will be expected to function as scrutineers of the executive with scrutiny arrangements being decided by the whole council (DETR, 1998, chapter 3). The arguments that have been presented in support of these proposals reflect both an agency-theoretic focus on strengthening accountability and a more communitarian concern with allowing scope for the emergence of "transformational leadership" (Burns, 1978). Thus, on the one hand, it is argued that a small, identifiable executive will produce more coherent and transparent decisions and may ameliorate voter apathy (DETR, 1998, 1999). On the other hand, it has been pointed that the new executive may have opportunities to act as transformational leaders or "civic entrepreneurs", promoting the interests of constituents, working in partnership with other organizations, engaging previously excluded groups and providing an inclusive vision for local development (McGovern, 1997; DETR, 1998; Leadbetter and Goss, 1998).

With regard to "revitalizing local democracy", the Blair government has focused on encouraging local authorities to introduce new forms of participatory democracy rather than seeking to make local government more representative by, say, introducing some form of proportional representation. It has thus continued the trend, initiated by the Thatcher administration, to make local authorities more responsive to consumers by strengthening various voice mechanisms. In particular, it has signaled its intention to introduce a new statutory duty on local authorities to consult with their localities on

service delivery. Moreover, the "Beacon awards" for excellence have taken into account council innovations in democratic practice such as the use of referenda and "deliberative forums" that seek "to overcome the difficulties of exclusion evident elsewhere in society" (Brooks, 2000, p. 608).

Although the Blair government sees "improving leadership" and "revitalizing local democracy" as the two main prongs of its modernization quest, it tends to downplay the potential for conflict between the goal of making decision-making more effective and immediate, on the one hand, and increasing opportunities for democratic participation, on the other. However, as Brooks (2000, p. 607) contends, the tensions between these two goals may become more apparent when the new system actually comes into operation:

"The community leadership role proposed for local authorities implies that there are common interests which transcend all spatial and interest derived differences. However, few localities display such high levels of homogeneity. By streamlining the decision-making process, the opportunity for those who disagree to oppose new policies will be curtailed. Although opposition and backbench councilors will have the opportunity to scrutinize the actions of the (executive), with few meaningful sanctions (the executive leaders) could bring forward controversial policies to be decided and implemented other than by periodic elections."

This pinpoints what may be the "fatal flaw" of an empathetic leadership style: its tendency to persistently challenge policy actors to adapt to the new and broader goals it sets them while minimizing the tensions and conflicts this pressure to change is placing them under. The types of tensions and conflicts associated with a Blair-style activist

25

approach to local government reform will now be considered as being symptomatic of the species of disappointment that can accumulate in relation to empathetic policy leadership.

Potential Disappointments

The Blair government's modernizing agenda for local government contains a number of pressures and tensions that are likely to become more apparent as it is put into practice. It seeks to promote greater local autonomy and enhance community governance and citizen participation at the local level while, at the same time perpetuating the trend of a government-led reform agenda that extends the central regulatory framework that manages local government. A potential tension can thus arise between "those who believe that reform in councils should be experimental and administered primarily from within the local government community and those who doubt whether local authorities can be modernized without central regulation" (Brooks, 2000, p.593). The introduction of a new community leadership role for local authorities could, if anything, exacerbate this tension as councils come under greater pressure from local interests to lobby for increased government funding while, at the same time, being expected by central government to co-operate in its drive to maintain overall fiscal discipline. Questions will inevitably arise about whether the relationship between the two levels of government is primarily one of a genuine partnership between equals or is essentially one in which local authorities are co-opted into advancing policy initiatives that are entirely centrally determined. Brooks (2000, p.598) is in no doubt about where the Blair government stands on this issue:

26

"By reiterating that local authorities are a creation of Parliament, the government is reminding local authorities of the unequal nature of intergovernmental relations. It also serves as a reminder of the powerlessness of local authorities to resist the actions of government intent on intervention and the willingness of labour to act against miscreant councils."

He argues that although the proposal to award some councils "Beacon Status" may indicate a preference for incentives and rewards, the Blair government "by retaining reserved powers and threatening councils which are labeled as 'failing' (with the risk that they lose powers) . . . indicates that sanctions . . . are (also) part of its preferred strategy" (p. 599).

These pressures and tensions can be related to a "fatal flaw" that empathetic leaders are prone to when they succeed strong policy leaders in positions from which they can steer policy development in a particular direction. This flaw arises from their excessive optimism that they dispense with the "tunnel vision" of their predecessors and persistently challenge policy actors to pursue a broader range of goals without placing in jeopardy the historic achievements effected under the previous regime. To understand how this can cause disappointments to accumulate in a way that eventually produces a climate of reform fatigue that precipitates another shift in leadership style, it will be helpful to assume that the policy subsystems in which this climate becomes most pervasive are those in which actors are engaged in the type of "coping" activities described by Wilson (1989).

The local government policy subsystem would seem to have this characteristic since the actors involved in the implementation of its policies typically have to cope with

the pressures and expectations of a multiplicity of "stakeholders". They may thus seek to attain the type of "satisficing equilibrium" described by various economic revisionists such as Simon (1983), Leibenstein (1978) and Etzioni (1988). In this equilibrium no stakeholder is willing to exert the effort required to place pressure on the implementing actors to change their behavior. However, to assess the stability of this equilibrium these actors may actively canvas the opinion of stakeholders to confirm whether their observed "effort inertia" can be attributed to a satisfactory (but not optimal) attainment of their goals. The increasing tendency of local authorities to undertake surveys to establish whether citizens are satisfied, as a whole, with their performance would seem to be explicable in these terms (John and Block, 1991).

This kind of effort equilibrium can be disrupted when a governing coalition stakes its claim to be an effective supplier of a particular style of policy leadership on its capacity to achieve particular reform goals in this subsystem. As we have seen, local authorities may engage in a radical restructuring to cope with the pressures a SLC places on them to become more "fiscally responsible". While they may at first welcome the greater appreciation a successor empathetic leadership coalition (ELC) has of the enhanced local government capacity to provide community governance that results from this restructuring, they may experience disappointment when they realize that the "goalposts" have once again been shifted and the emerging effort equilibrium has once again been disrupted by a new set of top-down pressures to change. Indeed, the demands by Third Way governments for "continuous" improvement and reinvention at the local level would seem to be antithetic to the coping behavior associated with the quest for a satisficing equilibrium. Disappointments with the empathetic leadership style of these

governments can be compounded when their tendency to minimize the conflict between different goals, in principle, leads to a shifting of the responsibility for resolving these conflicts on to implementing institutions, in practice.

In the climate of reform fatigue that may be produced by the accumulation of disappointment with empathetic leadership, a demand is likely to arise for policy leaders to disengage from policy subsystems, such as those surrounding local government, so that a satisficing equilibrium can be worked out by a stable new policy community of the type described by Rhodes and Marsh (1992). As this pattern of disengagement spreads across policy subsystems, there may be a return to the conditions of paradigm stability that preceded the shift from one policy paradigm to another. The new policy paradigm may become increasingly implicit and taken for granted as it comes to underly a new policy consensus. Governing coalitions will become less concerned with identifying themselves with a particular style of leadership as they become generally pragmatic, adopting an incrementalist approach to policy reform and allowing policy communities within particular policy subsystems to shape policy according to a process of mutual partisan adjustment (. In a sense the paradigmatic reform process would have come full circle. The implications of this cyclical perspective must now be considered by way of conclusion to this chapter.

4. Conclusion

The Blair government is not alone in its claim that that its local government reforms can advance the modernization of this sector. According to Naschold (1997) three trends in

29

the administrative restructuring of local goevrnment would seem to reflect its "modernization":

> "The first focal point relates to the internal modernization of local government, involving results steering, budgeting, and the flexibilization of the organization of work and personnel policies;
>
> a second broad-based trend is to be seen in the democratization of local government in the sense of democratizing decision-making processes and, above all, in the devolution of tasks back to civil society;
>
> a third area concerns the increasingly strong orientation towards market forces, and involves instruments such as market testing, legal-organizational autonomy, principal-agent models and, as the 'strongest' measure, privatization" (Naschold, 1997, p.9).

Although the local government reforms described in this paper seem to have prompted all three types of restructuring, the process does not appear to have been as linear as the proponents of the "modernization" thesis seem to be suggesting. We have argued that in countries such as the UK, where local government reform has been chosen as an arena in which successive governments can demonstrate their capacity to supply a particular style of policy leadership, the sequence of leadership styles that occurs over the course of a pardigmatic change process have caused marked shifts from minimalist to activist approaches to reconstructing this sector. The fact that NPM doctrines are susceptible to both minimalist and activist interpretations has clearly helped make this type of oscillation possible.

Where the direction of local government reform is shaped by the prevailing style of policy leadership, it is possible to relate the disappointments that accumulate in this policy subsystem with those that can more generally produce a climate that is receptive to a change in leadership style. This process has been particularly striking in the UK where policy failures in local government appeared to symptomize the shortcomings of Thatcher's strong leadership style and precipitated her downfall while the areas of incoherence in the "Third Way" espoused by the more empathetic leader, Blair, are being highlighted in his drive to "modernize" the local sector. This does, however, raise the question of whether the link established in this paper between different approaches to local government reform and different styles of policy leadership can break down in countries where governing coalitions are less engaged with what happens in the local sector. There would thus seem to scope for more cross-country analyses of the significance of this link.

REFERENCES

Akerlof, G. and Yellen, J. (1986), *Efficiency Wage Models and the Labor Mark* et, Cambridge, Cambridge University Press.

Bailey, S. (1999), *Local Government Economics: Principles and Practice*, MacMillan, London.

Barzelay, M. (1992), *Breaking Through Bureaucracy*: *A New Vision for Managing in Government*, San Francisco, University of California Press.

Bass, B.M. (1990), *Bass and Stogdill's Handbook of Leadership,* New York, Free Press.

Blair, T. (1998), *Leading the Way: A New Vision for Local Government*, London, IPPR.

Blair T. and Schroeder, G. (1999), *The Third Way/Die Neue Mitte*, London, British Labour Party.

Borzel, T.J. (1998), "Organizing Babylon – On the Different Conceptions of Policy Networks", *Public Administration*, 76, pp.253-273.

Brooks, J. (2000), 'Labour's Modernization of Local Government', *Public Administration*, 78(3), 593-612.

Burns, J.M. (1978), *Leadership*, New York, Harper and Row.

Castles, F.G. (1993), *Families of Nations: Patterns of Public Policy in Western Democracies*, Dartmouth Press, Aldershot.

Department of the Environment, Transport and the Regions (DETR), (1998), *Modernising Local Government: Improving Services Through Best Value*, London, DETR TSO.

Dunham, D. and Kelegama, S. (1997), 'Does Leadership Matter in the Economic Reform Process? Liberalization and Governance in Sri Lanka, 1989-93', *World Development*, 25 (2), 179-90.

Eichbaum, C., (2000), 'The Politics and Economics of the Third Way', in S. Chatterjee (ed.), *The New Politics: A Third Way for New Zealand*, Palmerstone North, Dunmore Press.

Etzioni, A. (1988), *The Moral Dimension*, New York , The Free Press.

Giddens, A., (1998), *The Third Way: The Renewal of Social Democracy*, Cambridge, Polity Press.

Greenwald, B. and Stiglitz, J. (1993), 'New and Old Keynesians'*, Journal of Economic Perspectives*, 23-44.

Haggard S. and Kaufman, R. (1992), *The Politics of Economic Adjustment,* Princeton University Press, Princeton.

Hall, P.A. (1993), 'Policy Paradigms, Social Learning and the State', *Comparative Politics*, 25(3), 275-96.

Hood, C. (1991), 'A Public Administration for all Seasons?', *Public Administration*, 69 (1), 3-19.

Hood, C. (1994), *Explaining Economic Policy Reversals*, Buckingham , Open University Press.

Hood, C. (1998), *The Art of the State*, Oxford, Clarendon Press..

Jessop, B. (1995), 'The Regulation Approach and Governance Theory: Alternative Perspectives on Economic and Political Change', *Economy and Society*, 24 (3), 307-33.

John, P. and Block, A. (1991), *Attitudes to Local Government: A Survey of Electors*, York, Joseph Rowntree Foundation.

Krueger, A.O. (1993), *Political Economy of Policy Reform in Developing Countries*, Cambridge, MA: MIT Press.

Leadbetter, C. and Goss, S. (1998), *Civic Entrepreneurship*, London, Public Management Foundation.

Leibenstein, H. (1978), *The General Theory of X-Inefficiency*, London, Allen and Unwin.

Little, G. (1988), *Strong Leadership*, Melbourne, Oxford University Press.

Lowndes, V. and Skelcher, C. (1998), "The Dynamics of Multi-Organizational Partnerships: An Analysis of Changing Modes of Governance", *Public Administration*, Vol. 76, pp. 313-333.

Mankiw, G. and Romer, R. (1991), *New Keynesian Economics*, Cambridge MA, MIT Press.

Martin, S. (2000), 'Implementing Best Value: Local Public Services in Transition', *Public Administration*, 78 (1), 209-227.

McGovern, S. (1997), 'Mayoral Leadership and Economic Development Policy: The Case of Ed Rendell's Philadelphia', *Policy and Politics*, 25, 153-72.

Naschold, F. (1997), *The Dialectics of Modernising Local Government*, Berlin, Science Centre.

Osborn, D. and Gaebler, T. (1992), *Reinventing Government,* New York, Addison-Wesley.

Peters, G. (1996), *The Future of Governing: Four Emerging Models*, Lawrence, University Press of Kansas.

Reich, R., (1999), 'We Are All Third Wayers Now', *American Prospect*, 43, 23-35.

Rhodes, R.A.W. and Marsh, D. (1992), 'New Directions in the Study of Policy Networks', *European Journal of Political Research*, 21(3), 181-205.

Rhodes, R.A.W. (1992), 'Local Government Finance', in D. Marsh and R.A.W. Rhodes, *Implementing Thatcherite Policies: Audit of an Era*, Buckingham: Open University Press.

Rhodes, R. (1997), *Understanding Governance*, Open University, Buckingham.

Rodrik, D. (1996), 'Understanding Economic Policy Reform', *Journal of Economic Literature,* 34(1), 9-41.

Romer, R., (1993), 'The New Keynesian Synthesis'*, Journal of Economic Perpsectives*, 5-22.2

Simon, H. (1983), *Reason in Human Affairs* , Oxford, Basil Blackwell.

Stoker, G. (1998), 'Governance as Theory: Five Propositions'*, International Social Science Journal*, 25 (1), 17-28.

Taylor, J., (1986), 'An Appeal for Rationality in the Policy Activism Debate', in R. Hafer (ed.), *The Monetary and Fiscal Policy Debate: The Lessons From Two Decades*, Totowa, Rowan and Allenheld.

Wallis, J. (1999), "Understanding the Role of Leadership in Economic Policy Reform", *World Development*, Vol. 27(1), pp.39-54.

Williamson, J. (1994), *The Political Economy of Policy Reform,* Washington , Institute for International Economics.