

The Law and Economics of Government Efficiency

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ABSTRACT: During a time when there is debate about governmental efficiency, this article offers a speculative economic analysis of the potential benefits and challenges of the idea to improve efficiency in governmental affairs. Obvious benefits include cost savings and efficiency improving public service speed and quality perception. Creating fiscal space via efficiency savings is a novel elegant way to fund multiplier actions that can trickle down the economy and improve citizens' quality of life and wellbeing. Setting incentives to perform and inspiring public endeavors with entrepreneurial business acumen but also the scrutiny of being held accountable for performance promise to innovatively ignite endogenous growth drivers into public service. Savings directed to enhance public causes ranging from education, healthcare, investments, security and culture in a more efficient way will build public support of the government and breed trust in society and bestow social capital in the economy. Challenges may include the legal nature of the advisory commission and its legal and executive capabilities to enact change. If efficiency and cost-cutting measures lead to layoffs of public officials, the consequence may be that the private sector gets an influx of the less-efficiently perceived public servants, which may cause the private sector to be facing less entrepreneurial but regulatory-minded workers. Transfer of social security savings from the public into private sector employment may cause frictions and/or additional administrative hurdles. If bold projects of enacting efficiency are successful in leading countries of the world, this may set an example to be replicated around the world. While nations that follow the trend early and successfully may be enabled to advance themselves as public efficiency leaders, less efficient governments have a larger margin of improvement potential and hence comparative gain advantages when learning from governmental efficiency proponent countries.

KEYWORDS: Accountability, Costs and Benefits, Law & Economics, Government Efficiency, New Public Management, Public Service

Introduction

The idea to imbue private sector efficiency into public service started as early as the 19th century. During this time in Europe, civil servants received more interdisciplinary training, including the early development of economic sciences. In the early 20th century, North American public administration schools gained interest in Public Management – promoting the idea of bringing management insights into public administration and policy making. Public Management was also studied in Europe, foremost German-speaking territories, to critically reflect on the efficiency of governmental action. From the 1960s on, the North American tradition of evaluating each policy for its outcomes with widespread attention to externalities and stakeholders was born. The Law & Economics revolution established cost-and-benefit calculus as state-of-the-art in the evaluation of governmental action. The most recent political developments have exacerbated the intent to imbue efficiency in the governmental agenda and policy implementation.

This article offers a historically-grounded preliminary outlook on the potential to make the government even more efficient. Savings, redistribution fiscal space and breeding trust in governmental action are on the upsides of bringing in private sector conduct into the governmental apparatus. Relocation of inefficiency into the corporate world due to layoffs and industry shifts are potential downsides of efficient government reforms that operate with letting go of less-efficient public servants. Legal uncertainty notions due to change enforced by non-governmentally-authorized or publically-trained entrepreneurs appear as a potentially risky strategy that pushes legal boundaries of public enforcement conduct. The success in lowering

governmental red tape and boosting efficiency might ignite a trend around the world that will naturally be more successful if the country has good adoption capabilities, flexibility and organized change. Countries that have a larger margin of inefficiency to be reduced and that are implementing successful efficiency parameters are expected to gain the most and, therefore, have the highest potential to benefit from efficiency change.

This article is structured as follows: First, the history of efficiency in governmental action will be introduced. Then, newest developments to bring in efficiency into the government will be described in order to lay out prospective advantages but also less discussed consequences for such an initiative. Lastly, the discussion gives hope for more elaborate empirical work on the topic.

Public Management and Governmental Efficiency

The idea to improve efficiency in governmental conduct has a long history. Already warfare activities of nations count among the earliest precursors of trying to make governmental activities as competitive as possible. The 18th century French governance heralded trends of emerging economic calculus for state activities. European royal court competitions featured first economic measurements of assets. Luxury expenses of royals and early states also often pushed European countries early on to straighten out state expenditures by pushing for efficiency of state affairs. For instance, the first central bank activities stemmed from bankruptcy in the Genoese Republic.

With the advent of universities, law faculties often had an interdisciplinary economics focus that brought in efficiency calculus of governance. Oxford University, St. Gallen and The Maxwell School of Citizenship and Public Affairs as well as Harvard University and Chicago University became proponents of the New Public Management movement that pushed for applying private sector corporate business acumen and practices to public sector agendas for accomplishing goals efficiently (Farazmand 2006; Hood 1991; Kaboolian 1998). The advent of Law & Economics studies sophisticated the methodology to investigate the efficiency of laws, policies and governmental programs. The new Renaissance of demands for cutting governmental expenditures by slimming the government and making its public servants use more efficient means, now demands for an investigation of the enormous opportunities of efficiency improvements of governments while also alerting for potential externalities and risks.

The benefits of efficiency improvement programs in governments

Governmental efficiency is improving governments' effectiveness and economic abilities to manage resources, markets and service delivery. Overall, government efficiency improvements promise to lead to cost savings, public service speed improvements and quality perception gains on the national and international levels.

Governmental savings could therefore be seen as a form of multiplying benefit to the public that has the potential to improve the quality of life and wellbeing of the general populace. Setting concrete incentives to perform and inspiring public endeavors with entrepreneurial business acumen and entrepreneurial dynamism but also the scrutiny of being held accountable promise to innovatively ignite endogenous growth drivers into public service that echo through the entire society. These advantages will be most beneficial if the saved funds will be redirected to the public. When operating with layoffs in the advancement of efficiency, this will naturally boost the worker morale of all remaining governmental officials, while pushing the laid off civil servants to either reapply or reinvent their careers.

Lowering public spending through efficiency will generate savings that – redirected to enhance public causes in a more efficient way – will build public support of the government. Fiscal space generated through efficiency gains and taxpayers' compliance will make the government more flexible and resilient in times of crises. Slimmed bureaucracy will not only

save on governmental expenses, it will also help the government to avoid austerity measures that cut spending on public causes and portray the government to be cost-conscious. Savings will also allow to roll over funds for future generations, which will breed intergenerational harmony within society.

Low bureaucratic will also allow for controlling arbitrary decision making of the government, equality in governmental service provision as well as lower corruption and nepotism. A lean government will also foster accountability control through heightened transparency and agility allowing for quick changes.

All these benefits will enhance a positive view of the government that will build tax morale, which will generate additional governmental revenues. Timely and reliable service quality of the government and resource use optimization will breed trust in society and generate civic engagement and cooperation, which will also help build social capital in the economy.

By prioritizing efficiency, governments can enhance their capacity to meet current challenges while planning for future demands, leading to a more prosperous and resilient society. Efficient governance and a trustworthy service of civil servants will provide a stable environment for business activities from the own population but also attract foreign companies to trade, partner and cooperate with the country. Governmental abilities to change for the better will create a leadership advantage and international reputation standing that will echo in positive relations and reliability driving economic advantages on the international stage. Efficient governments will align with efficient allies that will strengthen a country through positive alliances and resiliency backing. A performing government will allow to better respond to crises and help gain standing in the international arena, which will boost the nation's currency and attract foreign direct investments from around the world.

The potential externalities and risks of efficiency improvement programs in governments

Challenges may include the legal nature of advisory commissions that carry out the efficiency transformation and control of improvements. The legal capabilities to enact change and the independence of decisions from threats and bribes are formidable tasks. Problems of corruption and control could emerge if the transformation units are external partners that have not been voted in by the public and are not subject to public scrutiny. Accountability of change agents could become a problem if they are not dependent on public votings. Saving redistributions should strictly be redirected to provide better-quality government services such as, for example, healthcare, education, infrastructure and public safety.

If efficiency and cost-cutting measures lead to layoffs of public officials, the consequence may be that the private sector gets an influx of the less-efficiently perceived public servants, which may cause the private sector to be facing less entrepreneurial but regulatory-minded workers. The wave of public servants entering the corporate world could on the one hand produce a legal and ethical boost to the private sector. On the other hand, one could imagine that this may tilt or water down the efficiency of the private sector, if the least efficient public servants enter the private workforce in large masses. Questions of the transferability of social benefits – like retirement – from public to private sector employees arise when public sector officials transfer into the corporate world. There may be a time-lagged effect on the retirement quality if there is a current wave of public servants having to transfer their retirement savings in private sector savings.

If bold projects of enacting efficiency are successful in leading countries of the world, this may set an example to be replicated around the world. Nations that follow the trend early and successfully may be enabled to establish leadership in efficiency transformation, which will improve their standing on the international arena. However, those countries that are already relatively efficient may educate and inspire other nations to follow and adopt efficiency boosting actions. The less efficient a country is, the more improvement potential this country will have

and be able to learn from other countries how to improve efficiency. Governments with less efficiency have a larger margin of improvement potential and hence comparative gain advantages from widely distributed governmental improvement success factors that are easy to implement. This will create interesting new power dynamics and leadership potentials, which may trigger a power redistribution throughout the world and also hold advantages for new alliances.

Discussion

In a Renaissance of Public Management efficiency calls for governmental conduct, the time has come to integrate new technologies for the purpose of enhancing governmental efficiency. Future research should therefore delve into the technological advancements that can help governmental agencies to enhance efficiency. Civil servants should be trained and incentivized to use technology for pursuing goals more strategically.

Comparative research may also embrace comparisons between starting grounds and margin of efficiency gain potentials around the world. Deriving transferable success factors could influence governments on the international level and thereby build strategic ties. Law & Economics calculus could dissect what policies and strategies are favorable. Macroeconomic research could elucidate concrete growth potential from governmental efficiency within society. Legal scholars could help with information on the legal and governance implications if efficiency change units are operating as external advisors to leaders. Pension contingency plans could be additional legal scholarship areas under scrutiny with the efficiency changes implementation.

Ethical boundaries of the plan to have business acumen and entrepreneurial spirit to guide public endeavors should be debated. Business success measurements based on supply meeting demand most efficiently being integrated into public service provision unlocks unique opportunities but also raise critical questions of democracy and integrity. Quality control that ensures upholding hallmarks of democratic public service provision should be installed. Discounting public managements' positive impact with attention to a stakeholder analysis and externalities should be pursued. Unforeseen consequences should be explored in depth analysis and wide-reaching impacts over time. Disparate impact analysis for the civic service sector but also throughout the entire society could round up the investigation of the dream to imbue more efficiency in the public sector and ignite a worldwide trend on efficient governments and more productive service-client relations in the public sector.

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