

THE ECONOMIC CRISIS AND ITS IMPACT ON PUBLIC SERVICES MANAGEMENT*

Guillem López-Casasnovas**

Ivan Planas Miret***

Abstract

The economic crisis has taken us back ten years to square one in terms of social welfare. In this article, we analyse how the effects of the crisis have impacted the financing of the public sector and the way services have been managed and transformed. Despite the severity of the crisis experienced by Spain since 2007, with a double-dip recession in 2011, social spending has not collapsed in terms of GDP percentage, although it does show signs of exhaustion in terms of capitation. In this article, we address some general issues relating to the impact of the crisis on public services management: management style, with particular reference to public tenders; changes in the level of coverage of public services through spending cuts without major changes in legislation; imbalances in the composition of spending due to the varying impact of fiscal consolidation and the incipient recovery of spending on budget items; the crisis in public-private partnerships and the debate on the relationship between the public and private sector, including legislative changes in procurement and the resulting new opportunities; the justification of public spending in terms of the benefit-cost ratio; and finally, the challenges that are facing the Catalan public administration.

Key words: public administration; public-private partnership; control of public contracts; economic crisis.

*La crisi econòmica i la seva incidència en la gestió dels serveis públics***Resum**

La crisi econòmica ens ha portat a deu anys de retorn a la casella inicial del benestar social. En aquest article analitzem com els impactes de la crisi s'han traslladat al finançament del sector públic i, alhora, a la manera en què els diferents serveis s'han gestionat i transformat. Tot i la duresa de la crisi —doble recessió el 2011— viscuda per Espanya des del 2007, la despesa social no s'ha «enfonsat» —en termes del seu pes al PIB—, encara que sí que mostra evidències d'esgotament —en termes capitatius. En aquest article s'aborden alguns temes generals pel que fa a la incidència de la crisi en la gestió dels serveis públics: l'estil de gestió, amb especial referència a les licitacions públiques; els canvis del nivell de cobertura dels serveis públics, per la via de les reduccions de despesa sense grans canvis normatius; els desajustos de la composició de la despesa, per la diferent incidència de la consolidació fiscal i la incipient recuperació de la despesa en les partides del pressupost; la crisi de les col·laboracions públicoprivades i el debat sobre la relació entre el sector públic i el sector privat, incloent els canvis normatius en el marc de contractació i les noves oportunitats que aquests obren; la justificació de la despesa pública en termes de relació cost-benefici; i, finalment, els reptes pendents de l'Administració pública catalana.

Paraules clau: Administració pública; col·laboració públicoprivada; control dels contractes públics; crisi econòmica.

* This article is a translation of an original version in Catalan. The authors are grateful to Marc Casanova, a researcher at the Centre for Research in Health and Economics (CRES-UPF), for reading and reviewing the manuscript.

** Guillem López-Casasnovas, full professor at Pompeu Fabra University (UPF) and president of the Commission on the Reform of Catalan Public Administrations (2013). Department of Economics and Business, carrer de Ramon Trias Fargas, 25-27, 08005 Barcelona. guillem.lopez@upf.edu.

*** Ivan Planas Miret, Healthcare Services manager for the Catalan Health Service and adjunct professor at Pompeu Fabra University, Department of Economics and Business, carrer de Ramon Trias Fargas, 25-27, 08005 Barcelona. ivan.planas@upf.edu.

Article received: 14.02.2018. Blind review: 22.02.2018 and 02.03.2018. Final version accepted: 18.04.2018.

Recommended citation: López-Casasnovas, Guillem; Planas Miret, Ivan. "The economic crisis and its impact on public services management". *Revista Catalana de Dret Públic*, Issue 56 (June 2018), p. 39-55, DOI: [10.2436/rcdp.i56.2018.3104](https://doi.org/10.2436/rcdp.i56.2018.3104).

Summary

1 Introduction

2 General impact of the crisis on social spending and its financing

2.1 Direct impacts

2.2 Indirect impacts

3 The public-private debate

3.1 Controversial points: from which area is public interest best served?

3.2 How to understand surplus in public services

3.3 Some specific formulations in health

4 Other specific aspects of public management in general

4.1 Seeking greater profitability of public resources

4.2 The execution of contracts and the government's responsibility

5 Pending challenges

6 By way of conclusion: a proposal to reform the Catalan government agencies

References

1 Introduction

The economic crisis has probably taken us back ten years to square one in social welfare. The machine that fuelled the funding of social welfare, from the creation of income and wealth to its redistribution, has ground to a halt. Furthermore, spending has dropped to previous levels, which has triggered the appearance of high levels of deficit. Consequently, social spending has remained at a kind of impasse that complicates the future of new generations above all. Revenue is only now reaching its pre-crisis levels, which shows that the injury, the damage caused, and the frustration of expectations have been enormous. The main loss has been to the primary incomes of two specific groups, which we will analyse, and to society in general in terms of total disposable incomes, after considering public monetary benefits and benefits in kind.

The first effects of the recession are related to when it occurred in the life of the generations. For young people, one of the most creative life stages was spoiled and they have ended up with no opportunities, while older people who were made redundant had to enter the regime of non-workers early, when they are still able to work. Although they are better trained, young people have encountered high job insecurity, salaries that are worse in relative terms, and less opportunities to leave the family home and start their own projects in very adverse job markets and financial markets. The second group have had their active working life cut short, when they needed to add to their savings and thus consolidate their pension rights. NEETs and the long-term unemployed have thus suffered from the errors associated with the economic model, first with respect to the financial system, and then in terms of the economy. These factors fed back into each other and caused a double-dip recession of the Spanish economy.

It is not within the scope of this article to examine in detail the causes and consequences of the Spanish crisis.¹ Instead, the aim is to analyse how the effects of the crisis have been transferred to public sector funding and the way the various services are managed. We review the main points below.

2 General impact of the crisis on social spending and its financing

Despite the severity of the crisis experienced by Spain since 2007, with a double-dip recession in 2011, social expenditure has not collapsed (at least in terms of its GDP percentage, according to the evolution of this indicator). However, social spending does show signs of exhaustion in capitation terms, in the way that cuts have been applied. Benefits and their quality have been maintained, with restrictions that are clear today in terms of access to services and their recipients. The population welfare situation has been maintained without noticeably adverse effects, due to many factors, including the pool of income of families in general, the private arena, and the effort of public professionals in particular to maintain services or mean benefits. Consequently, to date, community welfare levels have been preserved, or at least have not dropped, to the level at which their funding has fallen, or the degree to which private employment has decreased. However, the balance is extremely fragile and only through a recovery in growth can we foresee a minimally sustainable welfare state in the future.

Between 2010 and 2015, Spanish government agencies reduced the deficit by 46.088 billion euros, from 11% of GDP to 5.8% (and 3.6% in 2017). This deficit reduction was based on an increase in revenue of just over 10 billion euros, and spending cuts of almost 31 billion euros. Nevertheless, in 2015 the gap between income and expenditure was still almost 55 billion euros (around 40 billion in 2017). Increases in revenues have mainly been through VAT and income tax, protected by the European authorities' desire to standardize and the Spanish State's desire not to suffer from the political cost of the adjustments. The reduction in deficit, and particularly in spending, has fallen mainly on the autonomous communities and local entities, which have contributed 68.3% to the adjustment (41.8% and 26.5%, respectively), with a percentage of total spending of 43.7%. Therefore, even considering the reduction in deficit achieved through revenue provided by the State (central government and Social Security), this has not contributed in the same measure as other levels of administration. In 2015, it represented almost 65% of the deficit of Spain.

¹ See in Issue 76 of the *Revista Econòmica de Catalunya* (2017), a text by one of the two authors of this article.

In any case, rather than discussing the causes and consequences of the recession, the aim of this article is to address some general topics regarding the impact of the crisis on service management. Below we will look in detail at its various components.

2.1 Direct impacts

- Management style

Not only the crisis, but also the various ongoing legal proceedings, even those just before the start of the recession, have forced administrators (civil servants) to adopt highly defensive public management. In itself, risk aversion is a strong characteristic of public administration, as due to political influence, there is a fear of becoming scapegoats for more politicized managers. In addition, we must consider the havoc caused by corruption, the fear caused by the impact of cuts, and the application of Article 155.

Regarding tenders, the defensive attitude and European recommendations led to increased use of the raw score in decisions, that is, criteria that are not subject to value judgements. This fact, combined with the economic situation, led to an increase in the weight of elements associated with price reduction as an award criterion. This has its consequences: the new procurement law does not allow the establishment of direct thresholds for extremely low bids. Hence, many successful tenderers have had to request contract reviews a few years later or have presented a risk of bankruptcy, with the resulting implications for the tendered public service and on real free competition between those who did not initially win the tender because their economic forecasts were more cautious.

This attitude in tenders has meant that the outlook of business that serves the public sector has changed, which has had positive and negative consequences. Clearly, in many sectors, provision of services by small and medium-sized companies or entities in the social sector has declined. Many services are now provided by large commercial companies. This has occurred in sectors such as healthcare transport, the provision of technological services, or auxiliary services such as cleaning. Another major area of penetration of large companies benefitting from the recession has been in the social sector, particularly at local administration level. However, the risk is that with economic recovery, large companies will abandon public tenders or apply pressure for a considerable price rise.

- Coverage

Some decisions relating to social protection cover apply to specific services but are either vague or provide little legal cover for the entity that must make the decision (the autonomous community), as in the case of the Long-Term Care Act (*Royal Decree-Law 20/2012, of 13 July, on measures to ensure budget stability and to boost competitiveness*). This situation can be found in the health and education sectors, because of Royal Decree-Law 16/2012 and Royal Decree-Law 14/2012, respectively. The Decrees allow partial adjustment of spending, but to a much lesser extent than the adjustment that was promised and that Spain required of the autonomous communities with the establishment of deficit and debt targets. Therefore, the level of government that takes least responsibility for service provision (the State) puts more joint responsibility on the other level (the autonomous communities). However, the autonomous communities are committed to the citizens through their own budgets. Instances of lack of institutional loyalty that have been identified include cases of deciding to reduce one's own budget items by charging the cost of the election to others, or the centripetal action of own deficit by reducing earmarked transfers that represent less revenue for another entity. Thus, the other entity must choose between greater deficit or shouldering the political cost of cutting the policy in the face of the citizens. Clear examples of these latter cases are the reduction in university grants or in subsidies for employment services.

- Imbalance in the composition of spending

The adjustment of spending has had a significant impact on the various budget items. For more detail on this point, see the tables in the Appendix. We stress that the evolution of health and education spending, two fundamental areas in the welfare state in terms of real investment, have experienced cuts that take them back to levels lower than those of the initial years, considering 2000 as a comparison base.

A comparable situation can be found with the stock of each autonomous community's public capital in education when we examine the rates of variation between 2009 and 2015, which register average drops of 12.3%. Catalonia has some of the worst figures of the autonomous communities for the stock of capital in public health infrastructure per inhabitant between 2000 and 2014. This is also true for public education infrastructure, an area in which the Balearic Islands have very poor figures. The distribution of social protection expenditure by function in Spain between 2007 and 2014, within the EU27, reveals how the slowdown has distanced us from convergence. A downturn in healthcare spending can be observed in 2014, particularly in comparison with 2000. Spending on long-term care among OECD countries, as a percentage of GDP and for the period 2007-2015, highlights this gap. A high number of beneficiaries of social protection cover in Spain are pending provision, in parallel with the impact of the cuts on the general state budgets and observed in the financing of long-term care between 2008 and 2017. We should note that pay and investments were the budget items that were hit hardest during the crisis. However, while pay is now recovering, at least in nominal terms, there is no expectation of recovery of investments in the short term.

2.2 Indirect impacts

- Management efficiency

The aim of securing current jobs as far as possible, through adjustments in article 1 (compensation of employees) on salary and the subsequent reimbursement of the amounts withheld has meant that the adjustment has been short-term rather than structural. However, this has also meant that most "privileges" associated with working conditions, including days off and flexible timetables, have generally been maintained. To this, we should add the major restrictions to total staff increases (through basic state regulations, and therefore not adaptable to specific circumstances).

This has led to considerable management inefficiency in some specific areas, such as health, where the lack of professionals in difficult periods (winter holidays) has become more severe, or in university teaching, where the restriction and specific decrease in wages of the category of adjunct lecturer occurred at the same time as the roll-out of the Bologna model, which requires more teaching hours.

In addition, restrictions to debt and adjustments of spending on public administration investments have meant that direct investment, accounted for in article 6 (real investments), has been replaced by investment through formulae of financing for consumption (renting and leasing), which is accounted for in article 2 (expenditure on current goods and services) as an operating expense. This has and will continue to bring about an increase in the cost of public spending and the high technological dependence of some specific suppliers, with the resulting risk of obsolescence.

- Crisis in public-private partnerships

The crisis has affected public-private partnerships, and their semi-equivalent structured funding mechanisms, which were in full expansion at the time. In fact, they were much more predominant mechanisms in the Spanish Government and in autonomous communities with a strong presence of financial entities (promoters, together with the major consultancies that acted as intermediaries) than in Catalonia.

Three factors led to the collapse of this model: a) the start of a crisis in the place where they had re-emerged, the United Kingdom; b) the stricter application by Europe of regulations associated with the European system of accounts (ESA 1995 and ESA 2010), due to the need to control the real deficit of states; and c) some failures in these formulae with the arrival of the crisis, which led to some public administrations being obliged to maintain some payments, even though the public use of these infrastructures had practically disappeared, which led to a lack of social confidence in these mechanisms.

- Other reforms at the time

The economic crisis that started in 2007 occurred at the same time as other movements in public administration that happened to coincide or took advantage of the tailwind to prevail. We refer to centralizing movements of the Spanish Government, which have affected the autonomous communities and the local sphere.

In this context, we can find the Law on the rationalization and sustainability of the local administration and its derivatives, which focuses mainly on two areas:

a) Powers: it is made practically impossible for local entities to maintain inappropriate or inadequate powers, given that they can only do this in circumstances of budgetary balance or in accordance with the classification of “economic activity”.

b) Regulation of the legal figure and, more specifically, consortiums. In this law, the State has sought to recover the initial spirit of the concept of joint management between administrations, whether it is motivated by power or joint interest. The regulation encouraged the elimination of all those consortiums that had been created as a figure of shared governance, but in which only one administration assumed the financial responsibility and its financing (due to the stability regulations, this would almost always be the largest administration).

c) We also wish to refer in this section to all movements relating to the creation of the Commission for Public Administration Reform Agencies (CORA). CORA was formed as part of the reform process launched by the Government in early 2012. Under the rubric “removal of administrative overlapping with the autonomous communities”, CORA, taking advantage of the fact that the autonomous communities that had adhered to the Autonomous Liquidity Fund (FLA) had to accept the Commission’s “recommendations”, tried to merge the autonomous communities’ and Spain’s trade promotion offices abroad, and remove or replace entities such as the *Sindic de Greuges* (the Catalan Ombudsman’s Office) or other ombudsmen with the state ombudsman.

Other reforms are based on European directives:

- Directives relating to procurement: Law 9/2017, of 8 November, on public sector contracts, which transposes into Spanish law Directives 2014/23/EU and 2014/24/EU, of 26 February 2014, of the European Parliament and of the Council.

- Directives relating to accounting consolidation: from ESA 1995 to ESA 2010.

3 The public-private debate

A more general view of the changes leads us to address the public-private debate in public funding and management. Indeed, some of the more or less miscellaneous changes, that are more or less short-term or improvised, reflect this question, and therefore require discussion in greater depth.

In the case of public policies, the debate on reforms has been monopolized by the role of private resources in their different forms (general management know-how, assumption of financial risk and the provision of facilities, management methods for services operated as concessions, procurement of activity from state-subsidized entities, etc.) within a system of an eminently public nature. This debate can be traced back to the more general topic of individual and collective responsibilities in welfare services. This question is associated with philosophy and ethics and expressed through certain specificities over time and in view of specific sector interactions of education, health, long-term care and social and health services in general.

The interface that concerns us, relating to the role of the private sector (and what this represents in its various operating dimensions: economic motivations, employment instruments, and the control of various fiduciary elements) in the social protection system, is not an exception. However, given the appreciation of aspects associated with enjoyment of life and suffering, profit and compassion, health and disease, wealth and poverty, it is experienced in a radical way. Therefore, the aim is to reflect fairly and objectify as far as possible the pros and cons for a citizen debate that is better informed on the previous points.

The question of who should “manage” public services does not have an answer in regulations, theory, or structure that is universally valid. There is public provision (public responsibility for financing and actions for citizens) and, conversely, privatization, which is understood as the diminishing of public responsibility for the provision of community services and thus also for the obligatory nature of guarantees, financing that is at least partially coercive, and decisions on who should render final accounts to users in cases of potential bad practice. In the above sense, privatization implies that the various areas of social protection

would become an individual responsibility and would be governed by free will and willingness to pay to access services. In the agency relationship between the provider (the agent) and the authority (the principal), privatization would mean that, instead of maintaining the principal as the “perfect” agent of the citizens, requiring transparency and evaluation, this supervision would be completely replaced by the citizens: the users, beneficiaries and patients. Patients, who would supposedly be well-informed, would become the best judges of their own welfare. This would be the case even though we cannot ignore the fact that demand is often that indicated in the offer, in which the provider classifies it as a “necessity”, either through regulation or obligation, or unexpectedly on request.

Complete privatization in this context would be absurd. Economists call this “the generation of a Pareto inferior outcome”, in which there is nothing to gain in terms of collective welfare and a lot to lose for everyone. The theory has sufficient normative principles – theorems – that demonstrate the superiority of supervision over a certain degree of collective assurance and a financing mechanism that is mandatory and cross-cutting or supportive. In the reform of government agencies most of the references are to positive rather than regulatory elements, short-term rather than structural, ideological rather than relating to natural law, empirical and observational rather than abstract theories. It is in this area that we must focus the discussion and considerations set out below.

3.1 Controversial points: from which area is public interest best served?

The fact that a public facility could be better constructed through a public-private partnership than by the government itself is related to the capacity or lack of capacity of the public sector to finance the investment and the resulting financial debt that is incurred, in accordance with internal or external limits imposed on this financing; greater know-how regarding the construction of facilities, in terms of timing and method, without delays, and based on the experience of having completed this process on numerous occasions; the transfer of risk with a fixed-price contract in exchange for “turnkey” services, which could lead to greater motivation to achieve efficiency. In reality, the value of these three advantages could be questioned, particularly when we consider what may be greater financial costs for the higher risk premium of private debt instead of public debt. However, the three factors more than compensate in the form of a saving in net costs for the taxpayer. The solution is therefore empirical; it should not be ideological.

With respect to outsourcing, the fact that a subsidized private centre can produce better services in terms of cost effectiveness than services resulting from direct production is related to: more expert knowledge in the private management of resources and a greater capacity to purchase inputs at lower unit costs by those who act without the administrative obstacles of traditional public management; recognition of greater motivational aspects in the management of labour-intensive services, resolved in a way that is unconnected to that of the public function; the greater flexibility of the financier that has not “burnt its fingers” in the original production of the services and has acted through policy as a regulator, financier, evaluator and entity responsible for the rendering of accounts, but never as a direct supplier.

Again, these points can be evaluated in different circumstances and sectors. Guiding the decision are aspects such as: validation of the stability of private markets of providers; the existence of varying levels of transaction costs in making the agreements – otherwise the door is opened to opportunism; whether the subsidized services constitute specific assets of individual welfare. Whether full management of a centre, in exchange for long-term prospective financing, makes sense, as in the case of long-term administrative concessions, could depend on how the following are assessed: i) the change from direct public intervention in the “set back” regulation to indirect intervention (only accreditation, monitoring and follow-up); ii) the existence of sufficiently robust clauses that would generate both stability for the concessionaire and the concession granter, without subsequent reviews from asymmetrical positions for one of the parties; iii) the positive or negative impact of a change in management in the face of professional corporatism that breaks down, with loyalties that dissipate in quite uncertain directions with respect to the “general public”, “my beneficiaries”, “our centre”, “my colleagues” or “our shareholders and the managers that act on their behalf”. Nothing, therefore, pushes the evaluations in one direction or the other a priori: it is vital to examine the circumstances of the time and the place and the initial situations in each case.

3.2 How to understand surplus in public services

All relational activities involve a surplus. From the outset, we can determine that a human activity generates well-being (that is, one is happy with what one does) when, knowing what must be done, the worst of the things that is done (the most doubtful, the most uncertain) is still better than the best of the alternatives that are not done.

If the relationship is one of voluntary exchange, and satisfaction is produced as the worth of the goods exchanged between individuals – given that their marginal rate of substitution was not initially equal – then all gain from the transaction. Those who access goods and services gain more than they lose, with what they sacrifice in exchange. When the exchange is based on trade, the fact that the market fixes a price and does not interfere with the consumer's willingness to pay by setting a different price for each unit, surplus is generated. When this price is above the marginal utility of freely consuming an additional unit, surplus is generated when we consume. When the price is above the marginal cost of production of an additional unit, surplus will be created. Thus, in the difference between what we would have paid in an auction, given our willingness to pay per unit, and the fixed price that we pay for each unit that is freely consumed, we can identify the creation of "net consumer surplus". Similarly, if we analyse the offer and not the demand, we can also determine producer surplus.

In other words, there is always surplus. The problem is how we visualize it and value it in each case. When the inefficiency of the producer is not perceived, and this producer appropriates the consumer surplus with higher costs than those that are fair for efficient action, it may be accepted without further ado. Paying a higher price (unit cost) and consequently higher taxes than optimum, in accordance with public provision of direct production and with management difficulties that lead to low productivity and high costs, pillages the social surplus in the hands of inefficient professionals or suppliers, for example. Their usefulness can be improved by working under less pressure, with greater discretion regarding what should be a lower cost and a greater social surplus. Of course, the fact that this is not transparent makes control and singularization difficult, and often means that the professional who is least loyal to the public service is the one who benefits with impunity: with absenteeism, escapism, lower attention. However, outside of public provision, without reaching true privatization and crossing the aforementioned red line (as the activity is financed there are outputs rather than inputs) at least means that the relations can be more transparent, depending on the fee and the activity, with contracts that are clear, revisable and controllable.

From more empirical analyses of, for example, approved suppliers, we know what financiers pay for the services, but not what they cost to the providers, who, organized independently, seek a surplus. However, it is the first part that is of interest to us as taxpayers, not the second, as is often erroneously stated. In any case, if the agreement is limited to non-profit organizations, this surplus will be diluted into something else ("if not for profit, for what?", as stated in the famous book by Dennis Young). Some consider that the agreement can be offered not just to non-profit institutions, but also to for-profit companies that are managed by the professionals themselves for health, education or social services, through a cooperative, with the profit returned to members of the cooperative – all the workers – or a limited company comprised only of professionals, with a different degree of openness to social participation. We consider that forcing all professionals to receive part of their payment with variable returns for members of the cooperative may not be accepted by stakeholders who are risk-averse or who, due to their decision-making capacity, have less influence on the creation of surplus. Another factor is that the limited company, in the second case, may establish randomly who can be a shareholder and who cannot. Others would even extend the above range to public limited companies, provided that they are specific in the sector, such as insurance companies, private clinics, or third sector organizations.

Finally, some would offer agreements and concessions to all kinds of commercial companies, whether they are service companies, distribute profits, are family companies, or listed on the stock market, and to all kinds of shareholders, even to venture capital funds, as it is said that "capital has no country" and "money has no colour". In the continuum described above, note that differences are due to: whether the surplus is visualized; from whom and with what merit it is appropriated; whether, once identified, it can be regulated; whether profit applied to these contingencies is acceptable; the range of who can participate in it.

In conclusion, in a democracy, all the above assessments should be guided only by the social aspect, expressed in parliament, with short-term and ideological regulations emanating in each case from prejudice or empiricism, based on evidence that is available but changeable, and even altering the results of the financier's action. Against these evaluations, what is defended is supposedly the general interest (which can often be identified as the corporate interest of someone who sees their status quo threatened). Thus, public interest (considered that of the government in its inertial action) is overstepping the mark. The decision is social, collective. Society has at least the right to demand clarity and information in which the pros and cons are detailed, and will demand assessment, learning and rectification, if necessary, whatever the democratically selected option. If the judgement is not considered suitable, in the end, the ballot boxes will be sovereign. This is not an invitation to abuse positions of power, however democratic the support, but an invitation to situate the debate on public administration reform in fair terms.

3.3 Some specific formulations in health

Clearly, the origin of current public healthcare systems can be found in the bases associated with the impact in each territory of the industrial revolution, the cooperative movement, mutualism, or the weight of the local public administration. These origins marked the development of various healthcare models in Spain. For example, in the Catalan model, hospitals were inherited with legal formulae drawn from church entities, private foundations or local organizations, which were incorporated into the emerging public system at the end of the last century through the formula of a state-subsidized entity. In addition, to recover a certain "liberal practice" of medicine with public funding prior to the primary healthcare reform in Catalonia, association-based entities (*entitats de base associativa*, or EBA, in Catalan) were developed. In Madrid and the Community of Valencia, public-private partnership (PPP) formulae were developed, or the private funding initiative (PFI), as indirect management formulae with varying levels of collaboration and direct or indirect control between government and operator.

As an indirect management formula, the PPP operate as partnerships between the public and private sector. In this formula, there is a contract between the public and private authority, in which the latter is committed to providing the public service or project, and consequently assumes a large part of the financial, technical and operational risk. Another management formula is the PFI. In this scheme for cooperation between the public and private sectors, a private company is contracted to construct and manage the infrastructure and non-healthcare services. Theoretical arguments in favour of the implementation of these formulae are, firstly, the opportunity to improve the capacity of public resources, by taking advantage of the private sector's experience in the development and management of infrastructure and services; secondly, the transfer of the risk of construction and availability to the private sector; and, finally, a faster process of providing new infrastructure. All this should more than compensate for what is generally the greater financial cost of private debt and commercial profit.

These and other methods could be more or less valid and more or less controversial, particularly in the health sector. The situation in Spain requires an analysis of the options; an analysis without dogmatism. We should promote transparency of data and an objective examination of the results of these data in comparison with other forms of organization, to ensure that the organizational diversity of our health system is considered a positive factor rather than a problem. A key element of this new design is the need to establish monitoring and evaluation mechanisms, to verify and evaluate imaginative forms of innovation in service management and provision, without these becoming "black holes" in a system whose base is eminently public.

On another level, data from a baseline study of hospitals operated as concessions in the Community of Valencia (López-Casasnovas *et al.*, 2017)² present results that are equal or better than others in the comparison (a combined indicator drawn from the Catalan health system). In terms of cost efficiency, the unit values are lower for the same level of complexity. This ratio is affected by greater activity than expected, and is mainly related to greater imported activity, which is much higher than the more complex "exported" activity. This has led to the suspicion that the positive data from concessions are related to profitability due to fees paid at

² López-Casasnovas, Guillem; Llano Señaris, Juan del (dir.). *Colaboración público-privada en sanidad: el modelo Alzira*. Madrid: Fundación Gaspar Casal, 2017. <<http://www.fgcasal.org/publicaciones/Colaboracion-Publico-Privada-en-Sanidad-El-Modelo-Alzira.pdf>>.

a much higher rate than the average costs of hospitals operated as concessions, which constitutes an implicit subsidy for lower billing of patients “exported” to hospitals with a higher technological level and costs. As this may involve an implicit subsidy and unfair competition, it is worth discussing.

It is not surprising that the unit costs of centres operated as concessions are lower than the averages in the system to treat the same pathology. This is the nature of averages. The fact that the lower figures are concentrated in hospitals with different organizational forms, which are more independent in the demand for productivity, with less absenteeism and greater cost control, is in fact the intention that justifies granting independent management to these centres in the first place. As the fee reflects the average costs of the system, profitability is the basic element for generating surplus and is intrinsic to the incentives for the new management. However, we should not overlook the fact that these fees are little more than intuitions, as proper analytical accounting is not carried out in public hospitals but is undertaken in hospitals run as concessions.

If this is the aspect of supply (unit costs), it should be compared with that of the demand (quantities), in view of the referral of patients with certain pathologies (see the aforementioned study) in excess of a minimally standardized frequency. Here, the factor of quantity could be the result of the expulsion of workload from similar hospitals in the region, or channelling citizens’ greater preference for services in the hospitals run as concessions. In turn, this could be due to the fact that the concessions have a more open, independent portfolio of services, with a range of treatment opportunities and utilities appreciated by patients (catering services, epidurals, logistics of access, among others) that public hospitals do not have, and because professionals in the surrounding region decide to refer patients to hospitals run as concessions. This aspect would be more closely related to professionals’ collaboration with services that they do not provide, rather than an incentive to reduce workloads in public hospitals, with professionals who are “salaried”, with pay that is not associated with the activity. Therefore, we could determine that the driver behind the increase in demand is differences in the portfolio of services and in the concessions’ freedom to better adjust to the patients’ preferences. Hence, we should consider the problem of whether this is a good method to adopt, and what prevents it from being extended to public hospitals themselves.

Regarding the subsidization that may be implicit in fees that are lower than the average costs charged by hospitals that receive “exported” patients, evidently this is a predictable result of any negotiation between suppliers when they defend their profit and loss accounts tooth and nail, as we would expect of economic rationality. Price negotiation in a contestable market involves a balance towards a price equal to the marginal cost. However, what is optimum in the short-term may not be so in the long-term, either due to shortfalls in the fixed cost that are not covered, or due to underuse of facilities that require tougher restructuring. In any case, the aforementioned criticism seems to have diminished from 2013, as it is no longer negotiated, but simply a discount applied by the same financier of the fees established on the basis of the corresponding monthly allocation per head. If this were not true, as in the aforementioned case, it would be an expected result of a negotiation that could only be explained by the apathy or lesser effort of one of the parties. Finally, the fact that complex cases under the system’s public fee come out of the financing of regional concessions can only be seen as positive, leading to better treatments, more specialization, more concentration, and better results. The fact that the public fee does not cover all the costs of the public hospital, and the lack of negotiation, cannot be attributed to the contracted party. Instead it reveals the gaps in a public regulation that, in this case, falls short of the proposed reform.

Beyond the efficiency or otherwise of the various formulae of public-private collaboration, it is clear that in the area of services for people, and particularly health, the government must seek alternative formulae to direct public provision, but with less rigid tender mechanisms than those provided for in the regulations on administrative procurement. This is recognized by Europe in the Directive on public procurement (Directive 2014/24/EU). Article 76.1 of the Directive states that “Member States shall put in place national rules for the award of contracts subject to this Chapter in order to ensure contracting authorities comply with the principles of transparency and equal treatment of economic operators. Member States **are free to determine the procedural rules applicable as long as such rules allow contracting authorities to take into account the specificities of the services in question**” (the highlighting is the authors). Article 76.2 states: “Member States shall ensure that contracting authorities may take into account the need to ensure quality, continuity,

accessibility, affordability, availability and comprehensiveness of the services, the specific needs of different categories of users, including disadvantaged and vulnerable groups, the involvement and empowerment of users and innovation". Therefore, the EU recognizes the need for people services to have a limited cross-border dimension in different contexts, depending on the Member States. Furthermore, it is accepted that Member States must have greater freedom to select the service providers. Clearly, in all cases, the principles of transparency and equality must be upheld.

By holding back in the implementation of the aforementioned regulations, the Spanish State has left room for each autonomous community to adapt these regulations to their own healthcare model. Therefore, now is the time to regulate it adequately, so that this opportunity can be used to maintain a model of internal powers controlled by the government, which coordinates and guarantees the networks of provision and at the same time ensures the transparency of the means and results of the various provision methods, so that they are answerable to citizens and do not divert public resources to private interests.

4 Other specific aspects of public management in general

4.1 Seeking greater profitability of public resources

If one thing was learnt through the bubble, it was that public spending, particularly investments, must be well-justified and future profitability must be analysed, and that this must be done for different developing situations. We do not need to look far to find examples that are familiar to all. Hence, the crisis has left a legacy that, as recommended by the Catalan Ministry of the Presidency's Advisory Board for Economic Reactivation and Growth (CAREC), all investments must be subjected to a cost-benefit analysis (according to the Government of Catalonia Agreement of 20 December 2011).

However, once certain investments have been established and part of the costs covered, it is more difficult for public decision-makers, that is, politicians, to amend policies of dubious profitability or with priorities that could generate doubts. This is the case of the Bicing service, which is maintained under the premise that everything that seems to have a positive environmental impact is justified, but without a prior or subsequent in-depth analysis. If this policy were analysed, we would be able to determine whether the scheme has really replaced private vehicles, although what appears to be the case is that it has substituted public transport or journeys on foot. Therefore, the environmental impact may be very low, and the risk of accidents considerably higher. The expected investment in Bicing in 2018 is 18 million euros (with user revenues covering a third of this amount). In fact, without proper assessment, the initiative has been extended and is now found in many cities, apart from Paris and Madrid, where an electric bicycle service has been introduced. The important question is: are we sure that this is the policy that attains the best results for the investment that it represents, in terms of efficiency and equity? Beyond the environmental impact, there is no other justification for public intervention in this service, and clearly other policies that combine restrictions to private vehicles with an improvement in the public transport network could achieve better results.

A similar situation has occurred with the high-speed rail line in Spain, which we will not look at in detail here because the evidence of their negative benefit-cost ratio and their operating deficit has already been discussed in depth. In this case, the crisis has not served to reconsider the strategy, but has in fact led to an increase in the planning of new lines, which have even been prioritized over the Mediterranean corridor.

With slight nuances, we could also mention Barcelona's metro line 9, which has been taken on by the Government of Catalonia. It is being paid for with structured funding and has many completed stations that will be operated as concessions when the line reaches them. They generate periodic payments even before the line is in use, as the crisis broke out when they were under construction. However, what we wish to highlight is that, with good coordination between the State and Catalan administrations, part of the major investment in the reinforcement of regional train lines for the airport or the construction of a shuttle could have been saved, and there would be greater coherence in transport connections with the airport. In addition, as in many other public decisions, there is discrepancy between the initial and final design due to the influence of pressure groups (movements and local entities) and modifications resulting from unforeseen factors in their construction. Consequently, there are more stations than initially planned and the final budget

is much higher. The reality is that, the cheapest (and slowest) option to date is that of the regional train line, and the fastest is that of the Aerobus. It remains to be seen how this situation evolves.

In terms of revenue, the crisis has also led to some opportunities for improvement. It has enabled the introduction of certain taxes with a more redistributive intention than tax collection. In the Government of Catalonia, these are the tax on stays in tourism establishments and the tax on sugary drinks. The first is designed to internalise the externalities of tourist visits, and the second, of a more Pigovian nature, to correct citizens' "bad habits". These taxes were established years ago in nearby countries such as France or Italy, but in an environment of economic growth, public decision-makers had never wished to risk increasing fiscal pressure, even in such specific concepts as these two. Evidence has shown that the tax on stays in tourism establishments has not had any impact on the volume of this activity, as stated by Casasnovas and Suriñach (2017),³ and, therefore, the initial objective has been met. Indeed, without the crisis, it would probably have been very difficult to make this decision.

4.2 The execution of contracts and the government's responsibility

As mentioned above, the new procurement law for the public sector aims to solve (we will see if it achieves this fully or only partially) the problem of the government's responsibility and the consequences resulting from disproportionate offers and/or participation in public tenders by companies that are unprepared or have management shortfalls that expose the government to situations of risk during the execution of the service. The Madrid ring-roads and the Castor project are probably the most paradigmatic examples, but there are many others that are generally overlooked in published opinions, as they are less economically relevant. However, more often than desirable, governments find themselves in situations of bad decisions made by private service providers, or the evolution of the market is not favourable to the interests of this supplier, which threatens the continuity of the service or its quality. In these cases, it is the government that must generally assume the social costs in the face of the citizens.

One example of this situation is the Bicing service of Madrid. This concession, which was awarded in 2013 at a time when Madrid's economic condition was already known, announced losses of 0.3 million euros per month in 2017. The situation was the result of bad decisions by the company, but also lack of experience. Bad decisions were made on how to develop the company's own software, leading to an implementation problem. Other problems were thefts of the valuable electrical bicycles, bad management of security measures, and anchorage issues. In short, this is a practical example of how companies' expectations that the contract will adapt if things go wrong and the problem will be solved by the next administration do not help to promote maximum guarantees when tenders are made or a review of a tender when the first problems or uncertainties appear.

Another general example of this was a direct result of the crisis. Many companies won public service tenders or administrative concessions just before the start of the crisis. In a situation of cheap credit, they started up services with high financial leverage, to make the investments required in the first years and with the expectation of recovering costs during the execution of the contract. Nevertheless, when the crisis broke out, delay in the payment of suppliers by government agencies and the increase in the interest rate differential to refinance loans, sometimes in the short-term, put many of these companies at risk.

A different, but related situation occurred when government agencies made calls for tender mid-crisis. In many cases, winning companies subsequently underwent processes of reviewing staff and staff mobility, in short, labour relations processes that in some cases led to industrial action. A good example is that of rubbish collection services in Madrid, or health transport services.

Madrid City Council's cleaning and rubbish collection strike in 2017 highlighted how the outsourcing of services led to less control by the local government, which nevertheless continues to assume responsibility for service quality and conditions. For suitable outsourcing, the tender needs to be well-designed and have good control parameters. However, common errors are made in outsourcing: the government agency lacks knowledge of the potential efficiencies that can be introduced by private management; the bid specifications

³ Casasnovas, Josep-Andreu; Suriñach, Jordi (2017). "L'impacte de l'impost turístic sobre la demanda a Catalunya". *Revista Econòmica de Catalunya* [Barcelona: Col·legi d'Economistes de Catalunya], no. 76 (2017).

do not adequately describe the consequences of bad service management; the government agency reduces the human capital that controls the service, or, if it has been longer since the service has been internalized, obsolescence of human capital has an impact; finally, and this is a very common error, there is a lack of human resources in the legal field to manage potential litigation in these relations. If political weakness in the face of public opinion is added to these errors, with politicians who do not understand or want to understand the problems that could be generated by a collective conflict in the service, the scene is set to review the contract in favour of the supplier to resolve any conflicts, when it is not clear whether the alleged insolvency is the result of a badly designed call for tenders, or the inefficiency of the suppliers in an adverse market situation.

5 Pending challenges

To ensure that the crisis does not sweep before it everything that has been done well, we must guarantee as a society that all our government agencies' institutional results – including the regulatory environment and the relation with citizens – are, more than ever, effective. The organizational results, including the provision of goods and services, must be as efficient as possible, which also means that they must be effective at attaining the equity that is part of the objective. This is an opportunity that we must take advantage of, in favour of public administration and its most thoughtful supporters, to defend a model of the welfare state that is robust and economically sustainable.

However, the starting point reveals concerns about the achievement of the above objective:

- In the beginning, the Government of Catalonia was characterized by a certain degree of mimicry of the model inherited from that of Spain. It was probably not a desired strategy, given that an attempt to avoid it was made in as many cases as possible. However, the lack of local knowledge at the speed required, the nature of the powers exercised, the high percentage of staff transferred from the State, and the cultural environment may have made the model that was finally established inevitable. It makes no sense to lament this further. Instead, what should perhaps be an object of self-criticism for the stakeholders is the subsequent development that was largely left in the hands of incrementalistic inertias.
- Currently, we do not have a government that is sufficiently focused on principles that consider results, transparency, accountability and evaluation. Despite all intentions, institutions that are open and transparent to society have not been achieved. Although citizens seem satisfied enough with the services they receive in general, they perceive institutions as “black boxes”. In other words, it is not known how they operate or take decisions, what they do with their money, whether they have attained the established objectives, or the relative efficiency with which they obtain these achievements.
- Some significant shortcomings are evident in the management capacities implicit in a system that must implement highly complex public policies and supply a series of public services of great social importance, in a context of considerable lack of resources that must be optimized. These shortfalls are due to a lack of professionalization in public management, a statute that is not adapted to the characteristics of management function to ensure its quality and separation from the political and electoral cycle. Furthermore, the situation responds to the limited autonomy of managers who are often restricted by an avalanche of bureaucratic controls, governed by hypertrophied central technostructures. Thirdly, there is a prevalence of almost exclusive orientation towards controls designed to ensure the regularity of procedures, whereas the assessment of results and impact of management is pushed into the background. Finally, there is evidence of a lack of incentives for efficiency in the system, whose stakeholders often do not perceive any differences in the evaluation of good and bad management.
- For some time now, the Government of Catalonia has promoted the management of part of its public services through the market or through forms of public-private partnership. However, it has not greatly modified its internal organization to adapt to this model of relational administration (principal role with the functions of planning, direction, supervision and assessment of the private networks that

provide public services). This situation has led to doubts on the control of processes in the system and an unjustified lack of confidence in this management strategy, which will make it harder to advance it.

- In general, however, the Catalan Government we have is more focused on doing things directly than leading social processes and ensuring general interest in the processes of implementing policies and producing public services in which several stakeholders participate. This means that the powers involved in the administrative apparatus have more strength than intelligence. Certain capacities, such as buying, awarding, network management, risk calculation and distribution, monitoring and assessment have developed much less than those relating to the pure production and direct execution of activities. In the current governance situations, this bias is a notable weakness.
- In line with the above, a comparative analysis shows us that the establishment of public-private partnerships to provide public services and carry out activities of general interest is lower in Catalonia than the average in Europe. This means that the resources of knowledge, technological development, expansion of the financial base, efficiency and flexibility are not fully enjoyed. These resources are situated beyond the strict frontiers of the Catalan Government, with the consequent damage to the quality and sustainability of our public services. At the same time, resorting to outsourcing services, which is the most common formula in the private sector, is often done reactively, to avoid the restrictions of an excessively rigid administrative framework. The criteria may be opaque, and it may not be clear whether the benefits are greater than potential hazards or disadvantages.

6 By way of conclusion: a proposal to reform the Catalan government agencies⁴

The crisis has probably exacerbated the need to reform government agencies, and particularly the Catalan Government's non-implemented reform proposal. We have inherited a public administration system that, in certain areas, suffers from shortfalls in staff training and professionalization. It operates with a payment system that has obvious inequalities for staff who undertake similar functions and have an analogous level of responsibility as in the private sector. The weight of inertia and the prolonged absence of public administration problems from governments' political agendas have produced a Catalan public administration that is overly rooted in procedures, and not highly focused on results.

Often, our government is perceived by citizens as distant and is observed with a certain amount of lack of trust. In some cases, this view is the result of a highly hierarchized structure with an apparent (real or otherwise) osmosis of politicization, in which provision and production of services are generally confused. It operates with too much separation between departments and administrative units, derived from a rationale for services that is based more on "who" provides them than "why" and "for whom" they are provided, and in which the feeling of a protected, untouchable workplace prevails and is considered the property of the occupier of the position, and in which public interest is often confused with corporate interests. The main proposal should be no other than to better anchor the public provision of those goods and services that society, through its legal representatives, decides to put in the hands of public responsibility. This is a decision that involves recognition of market failure and/or wanting to prioritize other criteria than those relating to willingness to pay for access to public services. Hence, it directly affects the welfare of citizens, as users and as "shareholders" of the general interest. The public provision of these goods and services is something that must be maintained and improved, particularly in the difficult context in which the reforms are made.

Nordic countries have been leaders in this transformation and have adapted public provision – which has ultimate responsibility for providing services to citizens and that decides on the degree of solidarity with which they are funded – to a system in which the same service may be provided through various administrative formulae. These include direct provision, administrative concession, and state-subsidization. Sweden has strengthened indirect management. It has maintained public function in areas in which it had to exercise administrative authority and has increased the flexibility of production in many other sectors.

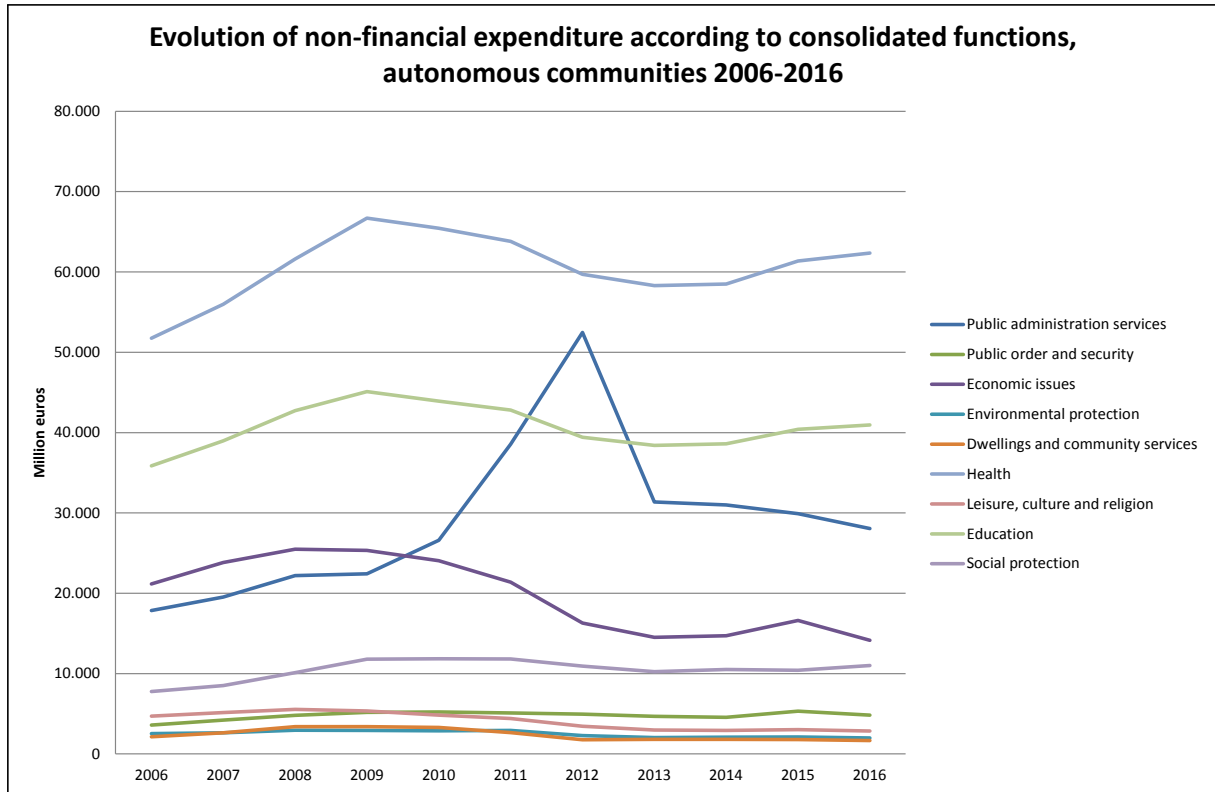
⁴ Proposal of the Commission comprised of Guillem López-Casasnovas, as president, and Josep Valor, Francisco Longo, Carles Ramió and Joan R. Rovira. See the link: <https://www.upf.edu/documents/3223410/3287206/InfoComRefAAPPdef_xlx.pdf/4a692bbe-%20df34-41cf-a371-eda6808a6fab>.

In this new context, it has become clear that the person who needs greatest protection from undue political interference is not the employee but the public manager. In this way, public managers would not be able to abuse the protection provided by the legal framework to elude responsibilities that are shared with the government and its managers. Hence, public managers would better serve the public interest.

Denmark has achieved this through a local structure network, in which it seeks the greatest possible proximity to citizens' preference and needs, rather than through a uniform "fixed" model. Many countries have learnt that the best service is provided if there is institutional coordination and, if necessary, integration, rather than administrative segmentation. This is not a question of a "one-stop shop"; rather the idea is to accompany the citizen in the decision-making process and make them a participant in their rights and duties by unifying the logistics ("each item of computer data, entered only once"), in favour of a paperless administration rather than just a unified front office. The service itself must be integrated; not just the entry or access to this service. The aim is to promote public fiduciary, confidence in public intervention without any arbitrariness or dirigisme of the user, and to achieve this at the lowest reasonable cost, covered by the taxpaying citizens.

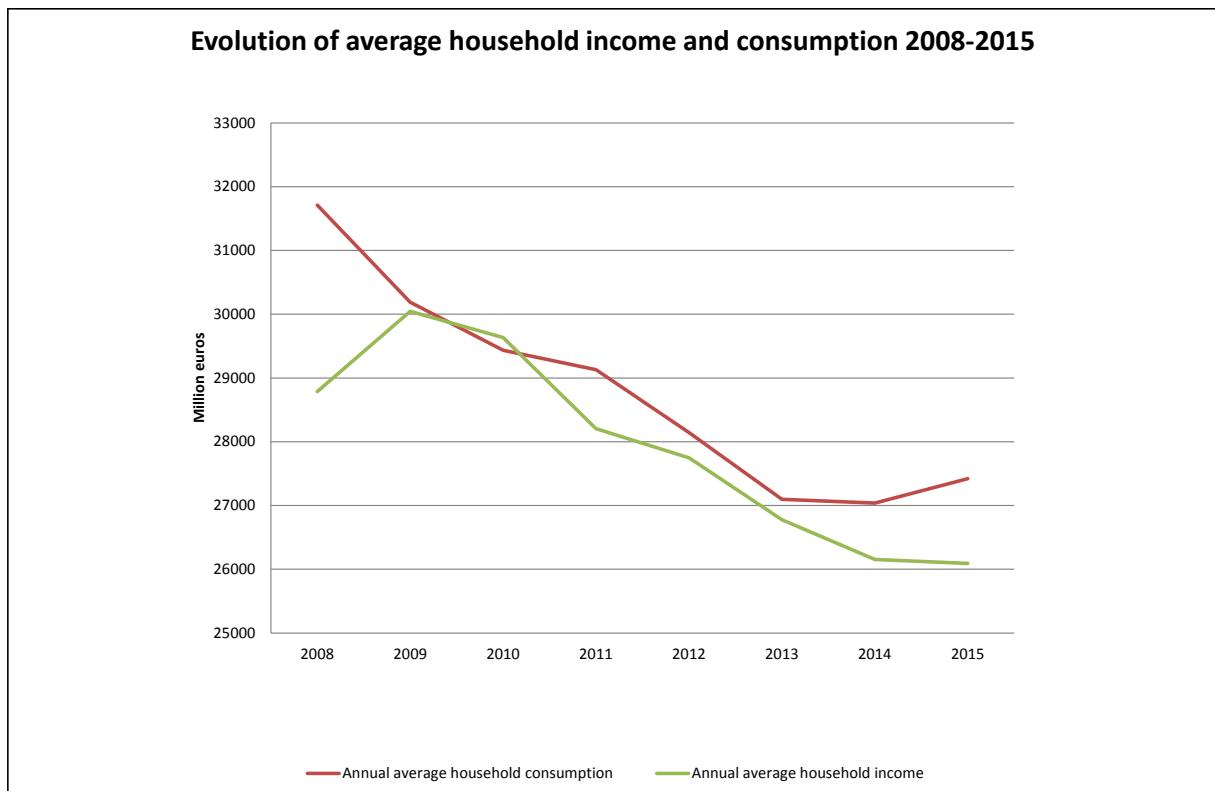
For all these reasons, the experts' report on the reform of Catalan government agencies indicated that a professional system of senior public management should be created. To separate from the electoral-political cycle the filling of management positions that are immediately under the political level of government and require considerable management capacities, the aim is to limit the political influence of appointments, taking inspiration from the models of advanced democracies. Professionalising the regime of senior management posts would involve the following:

- Define a space for senior public management under a system that combines the guarantees of professional capacity with the requirements of trust that are required of individuals who are in direct contact with policy.
- Establish systems for accessing these positions that guarantee professionalism. Processes should be defined that are differentiated into two levels: level 1 (general directors and similar positions) with processes for validating the proposed candidate's professional requirements as established by the relevant body authority for their appointment; and level 2 (general deputy directors and similar positions), with competitive selection processes and the proposal of tenders to the relevant body to make the appointment.
- Create an independent body to govern the system and provide it with the right technical capacities and the necessary guarantees of independence of action. Entrust this body specifically with the functions of: establishing the requirements for different positions; validating the requirements of professionalism of candidates; organizing call for applications, selecting candidates and drawing up tender proposals.
- Guarantee the principles of: publication of procedures; opening positions to candidates from within and outside the Government of Catalonia, either from other governments or from the private sector.
- As a rule, for senior public administration positions, define how management agreements should be drawn up with the individual's superiors. The agreements should state the terms of the mandate, the priorities and objectives that must be met, and the measurement systems that will be used to assess these priorities and objectives. In the case of agencies, agreements for managers must be consistent with the management contract established for the organization, to assess whether the priorities and objectives have been obtained.
- Establish a set of specific human resources policies for senior public administration positions, adapted to the specific characteristics of the management function.
- Draft a statute for senior public administration as a specific legal framework for regulating these posts, and incorporate the regulations and guidelines indicated in the sections above.



Source: Compiled by the authors using General Comptroller of the State Administration (IGAE) data (National Accounting, Government Agency Accounts).

Evolution of average income and average spending of households in Spain (2008-2015)



Source: compiled by the authors using INE data.

References

Caamaño Domínguez, Francisco; Gimeno Feliu, José María; Quintero Olivares, Gonzalo; Sala, Pascual. *Servicios públicos e ideología. El interés general en juego*. Barcelona: Profit, 2017.

Macho Pérez, Ana Belén; Marco Peñas, Ester. “El impacto de las colaboraciones público-privadas en los niveles de déficit y deuda públicos: análisis de los criterios de Eurostat”. *Revista de Administración Pública* [Madrid: Centro de Estudios Políticos y Constitucionales], Issue 194 (2014), p. 437-474.