LITERATURE REVIEW ON CUTBACK MANAGEMENT

COCOPS WORKPACKAGE 7 DELIVERABLE 1

Ringa Raudla

Riin Savi

Tiina Randma-Liiv

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About COCOPS

The COCOPS project (Coordinating for Cohesion in the Public Sector of the Future, see www.cocops.eu) seeks to comparatively and quantitatively assess the impact of New Public Management-style reforms in European countries, drawing on a team of European public administration scholars from 11 universities in 10 countries. It will analyze the impact of reforms in public management and public services that address citizens' service needs and social cohesion in Europe. It is funded under the European Commission's 7th Framework Program as a Small or Medium-Scale Focused Research Project (2011-2014).

About the authors

Ringa Raudla is a Senior Research Fellow at the Ragnar Nurkse School of Innovation and Governance, Chair of Governance at Tallinn University of Technology

Riin Savi is a Junior Research Fellow at the Ragnar Nurkse School of Innovation and Governance, Chair of Public Policy and Management at Tallinn University of Technology

Tiina Randma-Liiv is a Professor and Chair of Public Policy and Management at the Ragnar Nurkse School of Innovation and Governance at Tallinn University of Technology

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1. Introduction

The literature review at hand is the first deliverable of Work Package no. 7 *The global financial crisis in the public sector as an emerging coordination challenge* of the EU Seventh Framework program project *Coordinating for Cohesion in the Public Sector of the Future* (COCOPS). The main purpose of the review is to give an overview of the cutback management literature and its findings of cutback strategies in the public sector in the 1970-80s. The aim is to look at the application and impact of various cutback management and decision-making practices and discuss whether lessons could be learnt for the current crisis.

The recent global financial and economic crisis, followed by fiscal crisis, have lifted the topic of cutback management back on the research agenda, as many governments in Europe and elsewhere either plan or have already implemented austerity measures in order to cope with the concurrent problems of lower revenues and high public debt. It can be expected that the large-scale cutbacks, undertaken by numerous governments, would lead to changes in public administration practices. Thus, the impacts of the global crisis and the subsequent retrenchment on public administration and governance is and will continue to be a challenging issue for several years to come (Pollitt 2010; Thynne 2011; Coen and Roberts 2012). Looking at the patterns of cutback management during the previous era(s) of austerity can therefore provide useful insights for coping with the current crisis.

In light of the large-scale impacts that a fiscal crisis can have on government and society, it is somewhat surprising how little *systematic* analysis one can find in the scholarly literature of public administration on the topic of cutback management. As Dunsire and Hood (1989, p. 1) put it: "a great deal of academic thought has been given to explaining the problem of government growth, but there has been no comparable attention to explaining how the difficulties of cutting back government might best be approached …" Rosenthal (2003, p. 130) argues that one of the reasons for that might be that crises appear to be unfit for comprehensive causal explanation, predictability and possibilities for intervention. Still, despite the relative lack of systematic research on the topic, there is by now a sufficient body of studies dealing with the topic of cutback management, which can provide input for a more comprehensive review and also offer insights about the various strategies of cutback management and the effects of cutbacks on public management practices.

Public administration literature on cutback management falls into three categories – studies of public administration on cutback management of the late 1970s and 1980s, contemporary public administration literature on managing austerity (related to the recent economic crisis), and generic management research on organizational decline (Bozeman 2010; Cepiku and Savignon 2012). As the current review focuses on *crisis*-led cutbacks, we focus on the first two streams; only some insights are drawn from the organization decline literature where appropriate. The review *concentrates* mainly on the public administration cutback management literature of the late 1970s and 1980s, and the contemporary public administration literature on retrenchment serves as a complementary source. Since the body of current research dealing with cutbacks and retrenchment is still evolving and growing, we do not (yet) aim to provide a comprehensive and systematic review of the contemporary literature. To compile the review, both theoretical and empirical studies addressing either the central or local government level, or different policy fields, were made use of. The review is not restricted to any particular country or group of countries[1].

The cutback management literature in public administration began with the seminal article by Levine (1978), followed by a surge of publications dealing with the topic. The early works on cutback management differed in their foci by looking at: leadership tactics for managing decline (Behn 1980a; Biller 1980), budgeting (Glassberg 1978; Behn 1985; Lewis 1988) and termination of programs (Behn 1978; Brewer 1978; deLeon 1982) (see Bozeman 2010). The public administration scholarship on cutbacks "reached its zenith in the early 1980s" but then vanished (Bozeman 2010, p. 558) to rise again with the recession of the early 2000s. This time a surge of literature on cutback budgeting (see, e.g., Ward 2001; Maher and Deller 2007; Packard et al. 2007) took place, followed by a major spurt of cutback management research in the post-2008 fiscal environment. The contemporary public administration literature on managing austerity is diverse, being especially rich in studies labeled "preliminary" and "paving the way for more elaborate theorizing" (e.g. Lodge and Hood 2012; Peters, Pierre and Randma-Liiv 2011; Pollitt 2010).[2] The current stream of public administration cutback literature shows a more long-term concern by looking at the relationship between cuts and reforms and the necessity of principles for managing the new responsibilities of governments (see Thynne 2011; Dabrowski 2009; Gieve and Provost 2012). Also the issue of citizens' (declined) trust, (heightened) expectations and general attitudes towards government, and the role of public leadership have been addressed (Massey 2011; Posner and Blöndal 2012; Kattel and Raudla 2012; Van de Walle and Jilke 2012). All in all, the existing academic studies show that up to now the government responses to the crisis have been diverse; there have been "as many responses as countries" (Peters 2011, p. 76), and in many cases the responses have been contradictory (see Bideleux 2011; Lodge and Hood 2012; Kickert 2012; Peters 2011; Peters, Pierre and Randma-Liiv 2011; Pollitt 2010; Verick and Islam 2010).

Most of the empirical studies on cutback management (especially in the earlier stream) have been written about the US (especially about the US local governments) and the UK (focus on the retrenchment politics in Whitehall during the 1970s and the Thatcherism). Substantially fewer, but an increasing number of studies address the Western European countries (e.g., Kickert 2012; Mattila and Uusikylä 1997; Stern and Sundelius 1997) or (new) EU member states (e.g., Bideleux 2011; Dabrowski

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[1] To collect the literature, the ISI Web of Knowledge and Google scholar search engines were used with keywords "crisis and public administration", "cutback management", "cutback budgeting", "fiscal stress management" and "fiscal crisis". We focused on public sector cutbacks brought about by fiscal crisis or other external pressures (e.g. the pressure from external creditors like was the case in Britain in the 1970s). We focused primarily on the academic literature in the scholarly field of public administration. When making the selection of the article to be included in the review, we left out studies from the literatures of political economy and welfare state retrenchment for two reasons. First, including studies from these streams of literature would have made the scope of the literature review too broad and second, many studies in these literature do not deal with issues directly connected with mitigating a fiscal crisis.

[2] This is most probably the result of the rather short time frame not suitable for comprehensive policy analysis, as the impact of the crisis on the patterns of governance is prolonged due to the complicated linkages between states, markets and civil societies (Pollitt 2010; Thynne 2011).

2009; Raudla 2012; Raudla and Kattel 2011). Appendix I provides a summary of the empirical studies that are covered in this overview.

The literature review proceeds as follows. Firstly, the general cutback strategies are outlined and their main characteristics discussed. Thereafter the most prominent instruments for cutting back the government expenditure and the sectors most influenced by cutbacks are set forth as found in the academic literature. Subsequently the managerial issues are being dealt with by looking more specifically at the changes and shifts during cutback period in terms of centralization of power and decision-making, budgeting procedures, human resource management, performance management and managing change. Throughout the paper theoretical conjectures and empirical findings are presented hand in hand. The review is concluded with a chapter discussing the main constraints of lesson-drawing from the previous crisis and cutback management.

2. Cutback strategies: across the board *versus* targeted cuts

When faced with fiscal stress necessitating the need to impose spending cuts, public organizations can essentially choose between two sets of actions: first, denying or delaying the cuts and, second, implementing actual cuts. Dunsire and Hood (1989, p. 145) claim that the actions are dependent on whether the key decision makers opt for "conviction politics" or "cosmetic politics".[3] Especially in the early phases of fiscal stress, organizations can be characterized by what Levine (1979, p. 181) calls the "Tooth Fairy Syndrome" epitomized by actors' unwillingness to believe that the talk of cuts is real and that the decline is only temporary. The "Tooth Fairy Syndrome" can often be accompanied by "Fairy Gold" tactics, which entails postponing the cuts, for example, by "offering cuts in years two and three of the survey period – cuts that disappear in year three like the gold at the end of a rainbow" (Wilks 2010, p. 104). The hope of those using this tactic is that when the point of time arrives for cutting, the financial circumstances have changed and no cuts are necessary (Hood and Wright 1981, p. 183). In this section we focus on the approaches that entail the making of "real cuts".

In the literature on cutback budgeting and cutback management (which started in the 1970s), a number of categorizations of the cutback approaches have been put forth. The most basic distinction is between across-the-board and targeted cuts: *across-the-board* measures refer to cuts in equal amounts or percentages for all institutions, while *targeted* cuts imply that some institutions and sectors face a larger cut than others. This dichotomy has been labeled in various ways. The across-the-board tactics has also been called "cheese-slicing" (e.g. Pollitt 2010), "decrementalism" (e.g., Levine, Rubin and Wolohojian 1981; Levine 1985; Bartle 1996), and "equal misery" approach (Hood and Wright 1981). The "targeted" or "selective" cuts approach has been conceived of as involving an array of possible tactics, ranging from "strategic prioritization" and "managerial" to "ad hoc" or even "random" (or garbage can) cuts

[3] In the first case "the only cut worth making is real" and retrenchment is seen as an end in itself. In the latter case cutbacks are achieved by creative accounting and statistical and judicious reclassification aiming to cut the numbers presented in important documents in the form of "paper cuts". (Dunsire and Hood 1989)

(see, e.g., Levine 1978, 1979; Behn 1980a; Bartle 1996; Hendrick 1989). *Strategic response* to fiscal stress would entail decisions on the department's mission and core services and corresponding prioritizations in resource allocations (Levine 1985, p. 692). Simply put, such a response would mean that in making reductions to programs, low-priority programs would be cut more than high-priority programs (Levine and Rubin 1980, p. 15). Specifically, a strategic approach to cutbacks would entail "(1) a multiyear time frame, usually three to five years; (2) a significant reallocation and reconfiguration of re-sources; (3) substantial changes in organizational structure and work force activity; and (4) a comprehensive as opposed to an ad hoc re-examination of the organization's problems, mission, and structure" (Levine 1985, p. 691). In the managerial approach, the cuts are also selective, but instead of using comprehensive and rational analysis for making the cuts, the officials use "programmatic criteria related to mandatory and nonmandatory expenditures to determine requests and appropriations" (Hendrick 1989, p. 30).

More detailed categories of approaches have been elaborated by various authors. Jick and Murray (1982, p. 144), for example, distinguish between seven basic response strategies to cutbacks: rational priority planning, externally oriented political cuts, internally oriented political cuts (cuts on those units that have the least power to resist), across-the-board cuts, delay, abdication (turning to others to for decisions), passivity. Turem and Born (1983) differentiate between "traditional" and "new" retrenchment strategies in the area of human services. The "traditional" responses are: across-the-board cuts, hiring freeze, and lobbying for reductions in cutbacks; the "new" strategies are: improving management practices, setting priorities in client needs and services provided, using self-help and non-service approaches, building new relationships and creating alliances with other agencies and firms. Plant and White (1982) outline five strategies: across-the-board cuts, improving productivity, cutting marginal programs, outsourcing and other market-driven strategies, clarification and utilization of organizational mission. Dunsire and Hood (1989) distinguish between decrementalism, reorganization, demanning and curtailment.

These more detailed categorizations, however, usually "mix" the cutback strategies themselves and changes in management practices that cutbacks may imply. For the purposes of clarity, in this literature review we deal with the overview of the general cutback *strategies* in the current section and with the changes in *management practices* in section 4.[4] Also, it is worth noting that while some of the "general categories" put forth for conceptualizing cutback strategies are purely descriptive, some categorizations are already "quasi-explanatory" (i.e. implicitly putting forth conjectures between certain features of the cutback environment and cutback tactics). This is the case with categorizations put forth, e.g., by Bartle (1996), who distinguishes between incrementalism, a systematic administrative response model and a managerial response model.[5] Since such categories either implicitly or explicitly

[4] Though some authors (e.g. Pollitt 2010) include "productivity improvements" (i.e. trying to do the same with less resources) among the general response strategies in cutback budgeting, we prefer to view it, again, as part of the "management implications" (dealt with in section 4), rather than as a general cutback-budgeting strategy. As the term "less resources" in the productivity improvement tactic says, cuts must have already been made "somewhere" among the expenditures.
[5] Klase (2011) also distinguishes between the "systematic administrative response model" and the "fiscal pressure framework".

deal with various factors influencing the choice of cutback tactics, these will be discussed in sections 2.2. and 2.3.

2.1. Normative discussion: advantages and disadvantages of decrementalism versus targeted cuts

In normative discussions about how to go ahead with the cutbacks, two lines of arguments can be found. Most call for more *rational* approaches (see, e.g., Levine 1985: McTighe 1979; Turem and Born 1983; Austin 1984) implying the making of cutbacks on the basis of comprehensive analysis and strategic prioritization, while some – out of pragmatic considerations – argue that “rational” approaches may not necessarily be the most feasible option in the midst of a fiscal crisis and hence decremental approaches could be more advisable. Indeed, as Hood and Wright (1981, p. 203) put it, “The equal misery approach may have very strong element of rationality about it.” In the following we give a brief overview of the advantages and disadvantages of the “decremental” approach to making cutbacks. The mirror images of these arguments can be viewed as cons and pros of targeted cuts.

The main advantages of decrementalism (entailing across-the-board cuts) are the following: 1) it reduces decision-making costs; 2) it minimizes conflict and 3) it is perceived as being equitable (Levine 1978, 1979; Hood and Wright 1981; Biller 1980; Schick 1983; Dunsire and Hood 1989; Wilks 2010). First, across-the-board cuts do not require extensive ex ante analysis for identifying the expenditure categories that will be cut (Levine 1978, p. 320; Hood and Wright 1981, p. 204). Thus, such cuts can be imposed quickly and relatively “easily” (Hood and Wright 1981; Schick 1988). Further, because of the nature of the public sector, comprehensive analysis for identifying the objects of cuts can be complicated. As Levine (1978, p. 320) notes, targeted cuts “involve costly triage analysis because the distribution of pain and inconvenience requires that the value of people and subunits to the organization have to be weighed in terms of their expected future contributions.” This is all the more difficult because “in government there is substantial complexity, uncertainty, and differences of opinion about means and ends that convert into disagreements about priorities” (Levine 1984, p. 252). Second, the decremental approach minimizes conflicts (both within the organization and between the organization and pressure groups) since it avoids “specifying the victims” (Hood and Wright 1981, p. 206), horse-trading and political agonizing (Wilks 2010, p. 103). As Schick (1988, p. 528) explains it, selective cuts based on strategic prioritizations assume systematic evaluation of the existing programs but “evaluations stir up conflict at the time that government officials desperately need support for the tough choices they face. Budget targets and ceilings mask the programmatic impacts of cuts; review and evaluation highlight these consequences.” Third, the “equal misery” entailed in decremental cuts makes them seem equitable and enables the “cutters” to appeal to “common sense ideals of justice” (Levine 1978, p. 320) and hence increase the perceived fairness and legitimacy of the cuts (Biller 1980). Further, “sharing the pain” implied by across-the-board cuts may even “integrate” (Biller 1980, p. 607) and “help to maintain morale”, “build a good team spirit” (Levine 1979, p. 182) and unify the members of the organizations (Hood and Wright 1981, p. 206).

Despite its apparent advantages, the decremental approach has also been extensively criticized in the literature on cutback budgeting and cutback management. Specifically, the main drawbacks of across-the-board cuts are considered to be the following: 1) such cuts may not reflect the public needs and preferences; and 2) may penalize efficient organizations; further, they 3) may ignore varying needs of different units and 4) lead to a decline in service levels and quality. First, as Levine (1985, p. 692) puts it, "decrementalism at the margins of units and programs does not reflect a realistic assessment of public needs and preferences for services." In other words, across-the-board cuts would be a reasonable response only if "the present budget reflects perfectly the community's desired mix of government services" (Lewis and Logalbo 1980, p. 186), which may not always be the case. Second, a serious shortcoming of across-the-board cuts is that they are likely to penalize more efficient organizations, units and individuals, because "they will be forced to make much tougher decisions about who, what, and how cuts will be distributed" (Levine 1979, p. 181). Third, across-the-board cuts can be "insensitive to the needs, production functions, and contributions of different units". Indeed, such cuts may have differential impacts on units with different sizes and different levels of specialization. As Levine (1978, p. 322) argues, across-the-board cuts may not be "felt" by large unspecialized units, but for small specialized units, across-the-board cuts may prove "immobilizing". Finally, Levine (1985, pp. 692, 697) points out that the problems caused by incrementalism may accumulate and lead to declining service levels and service quality or even to "general service default". Indeed, beyond a certain threshold, across-the-board cuts may lead to effects or unforeseen impacts on organizational performance. Behn (1980a, p. 615) argues that when "across-the-board cuts exceed a certain threshold (i.e. the point where organizational slack can be used to absorb the cuts without reducing output significantly), a budgetary cutback of Y percent will reduce production by more than Y percent." More generally put, as Levine (1978, p. 317) argues, "organizations cannot be cut back by merely reversing the sequence of activity and resource allocation by which their parts were originally assembled. … Therefore, to attempt to disaggregate and cut back on one element of such an intricate and delicate political and organization arrangement may jeopardize the functioning and equilibrium of an entire organization."

In light of these drawbacks, Behn (1980a, p. 617) puts it rather strongly when he states, "During retrenchment, ad hoc decision making, which is responsive only to crises and pressures, not any overall plan, is dangerous." Most other authors are somewhat more pragmatic and argue that decrementalism may be appropriate for dealing with small cuts, whereas achieving deeper cuts necessitates selective cutbacks (Levine 1984; Schick 1983, p. 21). As Schick (1983, p. 19) observes, small across-the-board cuts usually allow organizations to continue "business as usual". Levine (1984, p. 252) puts it in more specific terms, when he notes that decrementalism would be "probably appropriate when a downturn is in fact cyclical and cuts are not very deep (e.g., 7% or less of the budget in any one year or 15% over a three-year period)." Beyond this level, however, problems arise and the decremental approaches may take "a heavy toll in the effectiveness of organizations."

2.2. Which approaches dominate in reality?

According to the incrementalist theory of budgeting (see, e.g., Wildavsky 1964), the cutbacks would be decremental, essentially taking the form of "incrementalism" in reverse, with cuts amounting to "decrements" from the base (Dougherty and Klase 2009; Bartle 1996; Klase 2011). Thus, the incrementalist framework would predict that among cutback strategies, the use of across-the-board cuts would prevail (Schick 1983; Bartle 1996). The "managerial" approach argues that across-the-board cuts would be difficult because significant portions of the budget entail mandatory expenditures; thus the decision-makers would make cuts to those areas where expenditures are controllable (Downs and Rocke 1984; Bartle 1996; Pammer 1990). The "political behavior" framework predicts that cuts would be selective since decision-makers would want to minimize the public opposition to the cuts. More specific predictions have been made by authors who discuss the systematic links between environmental factors (like the severity and duration of fiscal stress) and cutback tactics chosen; these will be reviewed in section 2.3.

With regard to the question regarding which of these two general cutback tactics – across-the-board or targeted approaches – dominate in reality, the existing empirical studies offer mixed evidence. Table 1 offers an overview of the empirical studies that have examined this question. The majority of the studies looking at the *local governments* in the US find only limited or no evidence of the prevalence of across-the-board cuts (e.g., Bartle 1996; Downs and Rocke 1984; Lewis 1988; Pammer 1990)[6], although there are some studies that find at least some evidence of across-the-board cuts at the local level (e.g., Levine 1985; Lewis 1984). There seems to be more evidence, however, for the governments utilizing the across-the-board option at the *state* level; even here, however, the studies usually find that the governments use a mix of across-the-board and targeted measures (see, e.g., Braun, Johnson and Ley 1993; Dougherty and Klase 2009; Klase 2011).[7] There are, however, relatively few studies examining the prevalence of these two cutback tactics at the *national* level. Still, Dunsire and Hood (1989, p. 94) find in their study that the spending pattern during the cutbacks between 1975 and 1985 in the UK show little evidence of the early equal misery in Whitehall.[8]

[6] Dougherty and Klase (2009, p. 596) also conclude in their review of the US studies that "Most research on city responses to fiscal stress has generally not been supportive of the decremental viewpoint."

[7] For a more detailed discussion of the cutback budgeting literature in the US see, for example, Scorsone and Plerhoples (2010) and Klase (2011).

[88] Furthermore, they state that "misery" was more widely shared in staffing than in spending (Dunsire and Hood 1989, p. 87), meaning that more departments cut staffing than spending.

Table 1: Prevalence of across-the-board vs targeted cutbacks: findings of empirical studies

	Predominantly decremental/ across-the-board cuts	Predominantly targeted cuts	Equal mix of across-the-board and targeted cuts
Local government	Levine (1985) Lewis (1984)	Bartle (1996) Downs and Rocke (1984) Levine, Rubin and Wolohojian (1981) Lewis (1988) Maher and Deller (2007) Packard et al. (2007)	Hendrick (1989) Rickards (1984)
Sub-national state-level government	Braun, Johnson and Ley (1993)		Bowling and Burke (2006) Dougherty and Klase (2009) Klase (2011) NGA and NASBO (2010)
National-level government	Schick (1983)		Dunsire and Hood (1989) Hartley (1981) Kattel and Raudla (2012) Raudla and Kattel (2011)

2.3. Factors influencing cutback strategies

A number of studies in the cutback-management and budgeting literature also discuss the factors that are likely to influence the general cutback strategy (i.e. decremental vs targeted) chosen by the decision-makers.

Two factors that have received extensive attention are: the *duration* and *severity* of fiscal (di)stress on the consolidation actions taken by decision-makers. It is conjectured that the longer-lasting and the more severe fiscal stress is, the more likely it is that the authorities start imposing targeted cuts (rather than implementing the across-the-board measures) (Levine 1979, 1985; Levine, Rubin and Wolohojian 1981; Hood and Wright 1981). Levine (1979, p. 182) argues that at the beginning of the austerity, across-the-board cuts are more likely (as the "sharing the pain" option is likely to be perceived as more equitable and hence to generate less conflict and resistance), but if these measures are not sufficient, more targeted cuts on the basis of prioritization will be adopted (see also Hood and Wright 1981; Pollitt 2010). Similarly, in their "administrative response model" of cutback budgeting, Levine, Rubin and Wolohojian (1981) predict that governments would respond to fiscal stress in a systematic way, depending on the duration and severity of fiscal stress. They conjecture that in initial phases of revenue-decline, the cutbacks would be decremental, but the *larger* and *longer-lasting* the revenue declines are, the more likely the adoption of targeted cuts becomes (see also Klase 2011).

Bartle (1996) distinguishes between two quasi-explanatory models when discussing the link between the cutback environment and cutback tactics chosen. In his version of the "administrative response model", the cutback decisions of the authorities would depend on changes in resource levels, interest groups, and formal authority structure. The "unstructured, managerial response model" or "garbage can model", however, would predict that there would be no systematic links between environmental characteristics (like fiscal stress or interest groups that the authority faces) and cutbacks chosen; instead, there would be "a hodgepodge of fairly random responses across governments in response to revenue declines" (Scorsone and Plerhoples 2010).

The existing empirical studies (mostly dealing with sub-national governments in the US), point to mixed evidence with regard to the systematic relations between factors like the duration and severity of the fiscal stress and the specific cutback tactics chosen. Many studies (e.g., Wolman and Davis 1980; Levine, Rubin and Wolohojian 1981; Levine 1985; Glassberg 1978; Dougherty and Klase 2009; Hartley 1981; Rubin and Willoughby 2009; Scorsone and Plerhoples 2010) *do* find evidence of the shift from across-the-board to targeted measures, as the fiscal stress deepens while other studies are more contradictory in their findings. Dunsire and Hood (1989, p. 183) find proof of the sequential occurrence of incrementalist and manageralist measures, but conclude that the short time horizon between the two poses a question about the real influence of "the deepening crisis". Several studies have found no evidence on the *systematic* impact of the length and severity of the fiscal stress on the cutback measures chosen (e.g. Bartle 1996; Downs and Rocke 1984; Pammer 1990). Instead, these studies provided more evidence for the "managerial" model, whereby the decision-makers cut those parts of the budget that are controllable.

In addition to the "external" environmental factors that are likely to influence the choice between decremental or selective cutback strategies, there are also a number of organizational features that may influence this choice. Glassberg (1978), for example, argues that in organizations with more fixed tasks, decremental strategies are likely to dominate, whereas those with more flexible tasks would be able to opt for more targeted cuts. As he explains, the cutback strategy chosen in an organization would depend on the leadership style that emerges in the organization during fiscal stress. He conjectures that "cut the fat tough guy"-type leadership (focused on cutting overhead costs and constraining labor costs) is more likely to emerge in organizations with fixed functions, whereas "revitalizing entrepreneur"-type leadership (would seek to "redirect organization into a narrower scope of activity, hoping to create a new equilibrium between resources and costs") is more likely to emerge in organizations with flexible functions.[9] Levine (1985, p. 695) argues that the ability of the departments and agencies to undertake more strategic approaches depends on their strategic capacities, including, for example, financial forecasting, cost accounting and planning capacity. McTighe (1979, p. 89) argues that "rational" approaches to cutback budgeting and management would be hampered by the following factors: decentralization of an organization, an unclear mission, contentious politics and a strong clientele.

[9] His empirical study of cutback management in NYC confirms these conjectures.

3. Patterns of cutting expenditures

The fundamental question of cutback management is how to cut public expenditure and what should be cut. These interrelated issues are touched upon in the following chapter. Section 3.1. looks at the different cutback instruments and discusses their corresponding advantages and disadvantages. Section 3.2. surveys the prevalence of cuts in different expenditure categories. Section 3.3. gives an overview of the sectors that traditionally suffer most during the cutbacks.

3.1. Main cutback instruments

The cutback management literature is rich in depicting different instruments for dealing with reduced public sector resources and cutting public expenditures. For a systematic overview we classify the different cutback instruments according to the following taxonomy: 1) instruments for cutting operational measures (running costs); 2) program measures (transfers and grants) and 3) capital expenditures (investments). For each category numerous tools for freezing, squeezing, canceling, postponing, shortening, reducing and limiting different government activities and the spending of public resources exist, as brought out below.

3.1.1. Cutting the operational expenditures

Reductions in operational expenditures are commonly categorized by the object of expenditure, distinguishing between personnel expenditure and non-personnel expenditure (Wolman and Davis 1980, p. 232).

The measures for cutting *personnel* costs can be geared at reducing the number of workers, working time or remuneration. Thus, the list of instruments entails a number of options, ranging from reducing overtime to dismissal. In the literature the most often cited instruments to cut personnel expenditure are the following: reduced (over)time; furloughs; wage freeze or reduction in the rate of salary increase; slowdown of promotion; salary cuts; filling positions with less credentialed, lower-paid staff; reducing pay grades of vacated job lots; early retirement; reshuffling of staff; hiring freeze and layoffs (Downs and Rocke 1984; Levine 1978, 1985; Wolman and Davis 1980).

In the academic literature the strengths and weaknesses of hiring freeze and layoffs have attracted most attention.

Hiring freeze is seen as "a convenient short-run strategy to buy time and preserve options" that is neither an efficient nor an equitable cutback instrument in the longer run (Levine 1978, p. 321; Wright 1981). It is argued that this instrument hinders the management from making appropriate decisions on whom and where to cut and impedes intelligent long-term planning (Greenhalgh and McKersie 1980; Levine

1978, p. 322).[10] Cayer (1986) cautions that attrition may punish professional managers who have already reduced waste in their organizations, compared to managers in other organizations which could be overstaffed. During an extensive hiring freeze an organization may fall short on some critically needed skills and at the same time be unable to hire people with necessary skills even if they are readily available. This happens because attrition most probably occurs at different rates in the various professional and technical specialties and resignations are most likely among employees with the best opportunities for employment elsewhere. (Ibid) Then again, Rubin (1980, p. 169) argues that the advantage of attrition lies in its peaceful and conflict-mitigating nature that "does not stir up too much antipathy between departments and too much resentment against administrators". Dunsire and Hood (1989, p. 38) see the non-replacement of natural wastage as a "relatively painless" method, mainly because it avoids redundancies, dismissals, appeals and other attendant procedures.

Laying off personnel is seen as a useful tool when the speed of reducing costs is important to the manager to satisfy either the political leadership or citizens by demonstrating a reduction of the costs of government (Cayer 1986). Greenhalgh and McKersie (1980, p. 582) warn that layoffs have costly side-effects: insecurity created by layoffs increases the number of voluntary quitting (especially of the most valuable employees), disrupted teamwork, poorer work morale and lower productivity; in sum, this could lead to a system that is costly to operate. Insecurity is often the result of the belief that layoffs can be manipulated by managers as ways of getting rid of unpopular employees (Dennis 1983). Levine (1978) argues that when layoffs are used for cutbacks, the state loses substantial investment in human capital (since recruiting and training replacement is costly). Yet, Hood and Wright (1981, p. 211) claim that dismissals cause the loss of youthful talent (vs "the old wood"), as in the first round low-paid, short-service and younger workers (who are the cheapest to fire) are dismissed. Holzer (1986) and Biller (1980) propose that the last hired will be the first fired. All in all, layoffs may weaken the organization by damaging the reputation of the public sector organizations and leading to lower-quality job applicants (Greenhalgh and McKersie 1980). Thus, the work-force layoffs should be viewed "only as a last resort measure" and the managers should try to prevent using layoffs for adjusting the workload (Ibid).

In sum, hiring freeze has generally been seen as a more attractive option than layoffs because it tends to be more humane and creates less insecurity and uncertainty than layoffs as people do not have to worry about losing their jobs, and the morale of the organization is not likely to be affected so negatively as with layoffs (Cayer 1986; Rubin 1985).

When looking at the non-personnel expenditures and related instruments for making cuts, *restricting or banning spending* on utilities, supplies, equipment, travel and communication are listed by numerous authors (see, e.g., Lewis and Logalbo 1980; Wolman and Davis 1980).

[10] E.g., the experience in the city of Cincinnati shows that the attrition plan adopted by the authorities (one-for-three hire back policy) started to erode the labor force in an erratic manner (Levine, Rubin and Wolohojian 1981, p. 621).

3.1.2. Program measures and investments

Program measures are seen as decreases in transfers to the citizens (e.g. entitlements) but also changes in expenditure that lead to reduced levels of public services provided to the citizens (Dunsire and Hood 1989; Lewis and Logalbo 1980; Kogan 1981). The specific tools for cutting the costs of service provision differ according to the policy sectors[11] (Lewis and Logalbo 1980). Often savings are achieved by manipulating the goals or reducing the quality of a service or a product. Dunsire and Hood (1989) point out that different streamlining and quality reducing activities are aimed either at smoothing out the inputs or leveling down the outputs of public services. The former entails activities such as formalizing access by clients, standardizing forms and treatments, establishing quotas, raising prices, etc. The latter includes predominantly reducing the variety of service tasks, fixing the quality of treatment, reducing the frequency of service provision (e.g. of garbage collection), reducing the service hours (e.g. libraries), reducing the number of service outlets (Dunsire and Hood 1989; Lewis and Logalbo 1980, p. 187). In addition, changing the nature of service providers (by using part-time, third-party or volunteer counterparts) is described as the predominant method to achieve cutbacks in the levels of public services provided (Dunsire and Hood 1989). Lee (1981, p. 47) also mentions transforming the services required to be provided by law into discretionary services.

Among the cutback instruments that deal with transfers, the options involve, for example, straightforward cutbacks in the coverage or size of the entitlement payments, but shifting part of the entitlement costs to the private sector, citizens or just further away from the central government budget is also common (e.g. by making the employers pay part of the sickness fund payments, increasing waiting times and delaying payments, establishing item charges and user fees for services) (see, e.g., Dunsire and Hood 1989; Hood and Wright 1981, pp. 188, 211). Briefly put, reducing the expectations of customers and loading off work and other expenses to different affected counterparts is common when cutting programs.

Capital expenditures are often curtailed by applying different “postponement” or “cancellation” tactics, such as capital spending freeze for new capital projects, deferral of nonessential capital projects, and deferral of maintenance (Lewis and Logalbo 1980; Scorsone and Plerhoples 2010). Several authors, however, warn against postponing maintenance. It may be a useful short-term strategy, but from a longer-term perspective it may aggravate organizations’ problems if the cumulative decline in resources becomes significant (Behn 1980a, p. 615). Therefore the future costs of postponing maintenance might be far in excess of today’s savings and may lead to subsequent and more costly capital acquisition (Lewis and Logalbo 1980; McTighe 1979, p. 89).

[11] For example, in educational services shortening the school day, increasing the teacher-pupil ratio, cutting back on the amount of different teaching materials have been applied (Hood and Wright 1981; Lewis and Logalbo 1980). In recreational, grounds and maintenance programs the use of part-time staffing has been common (Ibid).

Table 2: Main cutback instruments

Category	Instrument
Operational expenditures	
Personnel costs	Reduced overtime or working time
	Slowing-down of promotion
	Early retirement
	Wage freeze
	Reduction in the rate of salary increase
	Filling positions with less credentialed, lower-paid staff
	Reducing pay grades of vacated job lots
	Salary cuts
	Reshuffling of staff[12]
	Furlough
	Hiring freeze
	Layoff
Non-personnel costs	Spending limits and bans on utilities, supplies, equipment, travel, communications, etc.
Program expenditures	
	Cut service provision
	Shorten the reception time, limit service hours
	Reduce the frequency of service provision, reduce the number of service outlets
	Reduce the quality requirements for service provision
	Program termination
	Engage voluntary, part-time and third-party counterparts in service provision
	Reduce transfers
	Shift part of the entitlement costs to the private sector or citizens
Investments/capital expenditures	
	Capital spending freeze for new/ nonessential capital projects
	Transfer of cost to private capital
	Postponing procurement
	Deferral of maintenance

3.2. The main expenditure categories hit by cutbacks

3.2.1. Theoretical discussion

Dunsire and Hood (1989, p. 144) claim that the vulnerability of different expenditure categories to cutbacks is definitely not a random process and "what will be thrown to the wolves first" can be predicted to a certain extent. Briefly put, there are a number of competing and contradicting theoretical predictions with regard to the question of which expenditure categories are to suffer *more* and/or *first* in line during the imposition of cuts. In the following section the most prevalent approaches in the cutback management literature, mainly originating from public-choice theory and the administrative-response model, are summarized.

[12] According to Rubin (1980) this refers to creating pools of resources (e.g. by making increased use of temporary staff and teaching assistants).

The "typical" public-choice view of bureaucrats' behavior would predict that given officials are rational and self-interested, they would try to cut administrative expenditure less than other categories of expenditure (Mattila and Uusikylä 1997, p. 149). In contrast, proceeding from interest-group theories, Lewis and Logalbo (1980, p. 186) conjecture that administrative services would be particularly vulnerable to cuts, because they "usually lack support by a vocal client or citizen group."

Several authors have hypothesized about the prevalence of cutbacks to different expenditure categories by looking at the *sequence* of cuts *over time*. Glennerster (1981, p. 186) proposes that when politicians are faced with the necessity of cutting real spending, the administrative costs are first in line. Also Downs and Rocke (1984, p. 337) argue, according to the "bureaucratic process theory", the city authorities would respond to declining revenues by cutting down the operational expenditures first in the following preference ordering: 1) administrative salaries; 2) non-administrative salaries; 3) operating expenses, supplies, materials; 4) equipment; 5) maintenance. Dunsire and Hood (1989) claim that expenditures to be cut first in line "in hard times" depend on what are considered the "core" (whatever activities, functional groups, positions or resources considered as principal) by those responsible for cutting down the public expenditure. Hence it is predicted that the "core"-related expenditure categories will be cut less. In addition, Dunsire and Hood (1989, p. 93) argue that "hard-pressed but objective officials" would first of all apply "whatever quick-acting levers of control they possess, before … they deploy controls … slower to take effect". Thus, they conjecture that most probably the first target of cuts (at least at the outset of cutbacks) are public services and goods (as opposed to spending on grants or transfer payments) given that officials probably cut costs they have most control of, but grants and transfers are very much policy-led and determined (Ibid, pp. 37-38).

Several authors propose that subjecting certain expenditure categories to cuts depends on the *acuteness* of the fiscal stress. Bartle (1996) conjectures that according to the administrative-response model proposed by Levine, Rubin and Wolohojian (1981), slow or no growth would lead to denial and delay (e.g. deferring maintenance, drawing down fund balances, shifting expenses forward); moderate decline would bring about decremental approaches (like across-the-board cuts); severe revenue decline would elicit termination of programs, reduction (or contracting out) of services, and layoffs. Schick (1980, p. 127) claims that in acute scarcity the government would first opt for cutting administrative and overhead costs and maintenance activities.

3.2.2. Empirical evidence

Proceeding from the categories of public expenditure presented in the previous subsection, this section provides an overview of the empirical results of different studies looking at the distribution of cuts among different expenditure categories (and within personnel costs in more detail).

The empirical evidence at hand demonstrates that very often capital spending and expenditures on maintenance are the first and predominant target of cuts both at the central government and state/local level (Bowling and Burke 2006; Dunsire and Hood 1989, p. 90; Hood and Wright 1981, p. 203; Levine, Rubin and Wolohojian 1981;

Maher and Deller 2007; Marando 1990; Midwinter and Page 1981; Wolman and Davis 1980). Dunsire and Hood (1989) show that due to the fact that capital expenditure suffers most, the programs that deal predominantly with the formation of fixed capital are extremely vulnerable during retrenchment.

Secondly, also operating expenses seem to bear a heavy burden during the retrenchment of public spending (Berne and Stiefel 1993; Maher and Deller 2007; Marando 1990; Levine, Rubin and Wolohojian 1981). When comparing the division of cuts in the different categories of expenditures outlined in section 3.2.1., it appears that some studies find that maintaining employment and keeping the salaries is preferred to maintaining the status quo of program measures (Levine 1985; Wolman and Davis 1980). In contrast, Dunsire and Hood (1989, p. 93) find that transfers (grants, pensions and benefit payments) are cut after the purchases of goods and services (including salaries and wages), because the latter are quicker acting and more effective than controls on transfers.

When looking at the cuts *within* personnel costs, then with regard to *salary reductions*, a number of studies have found that salary reductions have been enacted when cutting the positions and freezing employment have not provided the expected savings (e.g., Berne and Stiefel 1993; Wolman and Davis 1980). Lewis (1988), however, observes that in making cutbacks to personnel, layoffs were more widely used than salary decreases.

Hiring freeze and leaving jobs vacant has been a very prominent and frequent measure of cutting personnel expenditure, applied also commonly as the first remedy during crisis to achieve cutbacks (Bowling and Burke 2006; Dougherty and Klase 2009; Levine, Rubin and Wolohojian 1981; Scorsone and Plerhoples 2010; Wolman and Davis 1980). Levine (1985) demonstrates that “freezing unfilled vacancies” is especially the case in low fiscal stress with limited duration. Lee (1981) notes that during the retrenchment under Thatcherism the vast majority of job losses were brought about by the natural wastage of a hiring freeze. Also Dunsire and Hood (1989, p. 17) demonstrate that just after taking office the Thatcher government announced steep personnel cuts mainly by a ban on recruitment.

Regarding the *layoffs*, the empirical evidence is contradictory. Some authors note that dismissals have been applied as the last way out (Bowling and Burke 2006; Maher and Deller 2007; Marando 1990; Packard et al. 2007; Wolman and Davis 1980), but some observe that this has been one of the most prominent methods when striving for budget cutbacks (Lewis 1988; Scorsone and Plerhoples 2010).[13] Hood and Wright (1981, p. 211) point out that during the retrenchment in Whitehall a lot of effort was aimed at saving jobs in the public service (e.g. by cutting the non-core expenditures of education in order to retain teachers). There is also evidence that “the actual” laying off of the workers is often circumvented by applying “paper cuts” and “fairy gold” tactics. For example Hood (1981, p. 107) forwards that during the “Pliatzky cuts”[14] addressed at cutting down the (number and also size) of non-departmental

[13] The occurrence of layoffs is linked to several variables ranging from municipal unions’ capacity to make concessions (Pew Charitable Trust 2009) to the severity and phase of fiscal stress (Levine, Rubin and Wolohojian 1981).
[14]Cuts announced in early 1980 in Britain, concerning the non-departmental bodies of the government, based on a report by Sir Leo Pliatzky, a distinguished civil servant of Whitehall.

organizations in Britain, a vast share of the positions abolished were advisory and unpaid.

Several authors demonstrate that cuts in personnel do not hit all groups of civil servants equally. Based on their study on cutbacks in Whitehall during the “lean decade” from 1975 to 1985 Dunsire and Hood (1989, pp. 107, 199) conclude that blue-collar workers suffered more than white-collar workers[15] and the highest and lowest ranks more severely than the middle ranks. They also found that secretarial positions were the first targets when the cuts began, but find no support for the common proposition that “bottom”[16] grades are cut first (Ibid, pp. 97, 105). Holzer (1986, p. 90)[17] has demonstrated that women and minorities statistically bore the brunt of cutbacks disproportionately in the early 1980s. Similarly, also Rubin (1985, p. 45) shows that a cutback process in the early 1980s in the US “had a built-in bias against women and minorities”. Retention status depended on career tenure, seniority, military experience and performance evaluation; consequently, the first ones let go were probationary personnel, nonveterans and those with less seniority (Ibid).

Table 3: Expenditure categories addressed during the cutback management: findings of empirical studies

Author	Expenditure category cut the most
Berne and Stiefel (1993)	Less essential services were cut more than essential ones. Capital and maintenance expenditure cut more than operating costs.
Bowling and Burke (2006)	Most extensive use of following instruments: attempts to improve productivity, hiring freeze, cutting capital outlays. The least utilized were: reducing salaries and personnel layoffs. Similar patterns prevailed in 1984.
Dunsire and Hood (1989, p. 107)	The blue-collar workers suffered more than the white-collar workers.
Levine (1985)	25% of departments lay off employees, decreased overtime use, slowed promotion rates and 52% of departments terminated programs.
Maher and Deller (2007)	Among the expenditure strategies for dealing with fiscal stress, the local officials’ most preferred options were delaying capital expenditures and delaying routine maintenance. The least preferred strategies are layoffs.
Marando (1990)	Most predominant expenditure categories decreased were: operating expenditures, capital expenditures, layoffs, hiring freezes, cutting service levels.
Packard et al. (2007)	The most frequently used action to reduce costs were: hiring freeze, travelling restrictions and purchasing restrictions, whereas the least frequently used were layoffs and filling positions with less credentialed, lower-paid staff.
Schick (1988, p. 525)	A number of industrialized nations achieved cutbacks via lowering the adjustment for inflation in agency operating expenses.
Scorsone and Plerhoples (2010)	Most cities implemented hiring freezes and layoffs; also delays and cancellations of infrastructure projects.
Wolman and Davis (1980)	Capital-improvement projects and maintenance was a prime target for cutbacks (governments preferred to maintain the existing levels of employment and budget totals). At the same time, in some cities cuts were made to the real wages by increasing the wages at a lower rate than inflation.
Wright (1981, p. 16) Hood and Wright	Decremental cutbacks focusing on “protecting the core” have been popular in the UK in the 1970s. E.g. cuts in the education sector were applied to the noncore elements such as school meals, adult education and nursery schools, whereas the teaching of the 5-16-year-

[15] During that decade the civil-service staff number fell by 15%. With the total cut of 153,600 the white-collars lost ca 12% of their staff, whereas the blue-collars lost ca 45% of their staff (Dunsire and Hood 1989, p.189).
[16] “Bottom” is referred to as the lowest level of white-collars (see Dunsire and Hood 1989, p.96).
[17] Bach (2012) claims that austerity measures are highly gendered because of the greater proportion of women in public sector employment and because women are hit hardest as services are withdrawn.

(1981, p. 211).	old suffered marginally. In Britain there are several examples where the aim has been to retain teachers but cut back on books or heating.
	Expenditure category cut first
Dunsire and Hood (1989, p. 90-3); Hood and Wright (1981)	Cuts in capital spending were carried out before cuts in current spending both at the central-government and local levels.
Dunsire and Hood (1989, p. 93)	Purchases (of goods and services) are cut before the transfers (pensions and grants, benefit payments). Controls on purchases are quicker and more effective than controls on transfers.
Hood and Wright (1981, p. 186)	When politicians are faced with the necessity of cutting real spending, the administrative costs are first in line.
Levine, Rubin and Wolohojian (1981)	Deferring maintenance and capital expenditures and imposing hiring freeze were the cutbacks measures followed by cutbacks of personnel (in the form of selective cuts, based on prior growth, administrative concerns and political priorities) and disinvestment of city functions to other levels of government (court, university, hospital).
	Postponing new projects, delaying capital projects, shifting money from capital funds to maintenance and drawing down reserves were first applied. When the fiscal stress became more severe, the authorities went ahead with cuts in departments' expenditure and personnel.
Wolman and Davis (1980)	Work force was usually reduced in two phases, first hiring freeze, which led to reductions through attrition and then, if that was not enough, layoffs.

3.3. The main sectors hit by cutbacks

3.3.1. Theoretical insights

The theoretical discussion on which policy areas and programs would bear the heaviest burden during the cutbacks is rather diffuse, being rooted both in popular expectations and scholarly endeavors to analyze the process of retrenchment. The "winners" and "losers" of cutbacks have been explained by applying different variables ranging from larger demographic and historic trends to the complexity of a department's budget (see Dunsire and Hood 1989). As Dunsire and Hood (Ibid, p. 55) put it: "there is no lack of theory which can be applied to produce testable hypotheses about how cutback management process will operate."[18] Broadly put, the factors brought out in the existing scholarly discussions can be divided into "external" (or "environmental") and "internal" factors. In the following, these two sets of factors (or "variables") will be looked at in turn.

Dunsire and Hood (1989, p. 31) argue that "external" variables, like historical, demographic, industrial and employment market trends, are likely to influence shifts in government spending[19] (and thereby also in cutting back). Thus, they conjecture that these "trend" variables help to predict the future by looking at what happened in the past. In other words they state that taking either extrapolation or reversal as a trend mechanism, both predict that the past trend will go into reverse when the retrenchment period comes about (Ibid, p. 29).

[18] In their book on cutback management in the UK during 1975-1985 Dunsire and Hood (1989) set forth a series of theories on who suffers most during the period of retrenchment. They develop 64 hypotheses in four different categories of variables – party-political explanations, trend explanations, bureaucratic process explanations and bureaucratic self-interest explanations.
[19] They apply the logic on programs, departments, personnel groups, spending authorities etc.

The "internal" factors that are likely to influence which sectors lose and which win (or lose less) in the case of cutbacks can be divided in the following way: ideological leanings of the governing parties, office-seeking considerations of the politicians, the influence of interest groups and the characteristics of programs.

First, it has been conjectured that the ideological coloring of the governing party (or parties) is likely to influence the content of cutback decisions. Thus, for example, the right-leaning and conservative parties can be expected to be committed to higher spending on defense and "law and order" while the left-leaning parties would support the shielding of social services from extensive cuts (Dunsire and Hood 1989, p. 25).

Second, according to the rational-actor models of politicians' behavior, the decision-makers are expected to be motivated by office-seeking and re-election goals and hence would make cuts in those areas that would maximize their chances of re-election. Based on these theoretical considerations, one would expect that politicians target the cuts in those areas and sectors that would not directly hurt their constituencies. Thus, they would focus the cuts on more "marginal groups" (i.e. groups that lack resources for mobilizing themselves) in order to minimize the vote losses for the next election (Mattila and Uusikylä 1997, pp. 148-149; see also Dunsire and Hood 1989, pp. 24-26).

Third, related to the electoral considerations but still worth pointing out as a separate factor is the influence of interest groups. According to Downs and Rocke (1984, p. 338) interest-group theory would predict that the size of the cut any agency has to face would depend on the influence that the given agency and the interest groups affiliated with this agency have on decision-makers. Therefore, sectors like police and fire protection would be cut less than politically weaker and less influential programs like parks and recreation (Ibid). Similarly, Hartley (1981) argues that policy areas with influential interest groups, such as defense, are hard to ignore by voter-conscious governments during retrenchment, especially if these interest groups have strong employment and multiplier effects. Based on this logic it is conjectured that those programs that have vocal proponents and are represented by strong interest groups would be cut least (Mattila and Uusikylä 1997, p. 150). Drawing on Klein (1976) and the pressure-group theory, Dunsire and Hood (1989) explain that whether the client groups are organized and powerful depends on the immediate benefits of the programs. They predict that programs that are very general in their impact and vague about their immediate benefits (mainly those providing public goods such as defense or law and order) will suffer more during retrenchment than programs with strong client groups.

Finally, the characteristics of the programs can be expected to influence whether they face cutbacks or not (Dunsire and Hood 1989). Drawing on Klein (1976) Dunsire and Hood (1989) expect that cuts in programs depend on the requisite mix of programs' "economic significance", "administrative feasibility and time-horizon" and "commitment of expenditure outside governments' control".[20] They conjecture that

[20] Economic significance refers to the degree to which programs pre-empt resources directly (employ people or buy goods) vs just rearrange resources; administrative feasibility and time-horizon determine whether programs can be implemented and also ceased quickly and easily or not; committing governments to expenditure outside their control refers to the degree to which the programs are dependent on external factors such as demographic trends the government cannot alter.

programs "moving the money" around (e.g. transfer payments) will be cut first and more than programs committing resources directly (heavy on purchases and services[21]) and that governments are eager to abandon programs with open-ended commitments and reduce rates of payment (and government commitment in general) wherever possible (Ibid, pp. 46, 113). Hood and Wright (1981) and Mattila and Uusikylä (1997, p. 152) conjecture that "the biggest spenders" (i.e. *larger* programs) would be likely to cut more than smaller programs (in relative terms), given that larger programs can be expected to absorb cuts more easily.[22] Schick (1980) predicts that in the situation of acute scarcity, the governments would first cut *discretionary* programs (e.g. libraries and museums) rather than mandatory programs. Furthermore, theoretical discussions predict that programs for which there are *matching funds* from the national level would be less likely cut by subnational governments (Levine and Posner 1981).

3.3.2. Empirical evidence

When explaining the occurrence and predominance of cuts in different fields in the UK, Dunsire and Hood (1989, p. 86) find that the external (or what they call "trend variables") "seem to have done quite well". They found in their study that demographic trends (increase in the population of old-aged and decrease in school-aged) predicted the changes in spending on education and social security – the social-security payments were not cut, whereas the spending on education was curbed. Also the socio-technical change predicted cutbacks in the decline of blue-collar workers (due to economizing), who suffered more than any other group of public employees. Still, they conclude that trend predictions are predictions of change in general terms, not of the amount of change.

The empirical evidence about the impact of political ideology and electoral considerations is mixed. Dunsire and Hood (1989, p. 77) find little support for their hypotheses related to *political ideology* and *vote-seeking behavior* by stating that after the general elections (change of governing party) in the UK no predicted clear-cut change occurred in the spending pattern related to the programs. All in all they (Ibid) conclude that party-political explanations give mixed results, but more often tend to fail in predicting the targets of cutback during the retrenchment period. Mattila and Uusikylä (1997), however, find in their study of cutbacks in Finland in 1991-1995 that marginal programs (e.g. mental health care, alcoholic care, disability allowances) and administrative programs were cut more than other service programs. Thus, the Finnish case appears to support the vote-maximizing hypothesis of politicians' behavior.

With regard to the influence of *interest groups*, the existing empirical evidence is, again, rather mixed. A number of studies in the US cities and counties demonstrate that the largest expenditure reductions during the fiscal stress have been faced by public works (Wolman and Davis 1980, p. 242; West and Davis 1988), public parks and recreational services (Lewis 1988; Shubik, Horwitz and Ginsberg 2009; Post Commission 1979) and public library services (Fitzgerald 1979; Schick 1983; Shubik,

[21] This means that much of their spending goes to wages and salaries.
[22] Klein (1976) (in Dunsire and Hood 1989) cautions that large programs are very hard to change because it takes considerable shifts to make more than a marginal adjustment.

Horwitz and Ginsberg 2009; Post Commission 1979). At the same time the areas that least suffered have predominantly been police and fire services (Fitzgerald 1979; Lewis 1988). These appear to support the conjectures based on the interest-groups politics framework. Still, it has to be mentioned that Levine, Rubin and Wolohojian (1981) come to the opposite conclusion, namely that fire services have suffered the most, whereas parks and recreational services were spared from the cuts. Based on British experience in the 1970s Hartley (1981, pp. 138-9) demonstrates that defense expenditure has not been susceptible to large-scale cuts in the short run and Kogan (1981, pp. 152-3) shows that no radical cuts were applied in education policy. The latter then provides contradictory support to the theoretical prediction stating that programs that are very general in their impact and vague about the immediate benefits are cut more.

When looking at the impacts of *program characteristics*, the absolute size of a program seems to be a poor predictor of incidence of cuts, as neither Mattila and Uusikylä (1997) nor Dunsire and Hood (1989) found evidence for the hypothesis that larger programs would be cut more than smaller programs.[23] The hypothesis of "matching funds" is supported by Wolman and Davis (1980), who demonstrate in their study that in making cuts, cities tried to protect those programs for which there were matching general funds (given that making cuts to federally supported programs would have led to disproportionate effects on the size of their budgets).

Dunsire and Hood (1989, p. 119) demonstrate that programs whose (own) staff costs (salaries, wages and pensions) made up a high proportion of expenditure, suffered less than others (with the exception of education programs).[24] No evidence is found for the hypothesis that programs heavy on "goods and services", such as defense, health, public order and safety, education, recreation and culture, are cut earlier/more heavily than those heavy on "moving money around", such as social security, agriculture, transport and housing. Rather "if anything, the opposite is true" (Ibid, p. 115). A much better predictor seems to be the "capital intensiveness" – Dunsire and Hood (Ibid, p. 117) found that in Whitehall during 1977-1985 the programs that suffered most were housing and community amenities and transport and communications.

[23] Still, Dunsire and Hood (1989, p.169) bring a reverse example from Whitehall in 1922 – the government expenditure was aimed to be cut by ca 30% and the main targets were the biggest spenders, mainly the Defence, as "only from them the money of that order could be found."
[24] In addition, they find that during the staff cutbacks the departments dealing predominantly with "policy matters" were more likely to face cuts through "adjustment", such as changes in workload or general streamlining, whereas the departments of public service, trading and general support functions faced more harsh measures, such as dropping the functions, contracting out, hiving off, etc. (Ibid, 162).

Table 4: Cutbacks by sectors: which areas are likely to be cut first, which are protected: findings of empirical studies

Authors	Cut back first/cut back the most	Spared from cuts/cut back the least
Dunsire and Hood (1989)	"Capital heavy" spending programs e.g., buildings, plants, roads, housing and community amenities and transport & communication	
Fitzgerald (1979)	Library services, summer school	Police and fire services
Hood and Wright (1981)	Industrial programs were down by 40% (in 1980/81 compared to 1974/75) and the programs on housing, agriculture, roads and transport up by 30%	The area of social security and health recognized expanding programs during the same period
Kogan (1981)		Education (areas where service providers hold a great deal of discretion)
Levine, Rubin and Wolohojian (1981)	Fire department	Parks, recreation
Lewis 1988	Streets and highways, parks and recreation, general administration	Police, fire protection
Mattila and Uusikylä (1997)	Marginal programs (e.g. mental health care, alcoholic care, disability allowances) and administrative programs. Among transfers: certain categories of pensions (old-age pensions, unemployment pensions, and spouses' pensions	Medical-expense refunds, refunds for doctors' services, housing allowances and orphans' pensions
Post Commission (1979)	Public library services, parks, cultural activities, recreation	
Schick (1983)	Discretionary programs	
Shubik, Horwitz and Ginsberg (2009)	Libraries, recreational facilities, rubbish collection	
West and Davis (1988)	Public works, parks, recreational services	Public safety
Wolman and Davis (1980)	Public works, general government, social services	Public safety, parks, recreation and culture

4. Changes in public management

During the era of retrenchment, changes in public management practices are inherent because of the need to adapt to changes both in the internal and the external environment. As Jorgensen (1987) puts it, authorities try “to regulate the boundary between organization and its environment”. How scarce resources are perceived and reacted to by the management is shaped by both the “objective”[25] characteristics of the cutbacks and various contextual conditions both inside and outside the organizations (Jick and Murray 1982, p. 159). The following overview addresses five sub-fields within public management which have been identified and analyzed by the previous studies in relation to cutbacks: centralization and decentralization of decision-making, budgeting and financial management, human resource management, performance management, and management of change. Whereas some of these sub-fields address aspects of how the cutbacks have been implemented, the others look at the impact of cutbacks on organizational practices. In addition to that, management literature is often normative with providing solutions for handling the crisis. It has to be recognized that the empirical evidence is sometimes limited to individual case studies which illustrate normative argumentation but make it difficult to draw broader generalizations on public management patterns.

4.1. Centralization/decentralization of decision-making

Centralization pushes the governments towards moving substantial powers to the center of the government and is therefore considered inherent in any sort of crisis management and decision-making (Boin et al. 2008). It is widely accepted that financial decline triggers movement towards mechanistic structures and hierarchy-based procedures in organizations, first and foremost, because budgeting, naturally assumed to be in the domain of the chief executive, comes into the spotlight (Bozeman 2010; Peters 2011, p. 77; Stern and Sundelius 1997).

Centralization of decision-making can even be seen as a necessary pre-condition for undertaking retrenchment. As several authors (Behn 1980b; Heffron 1989; Levine 1985) have argued, centralization of decision-making during retrenchment is necessary because the organizational subunits would be very unlikely to volunteer the making of cuts. Organizations and their sub-units tend to believe to have very “special characteristics” not suitable for cuts (Dunsire and Hood 1989, p. 131). “It would be a very unusual organization indeed that generated through a decentralized process enough proposals for self-imposed cutbacks to match a significant decline in resources” (Behn 1980a, p. 619). Levine (1979, p. 181) also notes that appeals for voluntary budget-cutting are likely to elicit a “you first, then me” type of responses from lower levels of organizations, implying that top-down decisions would be needed to go ahead with cuts. This has led Behn (1985) to argue that cutback

[25] For instance, the objective characteristics of cutbacks entail the severity of the cuts, the time pressure involved and whether the cuts could be anticipated or not (Jick and Murray 1982, p. 160). Contextual factors, such as the individual characteristics of key decision-makers and differences in organization design are also likely to play a role (Ibid).

decision-making requires centralization and a top-down approach. Bozeman and Straussman also state that "top-down processes are virtually indispensable for the achievement of systematic spending cuts" (1982, p. 172).

Moving towards centralization can be achieved either through standardization of procedures, empowering the central budgetary departments, setting limits and ceilings to organizational spending, borrowing and activities, or by general priority-setting of the government (Peters 2011; Pollitt 2010). As the cutback management is predominantly about difficult political choices on priorities and strategies based in the central government machinery (Wilks 2010, p. 105), many authors (Behn 1980a, 1980b; Boin et al. 2008; Schick 1986, p. 128) note that the centralization goes beyond budgetary decision-making. A common strategy for strengthening control is changing the venues of decision-making, typically by appointing the management boards to public agencies or other bodies that governments can control (Peters and Pierre 2004, pp. 4-5). In addition, several authors (Kickert 2012; Peters 2011, pp. 77-78; Peters, Pierre and Randma-Liiv 2011) point out that a typical feature related to governments managing the fiscal crisis is the centralization of the decision-making process around the political elite and distancing "the career civil service" from the key actors. Even technocratic and operational decisions commonly in the responsibility of officials might move into the political arena during cutback management (Peters 2011); public service can be cast aside because it is treated as part of the problem resistant to changes, but not part of the solution (Peters and Pierre 2004).

Centralization of decision-making also affects the behavior of public sector leaders. Several authors have argued that centralized leadership, aimed at securing that the cutback decisions are accepted by the rest of the organization, is crucial. Behn (1980a, p. 619) claims that among other aspects, leadership for cutback management "involves establishing the inevitability of resource decline and dramatizing the opportunity costs of not cutting-back". In addition, an important role of the managers in achieving savings is seen in continuous encouragement and rewarding of "the cost consciousness and spirit of value for money in the senior staff" (Dunsire and Hood 1989, p. 146). A few authors go even further with such a top-down approach by stating that public leaders have an essential role in persuading also the wider public of the necessity of cutback measures and alleviating the hard times (e.g. Boin et al. 2008; Lewis and Logalbo 1980, p. 187).

Numerous empirical studies appear to confirm the prediction of centralization of authority and decision-making during cutbacks (see, e.g., Levine, Rubin and Wolohojian 1981). Midwinter and Page (1981) and Greenwood (1981) demonstrate that when the Thatcher government aimed at "rolling back the state", the Whitehall became very "interventionist" by applying different centrally controlled schemes for cutting back government spending. Throughout the cutback era in the UK, the centralization and integration of different functions (resource allocation, policy planning, research and intelligence, personnel and management) occurred. The use of different centralized planning systems (commonly based on policy areas) enabling deeper policy analysis were increasingly adopted by departments in order to obtain the centrally allocated resources. In the health sector, the system of financial allocation and control was reorganized with the aim of more rational resource planning allowing the center to be more intensely involved in making decisions and setting priorities. (Wright 1981) This has led Dunsire and Hood (1989, p. 216) to call the Thatcher government the most centralizing government of the 20th century.

Although many authors relate efficient cutback management to the government's ability to centralize and take control (Wilks 2010), there are also opposing views. Decentralization is seen as an enabling factor for faster and better-informed decision-making, and for upholding employee morale. Boin and his co-authors (2008, pp. 53-4) even caution that "centralization may … fuel rather than dampen crisis" pointing to the fact that centralization hampers flexibility and quick engagement of expert knowledge on the "ground staff" essential in fast crisis decision-making. The latter view is also shared by Bombyk and Chernesky (1986), Weatherly (1984) and Massey (2011), who emphasize the importance of power sharing in decision-making and more bottom-up approaches. In times of crisis, high-quality political analysis and thus also the intense engagement of competent public officials gains utmost importance, because the time factor and quality information flow is critical (e.g. Kickert 2012; Pollitt 2010). Furthermore, some authors emphasize the importance of involving the target groups of services and population at large in decision-making over the cutbacks. For example, Lewis and Logalbo (1980, p. 187) suggest that managers "make use of public hearings, polls, referenda, questionnaires in newspapers, and other mechanisms for soliciting and informing public opinion and for establishing priorities and policy."

On the organizational level, several authors suggest bottom-up processes by increasing communication between top management and employees to clarify the cutback process, demystify the decisions to be taken, explain what the future holds for the organization and diffuse rumors and resulting tensions (Cayer 1986; Ingraham and Barrilleaux 1983, p. 400; Levine 1984; McTighe 1979). McTighe (1979, p. 89) emphasizes that it is important to keep "open the lines of communication" and different venues during the formulation of the cutback strategy. In addition to providing information, the employees should be given opportunities to actively participate in the process of "determining the future course of organizational cutback" (McTighe 1979, p. 89). For that, it has been recommended to involve employees in the preparation of cutbacks and in the organizational long-term planning process (Chadwick et al. 2004; Levine 1984).

Decision-making power could be passed to program managers or even to street-level bureaucrats, whose choices are viewed as better informed (Dunsire and Hood 1989, p. 36). In such cases, lower levels in organizational hierarchy need to decide what exactly and how to cut (for example, in the framework of the selective cash limits and across-the-board cuts). However, relying strongly on the administrative apparatus or other sources of expert advice can serve the aim to obscure or shift blame (Boin et al. 2008, p. 151; Peters, Pierre and Randma-Liiv 2011). Posner and Blöndal (2012, p. 29) call the delegation of hard choices to agencies the "time honored strategy" of scattering political responsibility. From another perspective, Holzer (1986) questions the integrity of decentralized cutbacks with the example of personnel policy by pointing to possible violations intended to help particular individuals in the course of awarding inflated performance appraisal ratings based upon friendships. Levine (1979, p. 181), in turn, warns against the "participation paradox" by arguing that the participation in the case of cutbacks is likely to elicit resistance and protective behavior by the participating actors.

Kickert (2012a, b) claims (de)centralization to be dependent on the phase and acuteness of the crisis – he found that the banking crisis of 2008 led to highly centralized decision-making, but the 2009 economic and 2010 fiscal crisis did not, as the subsequent phases of crisis were not so urgent. The empirical evidence from the mid-1970s in Britain also demonstrates that both centralization and decentralization can be used during the retrenchment. Namely, the response of local authorities to the declining public resources differed — both centralization of policy planning, and adoption of a decentralized and participatory form of management occurred (Wright 1981, p. 21). Besides that, Rubin's case studies of the US universities and cities (1980) provide grounds to claim that to cope with retrenchment, administrators need flexibility and authorities seek to re-create flexibilities at the lower level of decision-making between appropriations. Another proof of a decentralized structure is seen in the example of the "ministerial management" in Whitehall during Thatcherism where cutting public spending was delegated to the ministerial level (Lee 1981, p. 39). The ministers were expected to take initiative and strong lead in the cutback management as the aim of the government was to make use of the "drive" at the ministerial level (Ibid). The whole retrenchment endeavor relied on periodic reviews "on the tasks performed and the resources committed to those tasks", conducted by staff at the ministerial level. Based on this, the minister was expected to assess the organization of resources and their responsiveness to the political goals (Ibid, pp. 42, p. 47). Besides the fact that the cutting back exercise depended strongly on the interpretations of each individual department, the "ministerial management" further empowered the ministerial level, as the reporting system provided the minister with the key information (Ibid, p. 53).

When looking at the empirical evidence on the centralization/decentralization dilemma during cutbacks, no easily discernible pattern could be found. Altogether, one could argue that the centralization of governmental decision-making practices during cutbacks tends to be a prevailing approach, which is complemented by occasional endeavors to delegate authority to lower levels of hierarchy.

4.2. Budgeting and financial management

Fiscal stress is likely to induce changes to budgetary processes and budgetary institutions. In order to cope with acute scarcity, coping mechanisms such as repetitive budgeting (adopting a number of budgets during the fiscal year), sequestering, and cash-flow budgeting (Schick 1980; see also Heclo and Wildavsky 1974) are likely to be deployed. As Schick (2009, p. 9) argues, the "the deeper the crisis, the more budgets the government prepares." In addition to such "ad hockery" and "improvised" reactions needed to cope with immediate fiscal pressures, more systematic changes to budgetary institutions and practices may be produced by fiscal stress. The existing literature on fiscal governance and budgetary institutions shows that fiscal stress and the need to cut back budgets is likely to bring about a shift towards more centralized arrangements in fiscal governance, including the adoption of a more top-down approach to budgeting and increasing the power of the ministry of finance vis-à-vis the line ministries (and the minister of finance vis-à-vis the rest of the cabinet) (see, e.g., Behn 1985; Molander 2001; Di Mascio, Natalini and Stolfi, forthcoming; Hendrick 1989; Schick 2009).[26] As Schick (1986, p. 125) explains it, in times of growth, public agencies can formulate their requests with limited prior guidance, but when the budget is “targeted for contraction or stabilization”, an unconstrained, bottom-up process may lead to a conflict between the demanders and the constrainers when the former propose spending claims that would force the government to spend (and tax or borrow) more than it prefers.

Empirical studies appear to confirm the prediction of centralization of budgetary decision-making during cutbacks (see, e.g., Levine, Rubin and Wolohojian 1981; Hood and Wright 1981). Schick (1986, pp. 125-127), for example, notes that in response to fiscal stress, various OECD countries announced constrictive fiscal norms before the start of budget preparation. In particular, this took the form of giving line ministries and agencies targets or spending ceilings before they start formulating their budget requests for the following fiscal year. The goal of such targets was to constrain spending demands and to provide a focal point for subsequent negotiations between the finance ministry (or an equivalent) and the line ministries. Thus, fiscal stress (and the ensuing need to stabilize expenditure and reduce budget deficits) brought about a shift in the balance of power between the “guardians” (or “constrainers”) in the ministry of finance and the “claimers” in the line ministries or agencies during budget preparation and negotiations. Instead of the hitherto prevalent reactive role in the bottom-up budgetary process, the “guardians” assumed a more top-down and active role in budget preparation (and pre-preparation). (Schick 1986, p. 133) Top-down approaches were adopted, for example in Canada, Denmark, Ireland and the Netherlands (Ibid). Schick (1988, p. 529) also finds that in response to fiscal stress, many governments started exercising “closer surveillance of spending than in the past”. In addition, he observes that in several OECD countries, multi-year budgetary frameworks were re-shaped to serve the restrictive fiscal goals (Schick 1986, p. 130).

A number of studies have noted that continued fiscal stress also leads to centralizing tendencies in the relations between national and local governments (e.g. Stanley 1980). Greenwood (1981) demonstrates that in the UK (1974-1980), spending at the local government level was strongly impacted by the expenditure targets set by the central government – centrally established spending limits and also cash limits were applied to get better control over local spending. It was achieved by linking the block grant financing system to government’s annual guidelines on the local government current and capital expenditure (Greenwood 1981; Hood and Wright 1981). It has also been argued that matching grants can erode the sub-national governments’ discretion over policy, given that the scarce resources would be more likely to be used to match national grants rather than pursue policies considered to be actual priorities for the sub-national governments (Levine and Posner 1981).

At the same time, alongside more top-down budgetary decision-making on the aggregates, the cutback budgeting is likely to bring about more flexibility at the lower levels. Rubin (1980) points out that in order to cope with retrenchment, administrators need flexibility, “The level of flexibility in the budget is thus an important factor in the ability of administrators to manage change.” (p. 159). Even more strongly put, “Flexibility not only can be re-created during retrenchment, it must be re-created in

[26] For a more detailed discussion on different forms of centralized fiscal governance see Hallerberg *et al*. (2007, 2009).

order to carry out retrenchment activities.” (Rubin 1980, p. 177) Schick (1988, p. 531) also notes that the retrenchment process, which is accompanied by tighter controls and less discretion, may demoralize public servants and hence “more managerial flexibility can be an implicit quid pro quo for giving agencies less money.” Also, he argues that allowing agencies and line ministries to reallocate the reduced funds according to their perceived needs would be a way for easing the resistance to cuts (p. 531). Furthermore, Schick (1988) notes that there might be political reasons for increasing the budgetary discretion and flexibility of the line agencies (after the top-down ceilings have been imposed). Namely, by withdrawing from the details of expenditure, central authorities are less implicated in the details of cutbacks. Instead, spending agencies are compelled to make hard choices and to refuse interest group demands. Also, by distancing themselves from the details, they avoid being drawn into discussions as to “why agencies cannot achieve expected cuts”, thereby enhancing the probability that the targets for the cuts will be met. (Schick 1988, p. 531)

The empirical studies appear to confirm the necessity of (re)creating budgetary decision-making flexibilities at lower levels. Schick (1988) points out that in response to fiscal stress and the need to undertake cutbacks, a number of countries loosened detailed expenditure control and provided funds for broader categories in the budget (e.g. Sweden, Canada, Australia, UK, Ireland, Denmark). This often took the form of block appropriations and greater flexibility given to the agencies for making reallocations within the block appropriations.

Besides more rule-based and top-down budgeting, a crisis may also reinvigorate calls for more “rational” forms of budgeting like performance-based budgeting, results-based budgeting, program budgeting etc. Schick (1988) observed, for example, that “Cutback pressures have inspired efforts to import the techniques and ethos of business management into the public sector. The view is now widespread that, to obtain value for money, governments must hold spenders accountable for the costs they incur and results they produce.” Dunsire and Hood (1989) also conjecture that the fiscal crisis is likely to bring along an increase in monitoring and evaluation of organization’s activities, and renewed emphasis on management efficiencies to discover “the waste”. As Pollitt (2010, p. 18) notes, though, the implications of austerity for such reforms can be ambiguous. On the one hand, scarcity may make the implementation of such reforms more difficult as they cannot be “lubricated with new money”; on the other hand, a sense of urgency may render it more attractive to consider more fundamental changes in order to “rationalize” the budget-allocation process (p. 18). Schick (1988, p. 532) has argued that in the midst of the crisis, undertaking extensive reforms of budget process is not very likely because budgeting becomes more focused on the short term than on the long term. He claims that during the crisis, budgeting tries to go “back to the basics” and focus on expenditure control. Because of the “fixation on short-term gapmanship” during acute fiscal scarcity, the planning aspect of budgeting is likely to become less important; however, there might be some increase in “evaluative activities” and renewed focus on “management efficiencies” (Schick 1980, p. 127).

Schick’s (1986) empirical study of OECD countries shows that fiscal stress brought about the re-orientation of planning in the budget process: the “plans” were converted into spending controls and the multiyear budgets are used to “control spending rather than to plan programs" (p. 130; see also Wright 1981; Hood and Wright 1981). Schick (1988, p. 528) also notes that in response to fiscal stress in the 1980s, some industrialized countries did increase their use of evaluation methods to "weed out unproductive or low-priority programs" (see also Dunsire and Hood 1989), but in most countries fiscal stress did not spark "widespread interest in cost-effectiveness studies and similar techniques associated with planning-programming-budgeting (PBB) during the growth era."[27] All in all, Schick (1988, p. 532) concludes that adjustments have tended to be "piecemeal, ad hoc, and improvisational" and that "in most countries, the adjustments have not uprooted the core processes established over decades of budgetary development". In other words, according to Schick (Ibid), despite fiscal stress, there was limited interest among policymakers "in big reforms" like performance budgeting, PPB, and zero-base budgeting (ZBB). Instead, during fiscal stress, the budget process focused on its oldest purpose of controlling expenditure and paid less attention to planning for the future and analyzing programs (Ibid).

Some other studies, however, have shown that fiscal stress has brought about a shift towards more "rational" forms of budgeting. Levine, Rubin and Wolohojian (198, p. 621) find, for example, in their case study of Cincinnati that in response to fiscal stress the city authorities improved the program budget (with added productivity measures), implemented a scheme to prioritize programs, undertook productivity studies and refined the accounting practices. Levine (1985) finds in his study of US police departments that in 30% of them, major changes in their budget formats and processes were made during the period of fiscal stress (1976-1981). Rubin (1980, p. 169) shows, in her study of retrenching universities, that several universities made use of formula budgeting in response to the revenue squeeze. She also notes that while a number of universities tried to make use of zero-based budgeting in order to deal with cutbacks, "they had little success with it. They had difficulties in formulating criteria on which to judge units; they also had difficulty getting cooperation from the faculty in setting "negative priorities," that is, priorities for the first things to be cut. In the city she studied, the city manager also tried to use zero-based budgeting but failed.

In sum, the necessity to deal with fiscal stress and implement austerity measures appears to bring about a switch from bottom-up budgeting routines to top-down budgeting techniques, with more central decision-making on the aggregate expenditure levels (but less on the detailed appropriations). While the need to cut back expenditures has often given rise to calls for "more rational" and performance-oriented budgeting practices, the central governments tend to focus on the control function of budgeting during fiscal stress (and go back to "the basics"), while the evidence is more mixed in the case of local governments.

[27] There are several examples which illustrate shifts in organizational functions with the aim of strengthening planning, analysis, control and evaluation functions with the overall goal to increase organizational efficiency. A prominent example of an effort to establish more systematic evaluation procedure was the "reconsideration procedure" adopted in the Netherlands, with the purpose to evaluate the efficiency and effectiveness of different policies and propose lower-cost alternatives (Schick 1988, p. 528). The British government initiated a practice of "management information", a system of gathering and reporting information making it possible "to discover and eliminate waste and non-essential functions" (Lee 1981, p. 42). Throughout the cutback era, planning systems were increasingly adopted by departments in Whitehall to enable more thorough policy analysis (see, e.g., Lee 1981). In the British health sector, the system of financial allocation and control was reorganized during the retrenchment with the aim of more rational resource planning (Wright 1981).

4.3. Human resource management

Fiscal crisis is believed to have a major impact on public-personnel systems as cutbacks in personnel costs tend to reflect a decrease in the value of the human organization. Employee dissatisfaction in retrenchment is inevitable (Ingraham and Barrilleaux 1983, p. 401). Several authors have shown that organizational commitment and public-service loyalty are negatively associated with individuals' being affiliated with a program that is being cut drastically or abolished (Romzek and Hendricks 1982; Lodge and Hood 2012, p. 87). As cutbacks produce a loss of confidence, greater fear and distrust (Levine 1984; Holzer 1986), people become insecure and uncertain about their futures. The existence of uncertainty, in turn, contributes toward negative attitudes among employees which affect their work, their relationship with management, and their commitment to continue working for the organization (Greenhalgh and McKersie 1980, p. 577; Levine 1984; Cayer 1986; Holzer 1986). A declining organization loses prestige, its employees become physically and emotionally stressed with interpersonal relations getting more strained (Levine 1984; Holzer 1986). Many authors have argued that as a result of cutbacks, morale declines and remains at low levels, which jeopardize investments in human capital (Behn 1980a, p. 617; Holzer 1986; Levine 1984).

Struggling with retrenchment is an emotionally draining experience for *all* public officials regardless of whether they are personally affected or not (Holzer 1986; Brockner 1990). Personnel cutbacks are likely to create an environment of bitterness and a loss of trust and understanding between surviving and condemned employees or between colleagues competing for priority (Holzer 1986). Survivors from layoffs remain vital to organizational success; thus, the way *how* downsizing is carried out influences their willingness to stay with the organization (Brockner 1990).[28] Cutback practices affect survivors by addressing the job insecurity that downsizing produces. Job insecurity generates stress, which in turn may manifest in reduced discretionary effort through diminished "organizational citizenship behavior" (Bies et al. 1993), lowered commitment (Davy et al. 1991), withdrawal from the organization and from the job (Brockner 1990; Davy et al. 1991), greater absenteeism, intent to leave the organization, higher turnover, and disability claims (Mishra and Spreitzer 1998; Tombaugh and White 1990; Chadwick et al. 2004). What may occur is unproductive but anxiety-reducing behavior like withdrawal, hostility and aggression (Levine 1984). Several authors have warned against less concern for quality, scrap loss, and productivity drop of public officials resulting from poor morale and commitment during the crisis (see, e.g., Cayer 1986; Greenhalgh and McKersie 1980; Levine 1984).

Cutbacks do not only affect all people in an organization but can lead to voluntary quitting of the most valuable and able employees since they are the ones who most

[28] Chadwick and his co-authors (Chadwick et al. 2004) demonstrate in the study of chief executives and HR managers of the 114 US acute-care hospitals (conducted in 1996-97) that showing consideration for employees' morale and welfare during downsizing is positively related both to the perceived success of downsizing and to financial performance following layoffs. Advance notice of layoffs is positively related to subsequent financial performance, but the provision of extended insurance to laid-off employees is negatively related to financial performance. Planned redesign of work structures is positively related to perceived success, but has neutral to negative effects on financial performance.

readily obtain outside employment offers (Behn 1980a; Greenhalgh and McKersie 1980; Levine 1984). Ironically, these are also often the very people who are best qualified to carry out much needed organizational changes during the crisis (Levine 1984). An organization's opportunity structure can be so lean in time of cutbacks that it cannot reward those who demonstrate commitment. Moreover, a voluntary quitting of the most talented employees is likely to result in disrupted teamwork and a further decrease in morale and motivation among the workers left behind (Behn 1980a; Greenhalgh and McKersie 1980, p. 577).

Public organizations face a dilemma in maintaining a healthy equilibrium between benefits and burdens in order to attract and retain high-quality employees and keep their loyalty towards public service. The more austerity governments face, the more severe is the stress on traditional public-service bargains likely to be, in terms of reward, competency and loyalty or responsibility (Lodge and Hood 2012, p. 87). Civil servants may be asked to do increasingly impossible jobs leading to overload whilst simultaneously facing an erosion of their privileges in terms of job security, pensions and secure salaries (McTighe 1979; Pollitt 2012). A retrenching organization can easily fall into the pattern of neglecting benefits while increasing burdens to make ends meet in the short term. In response, employees may attempt to cut their losses by disinvesting from the organization and reducing their contributions relative to the organization's inducements. Such disinvestment occurs if the remaining employees become immobile for fear of losing seniority; if competent employees who are not in risk leave in anticipation of future cutbacks or in reaction to lower morale; if potential applicants turn elsewhere, thus shrinking the pool of available talent, if individuals are overqualified or undermotivated for positions they are forced to assume (Holzer 1986, p. 89).[29] Remaining employees are likely to spend their time looking for other jobs as a protection against unemployment (Cayer 1986). If such deterioration in the commitment of public employees occurs, it may lead to a vicious cycle of organizational decline (Levine 1984).

Cutback environment imposes new competency demands on the surviving public servants both to carry out cuts on existing programs (and colleagues) and to deliver those services that remained in a different way (Lodge and Hood 2012, p. 81). This would assume relevant training programs and resources in place which could facilitate for remaining employees to take up the slack left by leaving employees (Cayer 1986) and/or to develop new "austerity-age skills" related to organizing industrial bailouts and operating industrial policies as regulators, receivers in bankruptcy or managers (Lodge and Hood 2012, p. 88). Lodge and Hood (Ibid, p. 89) argue for the need of specific competences in the civil service to avoid the occurrence of financial crises in the future; for instance, there are increased demands on economic oversight capabilities "given the embarrassing competency deficits in regulation that were exposed by the 2008 financial crisis". The difficulty is that during times of cutbacks, resources are not usually available for training programs (Cayer 1986). Even more, training is considered to be among the first items to be cut when financial stress develops (Ibid) as there is a tendency of cutting activities with no immediate apparent payoff such as staff development (Lodge and Hood 2012).

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[29] Greiner (1986) shows the presence of such negative consequences of the downsizing in his study of Massachusetts' cities and towns in the early 1980s.

Finally, it has been argued that cutbacks tend to highlight shortcomings in personnel management – problems rooted in the determination of retention rights, severance pay and bumping of retreat rights (Holzer 1986, p. 92). Conditions of organizational decline tend to foster grievances. Where there is insecurity, frustration and anxiety, there will be more grievances, arbitrations and worsening labor relations (Greenhalgh and McKersie 1980, p. 580; Levine 1984; Holzer 1986, p. 93). On the one hand, authors warn against the situation where top managers perceive the "retrenchment too important to be left to personnel managers" leading to the centralization of human resource decisions by delegating them to a top level committee, or to a special "manpower czar", who frequently lacks personnel experience (Levine 1984). On the other hand, personnel managers have been claimed to be untrained or ill-prepared to deal with complicated cutback policies, causing technical errors (e.g. missing procedural deadlines) which, in turn, have resulted in lengthy appeals or costly judgments (Holzer 1986, p. 92; Rubin 1985, p. 206). The credibility and competence of the managers is often called into question when decline occurs (Cameron and Zammuto 1983).

Levine (1984) proposes several structural changes in personnel regulations that could help organizations to cope with cutbacks. He argues that the human resource capacity of an agency will largely depend on the *flexibility* allowed by its personnel rules and regulations. Therefore, it is recommended to amend personnel rules and regulations in order to allow the use of part-time employees and volunteers alongside full-time professional public servants, and to encourage working on a project-basis. "A mix of employees who job-share, work reduced hours, are consultants, are volunteers, or are on loan from related organizations can provide needed technical skills the agency cannot afford on a full-time basis" (Levine 1984, p. 259). In addition, Levine (Ibid) suggests to create new position classifications to reduce costs (i.e. decreasing the number of higher paid positions); to hire a small core of highly professional and highly-paid staff, and a larger number of less-trained staff that could be employed at significantly lower salaries.

Although there is no empirical evidence on the actual implementation of such reforms during the cutbacks, it could have played a role in paving the way for the *New Public Management* (NPM) reforms a couple of years later.

4.4. Performance management

In general, very high expectations were put on performance management in responding to cutbacks in the 1980s. This is partly caused by the then-popular management concepts such as Strategic Planning, Corporate Strategy, Management by Objectives, PPBS, Performance-Based Budgeting, etc. Becoming more efficient during retrenchment was claimed to be even more challenging than in a stable environment, because the public officials are likely to show less concern for quality and productivity resulting from poor morale and commitment during the crisis (Cayer 1986; Greenhalgh and McKersie 1980; Levine 1984). Numerous authors indicate that performance management assumes a very important role in cutback management (Cayer 1986; Holzer 1986; Ingraham and Barrilleaux 1983; Levine 1984). Moreover, they see the improvement of performance management as one of the main organizational solutions to downsizing, which is why much writing on cutbacks in the 1980s ends with recommendations on how to develop further performance-

management tools and processes. Two streams of literature can be identified in relation to the role of performance management in times of cutbacks.
Firstly, various strategic-planning and performance-management tools have been proposed in order to keep employees focused on the future of an organization in a generally insecure environment of cutbacks.[30] For example, Levine (1984) recommends the use of Management by Objectives in order to reduce drift and personnel tension by focusing employee activities on organizational purposes. In the same line of thought, performance-based budgeting has been seen as a way of keeping organizations both results-oriented and cost-conscious (Levine, Rubin and Wolohojian 1981; Schick 1988; see also section 4.2.). In addition, characteristic of the fashionable management ideas of the 1980s, long-term forecasting (probability analysis, modeling of the organization's environment and manpower flows) to gather information in order to reduce uncertainty has been suggested to mitigate the cutback process (Levine 1984). Behn, in turn, believes that the development of a new "corporate strategy" for each government agency is the key to handling the crisis (1980). Cayer (1986) also argues that during fiscal stress, managers should analyze organizational activities and develop priorities. The use of Total Performance Management has also been recommended in order to encourage the participation of employees in goal-setting and to reduce the potential problems of goal displacement and organization drift (Levine 1984).

Secondly, the role of performance management has been strongly emphasized in the implementation of cutbacks on the organizational level. It has been claimed that performance evaluations are to be used as an integral part of layoffs (Cayer 1986). The importance of performance management in carrying out cutbacks is often argued to safeguard the best performers. For instance, Levine (1984) proposes to strengthen individual performance appraisals to protect high performers during the retrenchment process and to develop merit pay systems as well as promotion opportunities and (one-time) performance bonuses to reduce fears and to indicate to personnel (and especially the best performers) that the organization sufficiently believes in its future to invest time and resources in them. Ingraham and Barrilleaux (1983, p. 401) believe that "rewards or incentives based on unit or office performance would allow managers to reward those they know to be performing well by that enhancing the manager's sense of performing a worthwhile task." The fundamental problem of cutback management is well addressed by Levine (1984) and Holzer (1986, p. 92), who demonstrate that seniority is considered more important than performance in the cutback policy and thus propose the amendment of personnel rules and regulations to increase the importance of performance criteria vis-à-vis seniority in carrying out reductions.

Although the general attitude was overly positive towards performance management in the 1980s, a few authors also recognize potential problems related to it. It has been acknowledged that legal constraints in the public sector make performance-based cutback measures much harder to achieve than in private corporations (Holzer 1986, p. 94). Moreover, several studies demonstrate that "performance-based" layoffs can be manipulated by managers as ways of getting rid of unpopular employees (Dennis

[30] Schick (1988, p. 532) discusses that, on the one hand, governments in need pay less attention to planning the future course, guiding the economy, and analyzing programs. On the other hand, "planning for the future might serve as a substitute for current action, or it might be used for finding a way out of the current predicament" (Schick 1988, p. 124).

1983; Holzer 1986). Managers have been claimed to be able to develop strategies to ensure retention of their favorites while terminating others (Dennis 1983). Marc Holzer (1986) provides a thorough account of the integrity of cutback policies, which may be threatened by violations, for example "interpretations" and "discretionary decisions", intended to help particular individuals. Holzer (Ibid) provides evidence based on the US Merit Systems Protection Board's study by demonstrating that allegations of prohibited personnel practices in the United States in 1981 involved issues related to management favoritism, including the awarding of inflated performance-appraisal ratings based upon friendships.[31] This led Holzer (Ibid, p. 91) to conclude that the capacity of the performance-appraisal process to measure performance for downsizing had not been adequately developed in practice.

Nevertheless, none of the critics of performance-based cutbacks questions the performance management *per se*, but simply seek ways for further improvement of performance measurement. As cutback measures should ideally be based on performance information, the reliability of performance-measurement systems is considered very important. If performance evaluations are to be used as major criteria for downsizing decisions, managers need to be sure that performance-evaluation systems are themselves based on actual performance criteria which are relevant to accomplishing the goals of the organization (Cayer 1986). Performance-evaluation systems should take into account the inaccuracy and subjectivity of the existing performance appraisal process (Holzer 1986, p. 92). As an example, Holzer (Ibid) proposes to freeze performance ratings at some point retroactive to the onset of reductions-in-force planning to prevent manipulation of ratings to unjustifiably favor "favorites" or to use the average of several years' performance ratings to minimize the possible manipulation of recent ratings.

Contemporary authors addressing the use of performance management in handling the cutbacks are more cautious than their colleagues of the 1980s. This has likely to do with the decades of experience with performance management reforms, which have not always proved successful. Pandey (2010), for example, claims that the challenges for the public sector in fulfilling multiple, conflicting and vague goals are magnified in the process of cutback management (resulting in the drive for making things "easier"). Pollitt (2012) calls the need to tighten the actual implementation of performance management at the same time as making further expenditure savings "a challenge". Moreover, he argues that "as incremental reductions of service quality occur, performance measurement systems may be dismantled or weakened by either staff/or politicians, so that unwelcome results are obscured, not recorded or not published" (Ibid, p. 7).

[31] Nearly one-third of the employees lacked confidence that their agencies would implement reductions-in-force actions in good faith. One-sixth of senior personnel officials and employees believed that management used cutback procedures rather than normal disciplinary procedures to punish poor performers (Holzer 1986, p. 91).

4.5. Management of changes

The popular saying calls for not wasting a good crisis and using it for carrying out long awaited changes and even structural reforms. Successful management of change requires political backing, strong leadership, a supportive organizational climate including cross-unit cooperation, and necessary resources for designing, testing and implementing changes. Studies from the 1980s' cutback era indicate difficulties with all these aspects of change management.

Firstly, Schick (1988, p. 532) notes that because of the time pressure involved in curbing budget deficits, policy-makers' attention has been diverted from more comprehensive and time-consuming reform efforts rather than preparing and implementing structural reforms. Cepiku and Savignon (2012) also argue that because of time pressures that usually accompany cutback management, the focus of the governments is likely to be on short-term measures rather than on structural reforms, although it is in fact structural reforms that could help the governments to achieve longer-term fiscal sustainability. Thus, there is a certain contradiction between the "windows of opportunity" for reform that crises can present, as argued by the "political economy of policy reform literature" (see, e.g., Drazen and Grilli 1993) and the ability and the willingness of the politicians to seize that opportunity.

Secondly, new or altered needs are usually addressed by previously uncommitted resources. Organizations which are forced to cut their operational or program costs, are not likely to accumulate funds for preparing, piloting and carrying out substantial reforms. It is very difficult to achieve such an overwhelming change since resources are least available during times when cutbacks are necessary (Cayer 1986; Pollitt 2010). Organizations in decline and with fewer resources are thus not expected to have the ability to stimulate organizational changes and innovative approaches (Biller 1980; Cayer 1986). Furthermore, the cutback situation puts the remaining civil servants under time pressure, as they need to fulfill extra tasks related to cutbacks as well as to fill in the gaps left by layoffs or hiring freeze. It is, therefore, unlikely that civil servants find the additional time and energy needed for the preparation and implementation of changes.

Thirdly, retrenchment requires high-quality and motivated leadership. The expertise and ability of public managers is one resource that need not decline precipitously. It is a resource that is critical to effective cutback management (Behn 1980a; Ingraham and Barrilleaux 1983, 401). During times of financial stress when difficult choices on uses of resources must be made, managers are forced to analyze their activities and develop priorities (Cayer 1986). However, the cutback manager is confronted with a classic dilemma: very difficult decisions must be made with fewer resources and unclear personal rewards (Ingraham and Barrilleaux 1983, pp. 395, 400).[32] Perceiving that the penalty for wrong decisions during a crisis is very high, managers see little need to critically evaluate institutionalized practices and belief systems (Levine 1984). Previous research suggests that managers revert to the safety of traditional

[32] The survey of more than 10,000 US federal managers carried out in two phases in 1979 and 1981 proves the significance of financial rewards and incentives as motivators in a cutback environment (Ingraham and Barrilleaux 1983).

values and old behavior during periods of stress, and a conservative climate is created in which it is very difficult to get new ideas heard (Cayer 1986; Levine 1984). Therefore, public sector leaders tend to become more closed and rigid when threatened, which, in turn, may lead to self-protective behavior (Cameron and Zammuto 1983). Managers are likely to opt for a decision-making strategy that virtually eliminates the possibility of innovative solutions being selected. They tend to constrict their communication network both internally and externally during a crisis (for instance, by reducing the number of participants in the decision-making process, enforcing organizational rules and policies more closely; rejecting information that challenges their approaches) (Levine 1984). Consequently, leaders tend to become very conservative by avoiding risky alternatives that are likely to create additional apprehension and frustration. It has been argued that this is one reason why public managers favor across-the-board cuts rather than a long-term reassessment of the organization's mission, because it is politically less volatile and more likely to diffuse the emotionally charged organizational climate (Levine 1984).

Fourthly, the entire organizational climate during the cutbacks is not supportive of changes (see also section 4.3.). The organizational capability and flexibility to innovate, involve, and otherwise reward all critical employees is diminished during retrenchment as most organizational energies are directed toward cutting back activities and programs (Ingraham and Barrilleaux 1983, p. 395; Cameron and Zammuto 1983). Indeed, personnel cutbacks and innovations have even been considered antithetical, the former occurring in an environment which is contrary to reform (West 1986). Downsizing can disrupt workplace relationship networks that are conducive to organizational learning and improvement (Fisher and White 2000; Shah 2000). For example, old work teams can be broken up, people have new bosses, and some people are demoted to positions they formerly had but for which their skills are rusty (Rubin 1985, p. 46). Employees (or units) who believe that they are in jeopardy may attempt to hinder changes by withholding information, slowing down the work process, publicizing the potential action, or by seeking public and political resistance to changes (Cayer 1986). As a result, changes will be implemented in spite of the workers rather than through their cooperation, and they will have a tendency to last only as long as pressure and surveillance are applied (Greenhalgh and McKersie 1980, p. 580).

Finally, managing changes and structural reforms requires cooperation and partnership both within and between organizations. However, cutbacks produce less favorable and less cooperative attitudes (Levine 1984; Peters, Pierre and Randma-Liiv 2011). "There will be an increased demand for the sort of public service bargains that are conducive to aggressive cost-cutting management that concentrates exclusively on 'the bottom line' and single-mindedly sweats assets and squeezes inputs rather than pursuing more intangible and collegial objectives" (Lodge and Hood 2012, p. 83). Managers are often forced to become more competitive as cutback policies develop. In order to protect their turf and their employees, managers need to be aggressive in retaining as much as they can. Behn (1985, p. 172) reiterates the same point by stating: "Budgeting by subtraction inherently generates conflict. There will be losers, and losers have little obvious reason to cooperate". Organizations are likely to experience lack of cooperation as survivalist techniques take precedence over needs of the organization (Cayer 1986; Lodge and Hood 2012). Similarly, units within the organization fearing loss of domain will focus their efforts on protecting their budget and their authority irrespective of the overall goals of the organization leading to goal displacement (Cayer 1986; Peters, Pierre and Randma-Liiv 2011). In addition, relationships with unions often deteriorate during retrenchments by developing a confrontational approach (Cayer 1986; Rubin 1985) and having a negative effect on potential reforms.

Consequently, designing and carrying out substantial changes *during* the cutbacks can prove very difficult. However, the cutback environment is likely to contribute to "setting the scene" for the changes and reforms in the future when the immediate crisis with cutbacks is over, and there is more time, funds, focused attention and motivation of politicians, public managers and civil servants to prepare and implement changes.

5. Conclusion: what can we learn for the current crisis?

The literature review at hand addresses cutback management studies from the 1970s and 1980s with the aim to examine the main literature and related findings on cutback management in the public sector, and to discuss whether lessons could be learnt for the current crisis, where many governments in Europe are faced with the need to consolidate their budgets and manage the cutbacks. The paper outlined the main advantages and possible pitfalls related to the cutback strategies and instruments, and presented the main changes in management practices brought about by the need to cut back government expenditure.

The review of the empirical studies on cutback management shows that although there are no easily discernible patterns, some rules of thumb do seem to exist. For example, during fiscal stress, capital spending tends to be cut first (i.e. before operating costs or transfers); personnel costs are cut rather reluctantly, and if it is done, hiring freeze seems a dominant measure utilized (rather than salary cuts or layoffs); the need to deal with fiscal stress and cut back expenditures brings about a shift towards centralization of governmental (budgetary) decision-making; human resource management has a crucial role in mitigating the negative impacts of crisis. As a general trend, cutback pressures have inspired governments to import the methods and ethos of business management into the public sector (see also Schick 1988, p. 531), paving the way for what came to be known as NPM. Governments have even recruited businessmen to review public sector operations with an eye toward reducing their cost (Schick 1988, p. 528) because one of the main goals of governments under pressure is achieving greater economy and efficiency (Dunsire and Hood 1989, p. 105). Cutback management in the 1970s and 1980s clearly emphasized the rhetoric which was later translated into the main slogans of NPM, such as "cost-consciousness", strive for "efficiency", "result-orientedness", calls for "flexibility" in personnel regulations and financial management, "performance measurement" as a basis for decision-making.

Still, it is worth emphasizing here that not all empirical studies confirm these patterns and hence one should be cautious when drawing conclusions about the use of different cutback instruments and shifts in management practices from the existing literature. Bearing this in mind, what can we learn from the previous cutback experience(s) during public sector retrenchment and what are the essential factors to take into account?

Before we can turn to any “lessons” from the cutback management literature, some important warnings and considerations need to be pointed out. Pollitt (2010, p. 21) notes that although comparative discussions are potentially useful, every government must find its own instruments to fight its way out of the crisis. Also Pandey (2010, p. 564) insists that no definite answers exist for the cutback challenges and therefore cautions against relying on prescribed tools and “inventory of measures” for cutback management and treating the process as “piecemeal”. Thus, it is clear that no easy solutions exist for cutting back public expenditure, and drawing lessons (both in time and space) can prove to be a challenging exercise. The main constraining factors when learning from the previous cutback experience are briefly outlined below.

First, several factors arising from the *time* perspective must be considered. As Dabrowski (2009) points out, the global financial crisis that started in 2008 is dissimilar to the crisis of the 1980s and 1990s, because the dynamics of the recent crisis has spread from center to periphery and the scope of the current crisis is increasingly transnational. Pandey (2010) adds that the nature of contemporary cutback management differs also because we are entering an era of “cyclical volatility” characterized by rapid reoccurrence of cycles of decline (vs the “normal” cyclical fluctuations). Therefore, both the crisis itself and cutback management to deal with it are getting more and more complex. For example, as Pollitt (2010, p. 9) points out, when compared to the economic recessions in previous decades “… many governments … have … acquired vast new assets, in the form of major investments in the banks and other financial institutions”, implying the need of governments to acquire new capacities. Hence, besides the need to cut back, the public organizations are saddled with additional problems and challenges when managing the new responsibilities of government (see Thynne 2011; Dabrowski 2009; Gieve and Provost 2012). Furthermore, numerous authors (Boin et al. 2008; Pollitt 2010; Rosenthal 2003) draw attention to the fact that the democratic context has dramatically changed over the last few decades. For example, the role and influence of the mass media has significantly increased, and citizens have become more demanding, have “little patience for imperfections” (Boin et al. 2008, p. 8) and ask for quick and easy solutions (Pandey 2010, p. 566). Due to the transnational scope of the crisis and the heightened expectations of citizens towards government, “crises are subject to politicization”, more than ever (Rosenthal 2003, p. 133).

Second, another set of questions stems from the dimension of *space* and concerns the *comparability* of crisis, cutback management and related changes in public administration between different countries. As the overview of the existing empirical research shows (see also Appendix I), most of the studies were single country cases addressing the US, the UK and a limited number of European countries often focusing on specific policy sectors and a small number of organizations, which makes it hard to draw generalizations. Pollitt (2010, p. 20) claims that though today all countries face the same storm of fiscal crisis “… we are travelling in different kinds of vessels”. This means that the *contextual* factors that define the depth of the crisis and hence shape the response(s) to crisis are vastly different due to country specific features. Confirmation for this is also provided by several provisional academic studies demonstrating that up to now the governments’ responses to the recent crisis have been diverse and even contradictory (see Bideleux 2011; Kickert 2012; Peters 2011; Peters, Pierre and Randma-Liiv 2011; Verick and Islam 2010; Pollitt 2010, 2012). The importance of country-specific contextual factors in guiding the process and outcomes of changes in public administration practices is emphasized also by Pollitt and Dan (2011), who concluded in their study on the impact of NPM reforms that the vast divergence in the impact of NPM reforms in different European countries can be attributed to the contextual factors. They explain that different institutional and cultural characteristics impact the pace of reforms by determining the temporal pattern of the reform, time and effort needed to implement the change; potential supportive and restrictive factors; and the scale of changes brought about.

In sum, the issues addressed above clearly caution against emulating the previous cutback experiences. Therefore, public managers should “raise inconvenient questions” (Pandey 2010, p. 569) that would help to localize the specific cutback context and appropriate measures for retrenchment. Numerous authors (e.g., Pandey 2010; Pollitt 2010) share the view that most of these questions should address a holistic and long-term perspective of decisions, trade-off between short-term goals and long-term goals, and balance between organizational present and future capacity (Pandey 2010). Several authors (Levine 1980; Pandey 2010; Pollitt 2010) emphasize that it is crucial not to limit cutback management to short-term budget cuts but to handle it as the management of the organizational resources for the long term (also including the after-crisis period), as the short-sighted approach may lead to solving the wrong problem or making the current problem even worse (Pandey 2010).

When addressing the “inconvenient” issues, the main paradoxes of cutback management brought out by the cutback literature of the 1970s and 1980s can prove useful. The main tensions arising from the contradictory nature of retrenchment are the following:

First, short-term savings during the crisis may lead to long-term costs. As the experiences of the 1970s and 1980s cutback literature show, a number of measures that generate quick short-term savings may bring about significant costs in the future. This is most clearly the case with cuts made to capital spending that may necessitate higher maintenance costs in the future.

Second, cutback management calls for making rational decisions at a time when there are fewer resources for enhancing the rationality of decision-making. During the cutbacks there is an urgent need to make rational decisions, but at the same time the needed resources (both human resources and time) for rational decision-making may not be available. Hence, the paradox is that when public organizations need the analytical capacity the most, they may not be able to afford it (Levine 1979, p. 180).

Third, cutbacks bring about the need to innovate in an environment unsupportive of innovations. Innovating in the midst of crisis is complicated due to the tendencies of centralization, cuts in resources and tight deadlines. Real innovations need competent and motivated personnel, risk-taking, decentralized organizational structures and also a flexible time perspective. In the period of austerity, all these conditions are unlikely to be present.

Fourth, there is an urgent need for high-level expert advice when the best experts are overburdened and/or demotivated. Having competent public officials becomes crucial in the time of crisis, but one of the impacts of the crisis is that there will probably be fewer high-level professionals available. For example, during the retrenchment, organizations often fall short on critically needed (new) skills but are at the same time unable to hire people with these necessary skills. Further, because of attrition, employees with the best “employability” options elsewhere may be the first to resign, which leads to losing their knowledge, skills and leadership at the time when they are needed the most.

Finally, cutback management has to deal with the question of how to deliver more with less. The alleviation of fiscal crisis presents governments with a dilemma of how to handle social issues and save jobs in the conditions of constrained fiscal opportunities. This means that delivering more and even higher-quality public services with fewer resources available can become a daily puzzle for managers.

The current cutback literature also emphasizes the increased role and new competences of the civil servants as measures for dealing with the crisis and alleviating its impacts. As a crucial factor, more transparency and clarity in public policy making (through reconsidering the role of professionals engaged at different stages of multilevel governance) is addressed. In addition, it has been acknowledged that the current crisis is a result of major systemic failures – a failure to put appropriate systems in place, a failure to regulate and monitor. Therefore, the contemporary literature emphasizes the necessity to revise the institutional regulatory systems and frameworks for managing the systemic failures that triggered the recent crises.

When compared to previous eras of austerity, public managers of today have to deal with a much wider scope and variety of actors when managing cutbacks. Because of the highly complex linkages between states, markets and citizens in the contemporary world, the countries are less "isolated" and the role, power and authority of the international institutions regulating the global financial market must be considered more than ever before. In addition, public managers, more than ever, have to be leaders, as besides straightforward cutback issues they are faced with rediscovering and rebuilding values, integrity, legitimacy and trust in government and its institutions.

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Appendix 1

Author	Time period covered	Cases covered
Bartle (1996)	1990-1992	61 cities in the state of New York
Behn (1985)	Early 1980s	The US Federal Government
Berne and Stiefel (1993)	1970s-1980s	New York City (educational services)
Bideleux (2011)	2008-2010	11CIS Countries and in the 10 Post-Communist EU Member Countries
Bowling and Burke (2006)	1984 and 2004	State agencies in the US (responses from 800-900 agency heads)
Braun, Johnson and Ley (1993)	1979-1985	States in the US
Dougherty and Klase (2009)	2003-2004	8 states in the US
Downs and Rocke (1984)	Pittsburgh: 1943-1976; San Diego: 1949-1978	2 cities in the US: Pittsburgh (24 departments) and San Diego (25 departments)
Dunsire and Hood (1989)	1975-1985	The UK, Whitehall
Fitzgerald (1979)	1970s	Local governments in California, the US
Glassberg (1978)	1970s	New York City, the US
Glennester (1981)	1970s	The UK, Social sector
Greenhalgh and McKersie (1980)	1970s	The State of New York
Greenwood (1981)	1970s	The UK, local governments of England and Wales
Hartley (1981)	1957-1977	The UK, defence sector
Hendrick (1989)	1969-1987	1 city (Lansing, Michigan), the US
Hood (1981)	1970s	The UK, Whitehall, non-departmental organisations
Kattel and Raudla (2012)	2009-2011	The Baltic States
Kickert 2012	2008-2011	Responses of governments, politics and administrations responded to the fiscal crisis to the fiscal crisis in Britain, Germany and the Netherlands
Klase (2011)	Early 2000s	8 states in the US
Kogan (1981)	1960s-1970s	The UK, education sector
Lee (1981)	1970s	The UK, Whitehall
Levine (1985)	1976-1981	Police departments in 92 US cities (with population

		over 50 000)
Levine, Rubin and Wolohojian (1981)	1970s	2 cities in the US: Cincinnati and Oakland
Lewis (1984)	1964-1979	12 major cities in the US
Lewis (1988)	Early 1980s	154 large cities in the US
Maher and Deller (2007)	2002-2004	119 small and medium-size municipalities in Wisconsin, the US
Marando (1990)	1980s	153 cities in the US
Mattila and Uusikylä (1997)	1991-1995	Finland
Midwinter and Page (1981)	1976-80	The UK, Scotland
NGA and NASBO (2010)	2009-2010	States in the US
Packard et al. (2007)		9 county human services agencies in California, the US
Pammer (1990)	1983	120 cities (large metropolitan cities) in the US
Raudla (2012)	2008-2011	Estonia, central government
Raudla and Kattel (2011)	2008-2011	Estonia, central government
Rickards (1984)	1963-1975	105 German cities
Rubin (1980)	1970s	5 universities and one city in the US
Rubin (1985)	Early 1980s	The US, 5 federal agencies
Schick (1983)	1970s/early 1980s	US Federal Government
Schick (1986)	1970s-1980s	OECD countries
Schick (1988)	1970s-1980s	OECD countries
Shubik, Horwitz and Ginsberg (2009)	2002-2003 and 2009-2010	13 states in the US - Atlanta, Baltimore, Boston, Chicago, Columbus (OH), Detroit, Kansas City (MO), Los Angeles, New York, Philadelphia, Phoenix, Pittsburgh and Seattle
Stern and Sundelius (1997)	1992	Sweden, crisis management at the elite level
Post Commission (1979)	1970s	California, the US
Ward (2001)	1990s	Local governments in Louisiana, the US
Weinberg (1984)	1970s/early 1980s	2 small cities (Wooster and Athens, Ohio) in the US
West and Davis (1988)		
Wolman and Davis (1980)	1976-1979	23 cities, 3 counties in the US