



GOVERNANCE AND PUBLIC POLICY

Diploma Examination

7 December 2006

MARKING SCHEME



Question 1

- (a) (i)** Greater flow of goods internationally has made economic forces act to increase interdependence between different countries. 1

Increased power of supranational organisations is leading to changes in how we are governed. Such regional organisations include the EU, NAFTA and ASEAN; worldwide examples include the WTO or the UN. 1

The dominance of global companies (MNCs) such as Ford, Nestle, Shell, Nissan leads to sociological changes in how we live, so do global communication/media organisations such as CNN and Sky. 1

The existence of global terrorism drug trafficking and people trafficking networks has led to a global war against these problems. 1

(4)

- (ii)** Trend towards globalisation in services (banking, insurance, travel) 1

Global financial markets and greater interdependence between markets. 1

Increased deregulation and privatisation worldwide. 1

Movement towards democracy and market economies 1

International consideration of human rights and environmental issues 1

Multilateral agreements on trade, communications and climate change. 1

Practical factors such as mobile phones, cheaper air travel and the internet. 1

(7)

- (iii)** It gives more power to a reducing number of organisations and people.

It also leads to stronger globalised pressure groups focusing on issues such as human rights, the environment and the rights of minorities.

It can lead to greater juxtaposition (living in harmony with those who are different from ourselves) and syncretisation (closing ranks against a common enemy – eg Iraq).

The notion of sovereignty is affected by globalisation.

With regard to the flow of capital and goods, individual governments appear increasingly powerless to influence these flows.

A sudden rise in the price of oil would impact on the UK economy but can only be controlled through the actions of OPEC or the financial markets.

Governments have also lost power to supranational organisations such as the WTO, the IMF and the EU.

The rising number of non-governmental organisations (eg the Red Cross) and multi-government organisations (eg G8) also reduces the power of individual governments.

But there has been little change in the ways governments use their military power. Citizens (especially those in the UK and USA) continue to keep a strong sense of national identity even where such countries are members of economic unions (eg the EU and NAFTA).

Within the Eurozone, some countries may even feel they have greater freedom where before they had to continually consider how the international foreign exchange markets would view each of their actions.

1 mark for each well made point, up to an overall maximum mark of (9)

- (b)** *This is a highly subjective question that may generate a wide range of plausible answers which differ from the example shown below. The question therefore needs to be marked pragmatically.*

The UK has been an enthusiastic promoter of globalisation for many years. But it tends to look across the Atlantic rather than the Channel for inspiration and support. It has displayed relatively grudging engagement with full EU integration.

The principal barrier to the UK's full integration into the EU is Economic and Monetary Union (EMU).

While the UK has been an enthusiastic participant in Stage 1 of EMU (the creation of a Single Market), it remains reluctant to participate in Stage 2 (the Single European Currency - Euro).

This reluctance is clearly manifested by the UK Government's five tests that must be met before membership of the Euro will be put to a referendum. The tests are important (they are intended to judge membership in relation to whether it is good for UK jobs, trade, investment and industry), but they are hard to quantify and thus to take seriously as objective measures in what is as much a political judgement as an economic one.

The UK government's main issues, relative to the Euro, are:

- Could the UK economy prosper under interest rates set by the ECB. This is an important consideration because:
- The UK economy still looks very different from the rest of the EU. Among other factors, it has a housing market which is very susceptible to changes in interest rates and which might suffer badly under a common EU rate;
- Britain's public infrastructure (e.g. education and healthcare) is poor compared to the rest of the EU and UK government investment is lower as a proportion of GDP than in many other EU countries. The Chancellor is now trying to remedy this, partly by funding investment through borrowing that is consistent with the Sustainable Investment and Golden Rules. While the stock of outstanding UK public debt is lower than many other EU countries, the ECB is counselling lower debt amongst Eurozone members under the terms of the relatively inflexible terms of the Stability and Growth Pact. Membership of the Eurozone might therefore undermine the UK's public investment ambitions.

Another issue that helps to explain UK reluctance to fully integrate into the EU is social protection. The UK has been engaged in a modest re-investment in social protection. Measures have included restoration of some rights for UK trade unionists, the establishment of a modest national minimum wage; a modest redistribution of wealth (e.g. through changes to NIC rates), the adoption of parts of the European Social Chapter; and passing a Human Rights Act. But the UK is reluctant to introduce full EU social protection as this would be in conflict with its commitment to an open economy which is seen as being a vital element of economic globalisation.

There are also political barriers to the UK's full integration into the EU. At an institutional level, a significant problem is that the EU's key institutions (e.g. Council of Ministers, European Commission) were originally designed for a community of 6 countries. But since 2004, the EU has been a 25-member community and more countries will be joining in the future. This is creating severe pressures on the EU institutions and it is argued by many that a review of the EU's entire political foundations and institutional framework is a prerequisite for full EU integration.

Another political issue is the fear that full UK economic integration into the EU (through membership of the Eurozone) would be a significant step along the path to greater European political integration and federalism. Opinion polls show that such a move would be highly unpopular, even though the EU already operates in parallel to, but independently of, the British government in parliament.

Up to 2 marks for each point well made up to an overall maximum of (15)

- (c) In the early years of the EEC's existence, the CAP consumed around 75% of the Community's budget. CAP was created as a high-cost, protectionist policy that favoured the interests of farmers over those of consumers.

The high costs derived from its price-setting policy, which aimed to cover the costs of all farmers, regardless of their degree of efficiency.

It was protectionist because it worked on the basis of Community Preference; lower cost producers from outside of the EEC were denied free access to EEC markets.

When the UK joined the EEC in 1973, the UK's cheap food policy was replaced by a CAP which triggered a rise in food prices within the UK.

In addition, because the UK agricultural sector was a relatively small part of the economy, compared with other EEC countries such as France, Britain did not receive much revenue from the CAP, the largest component of expenditure in the EC budget.

In turn, this led to the UK becoming a net contributor to the EC budget, alongside Germany.

The costs of CAP and the UK's budgetary imbalance with the EC prompted a UK-EC dispute in the early 1980s, led by Mrs Thatcher, which centred on reducing the UK's net contribution to the EC budget.

The dispute was resolved in 1984 and since that time a series of CAP reforms have been introduced, aiming to reduce its costs and making it more consistent with the general liberalization of world trade.

The reform programme has continued since Mrs Thatcher was prime minister but, while the proportion of the EU budget allocated to the CAP has fallen, there is still much concern about how much of the EU's budget is allocated to supporting the farming industry.

There has, for example, been considerable public concern about the creation of EU "wine lakes" and "butter mountains" stemming from the CAP's encouragement of over-production.

As well as the financial issues associated with CAP, Britain has lost its wider sovereignty over its own agricultural policy. This situation was clearly displayed with the BSE crisis in 1996 when national proposals to eradicate the disease were considered insufficient. Other EU members required Britain to make assurances that there were no risks to their consumers and a ban was imposed on UK beef exports to the EU (a ban that was not completely lifted until May 2006).

It is likely that the enlargement of the EU by 10 countries in mid-2004 will reignite the question of agricultural subsidies, especially since many of the new entrants are eligible for significant funding through social and development funds.

1 mark for each point well made, up to an overall maximum of (15)

(50)

Question 2

(a) Command Economies

All economic decisions are taken by the central authority.

The state plans:

- The allocation of resources between consumption and investment
- The output of each industry and firm
- The distribution of output between consumers

Benefits

- Economy can be directed towards meeting specific national goals.
- High growth rates can be achieved if investment levels are kept high and consumption is kept low.
- Unemployment can be largely avoided, though underemployment can become a serious problem.
- Income can be distributed according to needs.

Downsides

- Bureaucratic costs tend to be high in terms of collecting and processing information.
- There is no price mechanism to adjust for the scarcity of specific resources.
- It is difficult to motivate workers simply through the use of incentives?
- People lose their freedom in relation to where they work, what they buy or how. They make changes in their buying habits.
- Governments may have to enforce unpopular plans.

1 mark per point well made up to a maximum of 5 ½

Free market Economies

Land and capital are privately owned and economic decisions are made by individuals and firms, usually in their own self-interest.

Firms try to maximize their profits, consumers try to get best value-for-money and workers try to maximize their wages.

Price, through the supply-demand mechanism, is the key determinant in allocating scarce resources

Benefits

- It functions automatically through the price mechanism.
- Power is shared between various competing groups.
- Resources are used efficiently because firms seek to maximize profits, workers earn more by being efficient and consumers seek best value-for-money.

Downsides

- Free markets rarely perform perfectly so levels of efficiency are rarely maximized.
- If the number of competing firms becomes too small, there may be less incentive to be efficient.
- Power and wealth are unevenly distributed.
- Some socially desirable goods (merit goods) may not be produced in a free market.
- There may be conflicts between a firm's desire to maximize profits and the social damage that can be caused by such actions (externalities).

- Free markets can lead to macro-economic instability (eg recession, rapid inflation).
- The encouragement of self-interested behaviour may encourage selfishness, greed and materialism.

1 mark per point well made up to a maximum of 5 ½

Mixed market Economies

There are few examples of either pure command or pure free market economies.

Nearly all countries operate some form of mixed market economy.

UK is a good example of a mixed market economy having some free elements combined with considerable government intervention.

Government intervention tends to focus on:

- Relative prices of goods (through taxation).
- Provision/subsidisation of merit goods.
- Relative incomes (through taxation).
- Patterns of production and consumption (through legislation, provision, taxation and subsidies).
- Macroeconomic issues (inflation, interest rates, unemployment, exchange rates).

1 mark per point well made up to a maximum of 3

(14)

(b) Initiation

The initial introduction of new ideas, coming from the executive, party members, civil servants, parliament, the media or pressure groups. 2

Formulation

Identifying and clarifying as to what is involved, and making decisions about future policy (the bureaucratic process). 1

Several readings and debates in both Houses of Parliament (the legislative process). 1

Implementation

Actually carrying out the policy. 1

Often the most problematic of the three stages. 1

(6)

(20)

Question 3

(a) Roles include:

- Providing information for management and taking part in planning activities (management accounting). 1
- Planning the use of funds (budgeting). 1
- Planning future investment and capital projects (investment appraisal). 1
- Producing accounts to show how public funds have been used (financial accounting). 1
- Examining and confirming financial reports (auditing). 1
- In each of these roles, the accountant should focus on:
Efficiency (ratio of output to input).
Effectiveness (success in achieving objectives).
Economy (success in minimizing the organisation's inputs). 1

(6)

(b) Major Constraints:

- Objectivity**
If different accountants use the same figures, do they present the same reports? In practice, probably "no". Some data are subjective such as replacement costs or working lifespan of equipment 1 ½
- Consistency**
A single year's reports cannot give a full picture of an organisation's performance. In many cases, stakeholders will want to study reports from a number of years. But this raises the issue of consistency of measuring various factors, definitions of which frequently change over time. 1 ½
- Comparability**
A similar issue to consistency. When comparing performance of two or more organisations, can you be sure that you are comparing "like with like"? 1 ½
- Timeliness**
The more information that is needed in a financial report, the longer it will take to prepare (and will thus become less relevant when eventually published). 1 ½
- Ease and Cost of Preparation**
Reports could be produced more rapidly and thus become more relevant if organisations employed more accountancy staff. However, at some point the value of increased relevance would be outweighed by increased costs. 1 ½
- Materiality**
To ensure that all users can find the information they need, the limit of what is "material" can be extended. But this will result in a loss of timeliness and in increased preparation costs. 1 ½

(9)

(15)

Question 4

(a) Judiciary

This comprises the British system of criminal, civil and other specialised courts and tribunals. 1

Its role is to interpret and apply legislation. 1

Executive

This comprises the Prime Minister and the Cabinet. 1

It is responsible for the day-to-day running of the government. 1

Legislature

This comprises the two Houses of Parliament. 1

Its role is to discuss and create legislation. 1

(6)

(b) The Judiciary has traditionally been considered as being subordinate to the two other elements of the British constitution. ½

The Judiciary has also claimed to be autonomous, with judges protecting its independence from politics and trying to interpret legislation without considering their own political views. ½

A subordinate element of the constitution?

Power of courts relative to executive and legislature depends on the relative importance of: statute law (legislation passed by parliament); and common law (the body of law based on custom, usage and precedents). ½

Under the doctrine of parliamentary sovereignty, the judiciary lacks the power to strike down statute law. However, the judiciary may interpret or construct the exact meaning of law and may be asked to judge whether the actions of the executive are outside (ultra vires) that law (eg suspected terrorists being imprisoned without trial and without reliable evidence for being suspected as a terrorist). 1

The process of reviewing legislation is known as judicial review. The principles used are all based on precedent and judicial ideas such as asking:

what is a fair procedure; and

when has a minister acted unreasonably. 1

If the judiciary makes a judgment that results in law not achieving the executive's and/or the legislature's intentions, then government may amend the law or introduce a new one. But neither of these actions is common. ½

The judiciary always has a right to invalidate parliamentary laws if it believes it infringes higher law (eg the constitution). But it rarely does so, largely because of the lack of a codified constitution. ½

But the judiciary is now able to consider EU Treaty obligations and the judgments of the European Court of Justice. The overall effect is to raise the role of the judiciary in policy-making. ½

An autonomous element of the constitution?

Kilmuir Guidelines (1955) suggest that a judge should not say anything of a political nature “except in the actual performance of judicial duties”. ½

But this theoretical situation is more complex in practice:
Senior politicians have many links/contacts with senior judges; ½

Lord Chancellor (Lord Chief Justice) is head of the judiciary and appoints most judges. But he also has a political role as a member of the Cabinet; 1

The highest court of appeal is the House of Lords, but this also has a legislative role; and 1

Judges are being increasingly asked to chair public enquiries into particular disasters or scandals which inevitably involve judges in political controversy. 1

(9)

(15)

Question 5

A wide range of examples, which are not encompassed in the list below, may be given in answer to this question. If such examples are correct, they should be awarded full credit.

The policy was very much part of the governments' marketisation strategy for all public services. The aim of the policy was to make social provision more efficient and effective. Improving efficiency involved changes aimed at reducing unit output costs. Improving effectiveness involved changes aimed at improving the match between consumer needs and wants and actual service provision.

The four main areas of UK social provision are income maintenance, housing, health and education.

3

Income Maintenance

There has been a steady reduction in state support and increased use of means testing. This has encouraged people to use private insurance schemes (e.g. guaranteed income during periods of sickness).

It has also encouraged greater take up of private pensions, although the impact of the equity market collapse in the early 2000s has reduced the attractiveness of private pensions.

3

Housing

Social housing was removed from local authority control.

Many occupiers of social housing were given the opportunity to purchase their residences.

3

Health

Local populations have been encouraged to participate in the debate about local authorities.

Private healthcare has been encouraged (with the NHS also entering into partnership with some private providers).

But there is still no tax relief on private healthcare insurance contributions.

A series of reforms seeking to change how the NHS is run (and improve efficiency) have been introduced.

3

Education

Power of local authorities has been reduced and much of the responsibility for managing schools has been transferred to local management committees.

Action Forums were created aimed at raising standards of schools in certain neighbourhoods.

Parents were allowed to decide whether grammar schools should be allowed to continue on a selective basis.

In larger cities, "Beacon" schools were introduced, with selection based on their areas of academic expertise.

In higher education, students have the choice to apply to universities charging "top-up" fees.

3

*Up to 1 mark for each point well made up to an overall maximum of 15.
Maximum of 3 marks for explanation of aims of policy and maximum 3 marks
for each of the four areas of service provision for which examples are given.*

(15)