



## **GOVERNANCE AND PUBLIC POLICY**

**Diploma stage examination**

**7 June 2007**

## **MARKING SCHEME**

**Question 1**

- (a) (i) Marketisation refers to the introduction, via reforms, of private sector principles into the public sector into the Civil Service. Such reforms have resulted in a massive shrinkage of the civil service and the transfer of many activities formerly carried out by civil servants to agencies. 2
- The basic aims of marketisation are to strengthen the efficiency and effectiveness of the civil service. 1
- Effectiveness refers to identifying and creating desired outcomes. 1
- Efficiency refers to cost efficiency – here the aim is to reduce the unit cost of output of the civil service, delivering desired outcomes with the minimum use of resources. 1
- (ii) The five models that seek to explain alternative views of the relationship between civil servants and their Ministers in the decision-making process are the:  
Traditional Public Administration/Liberal Democratic Model  
Liberal Bureaucratic/New Administration Model  
"Whitehall Village" Model  
Power-Bloc Model  
Bureaucratic Over-Supply Model
- (1) Traditional Public Administration/Liberal Democratic Model Ministers are responsible for policy formulation and to Parliament for the conduct of their Departments. Civil servants are answerable to Ministers and provide neutral advice to them and implement ministerial policy. 2
- (2) Liberal Bureaucratic/New Administration Model This model does not exclude the possibility that a Minister may dominate and impose his/her will on a Department. However, it suggests a variety of factors (e.g. numbers, permanence, expertise of and control of information by civil servants that tilt the balance of power in favour of civil servants. It portrays a fundamentally adversarial relationship between civil servants and ministers where civil servants often obstruct and/or sabotage ministerial decisions. 2
- (3) "Whitehall Village" Model The civil-servant/government minister relationship is more complex in this model. Relationships are both cooperative and adversarial and operate across Departments as well as within them. Civil servants, through their common culture and networks of contacts, prepare the ground for ministerial decisions. 2
- (4) Power-Bloc Model This model seeks to portray civil servants as an "establishment" veto group, reflecting that the composition/structure of the civil service has traditionally been dominated by individuals from privileged economic backgrounds. Civil servants deploy their administrative expertise and exploit their permanency in order to facilitate reactionary policy and thwart radical policy. 2

(5) Bureaucratic Over-Supply Model

This model is linked to the right-wing critique of Big Government, prevalent since 1970. It proposes that self-interested civil servants seek to maximise their own interests (e.g. status, pay, other employment conditions) and to exploit sources of power in their relationships with Ministers. This has led to the creation of an excessively large, bureaucratic civil service.

2

- (iii) The public administration model has become the most generally accepted explanation. Civil servants prefer to have a strong ministerial leadership so that they know what is expected of them.

1 ½

The Whitehall Village model not held to relate to the whole of government, though it may have some relevance to the relatively small community involved at the very top level of decision making.

1

There is still some support for the Over-Supply theory, even though the most powerful ministries (e.g. the Treasury) are not the largest.

1

The civil service has not prevented major changes in radical legislation since 1997 and thus the power-bloc model is not a good explanator.

1

The gap in knowledge and expertise between ministers and civil servants has gradually become less significant and some ministers have stayed for extended periods with the Departments. These factors reduce the relevance of the liberal bureaucratic model as an explanator.

1 ½

(21)

- (b) Weber felt that permanent officials, especially civil servants, hold the reins of power in the modern bureaucratic state.

1

His argument for making this claim was that permanent officials have the training, the ability and the experience that enables them to control or manipulate their nominal political masters.

1

Officials are full-time professionals; politicians are part-time amateurs.

1

There are many arguments (both theoretical and those based on insider evidence) that support and contradict Weber's view and, overall the evidence is inconclusive.

1

But perhaps the most significant evidence is provided by developments under Thatcher and Major.

1

Their governments reformed the civil service structure and mode of operation in fundamental ways and won big battles against determined opposition from almost all sections of the civil service.

1

This constitutes clear evidence that the British civil service can be brought under government control if the government is determined to push its reform through.

1

Insider evidence on balance suggests that strong and determined ministers can get their own way, even against civil service opposition if this is forthcoming.

1

Indeed, civil servants have been criticized as being too compliant and giving-in to ill-thought out and hastily implemented government plans. 1

It is also argued that the civil service has abandoned its traditional political neutrality to become a political tool of government. 1

(10)

**(c) Civil Service Code**

Civil servants should conduct themselves with integrity, impartiality and honesty. 1

They should give honest and impartial advice to the Minister without fear or favour and make all information relevant to a decision available to them. 1

They should not deceive or knowingly mislead ministers. 1

**Ministerial Code**

Ministers have a duty to give fair consideration and due weight to informed and impartial advice from civil servants. 1

In reaching policy decisions, there is a duty to uphold the political impartiality of the civil service and not to ask civil servants to act in any way that would conflict with the Civil Service Code. 1

Civil servants should not be asked to engage in activities likely to call into question their political impartiality, or to give rise to the criticism that people paid from public funds are being used for party-political purposes. 1

(6)

**(d) Ministerial responsibility** refers to the convention that ministers are responsible for everything that goes on in their Departments. The minister can be forced to resign if they or their department perform badly. 1

However, Ministers are members of the majority party in parliament – the other parties are rarely powerful enough to force a resignation. The decision is more generally taken by the prime minister and/or minister. 1

In practice the minister may not resign for a number of reasons:

The convention has no legal force. 1

Many Departments are very large and the minister cannot be reasonably expected to know exactly what is going on in each part. 1

It is not easy to define what is meant by a department or a minister “performing badly”. 1

The minister’s colleagues may want to demonstrate strength by closing ranks; on the other hand they may decide to find a scapegoat. 1

The existence of agencies which are independent of ministers may make it difficult to apportion blame. 1

(7)

- (e) Cabinet Secretary, Sir Robert Armstrong, was used to defend the government policy of banning publication of Spycatcher (a book containing revelations about the security services) in an Australian court. 1
- Civil servants were used to leak a confidential document in the Westland Affair. 1
- The Scott Enquiry into the arms in Iraq affair found that some civil servants complied with the government's attempts to use them politically to implement its secret policy, and then used them again to try to cover up the affair. 1
- It is claimed that some civil servants have been promoted and others blocked on political or ideological rather than professional grounds. The danger is that civil servants may be reluctant to give what they believe is sound advice if they believe this advice might put their career at risk. 1
- It has been suggested that after years of one-party government (e.g. the Conservative governments over 1979-97), civil servants come to accept the government's view of things without question. 1
- In conclusion, while there is some evidence of politicization of the civil service, much of the evidence has been circumstantial and inconclusive. Secrecy and confidentiality make it very hard to draw firm conclusions. 1
- (6)
- (50)**

*For all parts of Question 1, candidates can validly answer the questions and explain their understanding of issues in ways that vary from those shown in the marking scheme. Such alternative answers, where appropriate and well made, will be awarded credit.*

**Question 2**

- (a) When elected in 1997, New Labour initially followed the previous Conservative government's spending plans.

New Labour also gave interest-rate setting powers to the Bank of England.

Both of the above moves could be described as neo-liberal (as were Mrs Thatcher's earlier Conservative governments).

But New Labour also had some key differences in policy vis-a-vis the Conservatives.

It is these differences that become known as the "Third Way" which alongside the addition of the prefix "New" to the Labour Party's name, served to emphasise the new approach being taken. Key differences embodied in the "Third Way" include:

Europe: The Conservatives, though instrumental in forging links with the EU, were split on their European policies throughout the 1990s with the leadership adopting an increasingly strong line against further EU integration. In contrast, New Labour consistently supported integration and enlargement and, in principle, accepts the idea of joining the Euro (but only when the time is right).

The weak and vulnerable in society: New Labour believes these should be carefully targeted. Redistributing income and wealth across social groups should result from economic growth and equality of opportunity and not through redistributive taxation.

Relationship between state and citizen: This should be renewed through constitutional reform and novel forms of consultation such as referenda.

*1 mark for each point well made up to a maximum of (5)*

**(b) Social Democratic Consensus (1945-79)**

The welfare state – all parties agreed on the various elements of the Welfare state set up in the years after 1945.

State ownership of key components of the economy, including coal, gas , electricity, rail and air transport and telecommunications.

Economic management through Keynesian policies using, for example, government spending to influence the pace of economic activity and the level of unemployment.

*1 mark for each point well made up to a maximum of 3*

**Neo-Liberal Revolution, 1979-1997**

Reorganising the social bureaucracies of the health, education and social services along market lines; and launching the privatization of other public sector activities.

Limiting public spending in health and education services and encouraging private provision.

Cutting back on government intervention programmes designed to reduce poverty; and acting to weaken trade unions.

Overall, to create maximum freedom for the individual by reducing taxation and minimising state intervention and spending.

*1 mark for each point well made up to a maximum of 4*

(7)

**(c) Economy – summary of differences**

Labour

Balance finances, fight inflation

Bank of England free to regulate interest rates

Raise taxes only for specific purposes (eg NHS)

Conservative

Get government out of the economy

Favors balanced finances

*1 mark for each point well made up to a maximum of 4*

**Social welfare – summary of differences**

Labour

Intervene to help disadvantaged (eg tax credits for poor, employment schemes)

Retain major features of internal market in the NHS but spend more money on it

Conservative

Cut taxes and privatize pension schemes

Support disadvantaged, but on a highly targeted basis

Improve public services, but favors public/private mix to achieve this

Achieve higher standards through competition

*1 mark for each point well made up to a maximum of 4*

(8)

(20)

*For all parts of Question 2, it is possible for candidates to validly answer the questions and explain their understanding of issues in ways that vary from those shown in the marking scheme. Such alternative answers, where appropriate and well made, will be awarded credit.*

**Question 3**

**(a) European Commission**

Similar to the UK civil service.  
Is an initiator of EU policy.  
Develops ideas that transcend national interests (the conscience of the EU).  
Has the task of implementing EU policy.  
Members of the Commission are appointed by national governments, one from most countries but two from the larger ones.

*½ mark for each point well made up to a maximum of 2*

**The Council of Ministers**

The main decision making institution.  
Each meeting focuses on a specific area of policy.  
Ministers are supported by civil servants from both their own countries and the Commission.  
Much of policy initiated by these civil servants is merely rubber stamped by the Council.  
Presidency of the Council is held by each country in turn for a 6-month policy.

*½ mark for each point well made up to a maximum of 2*

**European Parliament**

Powers limited, but greater than when elections first held to the Parliament in 1979.  
Powers include:  
Control over EU budget  
Power to reject legislation  
Right to reject accession of new states  
Power in relations with non-EU states  
Members elected by proportional representation  
MPs grouped around a left-right spectrum.

*½ mark for each point well made up to a maximum of 2*

**European Court of Justice**

Aims to interpret EU treaties, enforce laws, review actions of other EU institutions, and act as a court of appeal.  
EU law takes precedence over national laws.

*½ mark for each point well made up to a maximum of 2*

(8)

- (b) In the EU, the only institution that is directly accountable to the electorate (through direct elections) is the European Parliament.

Although Parliament's powers are slowly increasing, it still has little control over other EU policy makers (the Commission) or decision makers (the Council).

The key decision making institution, the Council, suffers from a democratic deficit. Although it comprises elected ministers from member countries, such members are indirectly rather than directly elected to the Council.

The Council's voting system (unanimity, qualified majority and simple majority) means that the Council members from individual countries may often be unable to translate the interests of their home countries into EU decisions.

The important role of Commissioners can be thought of as a democratic deficit since the Commission is not answerable to the Parliament.

*Up to 1 mark for each point well made up to an overall of (3)*

*Candidates can validly answer this question and explain their understanding of issues in ways that vary from those shown in the marking scheme. Such alternative answers, where appropriate and well made, will attract credit*

- (c) The European Communities Act 1972 gave EU law general and binding authority in the UK. EU law precludes the UK parliament from legislating on matters within EU competence where the EU has formulated rules to "occupy the field"

Council decisions and EU Parliament decisions are binding, even if the UK parliament disagrees

The European Court of Justice acts as a court of appeal and can overrule the House of Lords/Senate

But the UK parliament cannot bind future parliaments to legislation. Hence the UK could leave the EU by repealing the 1972 European Communities Act

If the UK refuses to pass amending legislation where its law is inconsistent with that of the EU, then test cases show that the European Court of Justice may not be able to hold national law as being void.

Overall, EU membership has impaired UK parliamentary sovereignty. The latter can only be restored by withdrawal from the EU which, in practice, is unlikely to happen.

*Up to 1 mark for each point well made up to an overall of (4)*

*Candidates can validly answer this question and explain their understanding of issues in ways that vary from those shown in the marking scheme. Such alternative answers, where appropriate and well made, will attract credit*

**(15)**

**Question 4**

**(a) Variable Economic Growth**

Countries ideally like to grow at a steady, controlled, sustainable pace. In practice, rates in most industrialized countries vary considerably and may include periods of recession (negative growth).

**Unemployment**

Governments aim to minimise unemployment rates. Individuals and the country as a whole benefit from low unemployment through output and consumer spending levels, and through lower official social security payments.

**Inflation**

The aim is for low inflation (but not deflation) which makes accurate economic forecasts easier and which underpins international competitiveness.

**Balance of Payments**

The aim is to balance the balance of payments on current account (i.e. recorded inflows and outflows of funds relating to the UK's international transactions in physical goods, services and transfer payments).

*Up to 1 ½ marks for each problem clearly described, up to an overall maximum of (6)*

- (b)** Supply side policies focus on encouraging efficient and effective output. Supply-side incentives include reduced government regulation, reduced trade union power, lower social welfare payments, lower taxation and incentives to encourage investment. (2)
- (c)**
- (i)** Since 1979, the maintenance of low inflation has been the UK's key economic policy objective, as part of a wider array of supply-side policies. 1
  - (ii)** Government's give priority to keeping inflation low so as underpin economic stability generally and, more especially, to ensure that UK companies can remain internationally competitive. 2
  - (iii)** The government seeks to influence inflation by setting inflation targets. The current UK target is a CPI of 2%, +/-1%. ½
- The Bank of England, through its Monetary Policy Committee, is responsible for achieving this target through the setting of interest rates (rates are raised if inflationary pressures rise and lowered if inflationary pressures ease). 1
- If the MPC fails to keep inflation with the 1-3% target range, the BoE Governor is obliged to write an explanatory (and highly embarrassing) letter to the Chancellor of the Exchequer. ½
- (iv)** If companies are internationally competitive, then the three other traditional problems will be indirectly achieved. 1
- International competitive UK companies should (other things remaining constant) result in higher UK exports, lower imports, higher output, and lower unemployment. 1

*If candidates identify the incorrect policy priority in c(i), but then give answers to c(ii), (iii) and (iv) that are consistent with their choice in c(i) then they should be given credit up to a maximum of 1 mark for each of c(ii), (iii) and (iv) up to an overall maximum of (7)*

**(15)**

*For all parts of Question 4, it is possible for candidates to validly answer the questions and explain their understanding of issues in ways that vary from those shown in the marking scheme. Such alternative answers, where appropriate and well made, will be awarded credit.*

**Question 5**

**(a) Regulation of private-sector bodies by state institutions**

Examples include the Food Standards Agency, the Competition Commission and the Financial Services Authority.

The aim is to protect the public interest but this can sometimes conflict with broad government policy to minimise the number and influence of regulatory bodies.

**Regulation of recently privatized industries**

The aim here is to create some semblance of "competitive conditions" for institutions that were formerly state monopolies.

Examples include Ofwat and Oftel that were created to control prices, monitor conditions and handle customer complaints in, respectively, the water supply and telecommunications industries.

**Regulation of public sector**

This has grown substantially and includes ombudsmen in central and local government and in the NHS.

In addition, the allocation of greater autonomy to local managers has been balanced by growth in the number of regulatory bodies that measure performance.

*Up to 1 mark for each point well made, subject to a maximum of 2 marks per type of situation and an overall maximum of (4)*

**(b) The creation of a new form of public management, based on notions of privatization (and to a lesser extent marketisation) of public sector industries necessitated a new area of state regulation.**

This was needed in order to prevent, for example, major state monopoly utility industries behaving like monopolies (and thus against the public interest) in the private sector.

Although attempts have been made to introduce competition in these markets (eg by breaking up the rail network into smaller companies), the monopoly situation remains problematic in many areas and true competition is an objective yet to be achieved. Indeed, the government's decision to cut the number of train operating franchises will reduce competition in that industry at regional level.

Nevertheless, the regulatory agencies (e.g. Oftel, Ofgas, Offer) have played a key role in the pricing of services to customers, often through pricing formulae based on the RPI and driven by the reported financial performance of privatized organisations.

The government has also attempted to impose regulation through self-regulation such as in the City and in the accountancy profession. But a problem here has been that the success of this relies on the efficacy of the surveillance, audit and inspection regimes which may be less than perfect – in the City for example, the failure of self regulation led to its replacement by imposed regulation from the FSA.

*Up to mark for each argument well made, subject to an overall maximum of (5)*

**(c) Arguments against regulation**

Fears that the regulator will be “captured” by the regulated (e.g. Oflot captured by Camelot in 2000 in the lottery bidding process).

Regulators suffer from a democratic deficit – the relevant ministers appoint their staff and there is little openness about how they go about their work.

The idea of privatisation was to remove organisations from the public sector and political influence, but the notion that regulatory bodies are apolitical is perhaps unrealistic.

Moral Hazard – this is the fear that regulation makes it more likely that industry participants will act immorally or that they may not take reasonable care. For example, if investors believe they are protected by regulation, they may not be very careful when selecting where to place their investment funds.

Compliance costs – the costs of complying with regulation and the costs of regulation itself inevitably raise the cost and price to consumers of the regulated activity.

Increased entry and exit costs – these may act to discourage the flow of providers into or out of the market, thus reducing competition.

*Up to 1 mark for each argument clearly presented, up to an overall maximum of (6)*

**(15)**