

THE REFORM OF BIG BROTHER

Stephen Aguilar-Millan

Director of Research

The European Futures Observatory

stephena@eufo.org



© The European Futures Observatory 2010
A History Of The Next Ten Years

Why is reform necessary?

Recent events have highlighted the structural weaknesses of the developed economies caused by public debt.

This has been made worse by the public sector assuming responsibility for banking sector debt.

It may take some time for the public sector debt overhang to unwind. We calculate that it may take to 2018 before the UK debt overhang can be tackled.

This will restrict the availability of finance for public sector projects in the medium to long term.

It almost makes fiscal contraction inevitable.



In the meantime ...

... continued recession will retard the growth of the tax base both in terms of breadth and depth.

... demands upon the public purse will continue to grow as the Boomers move into retirement.

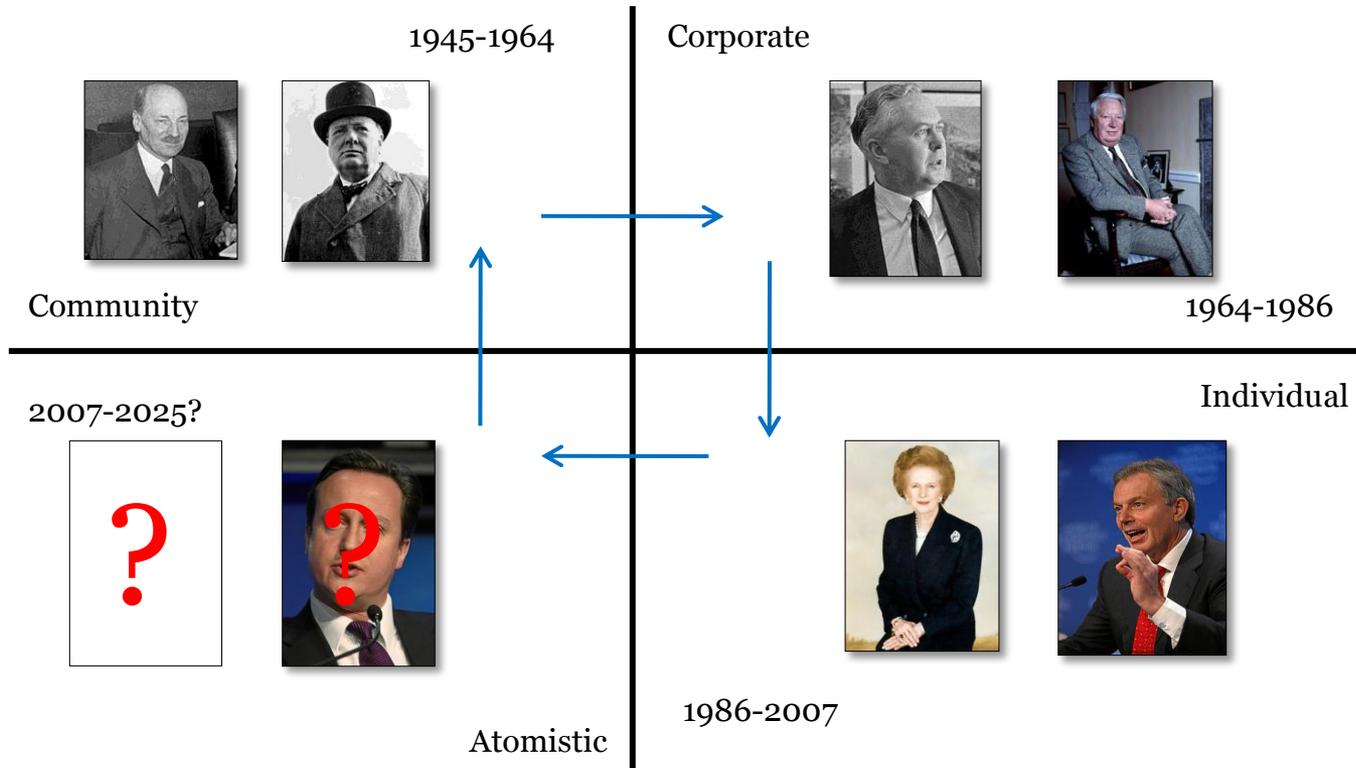
... the imbalance between public sector productivity and private sector productivity will become more acute.

... the internalisation of externalities in the cost base leads to the cost of resources reflecting their 'true' scarcity.

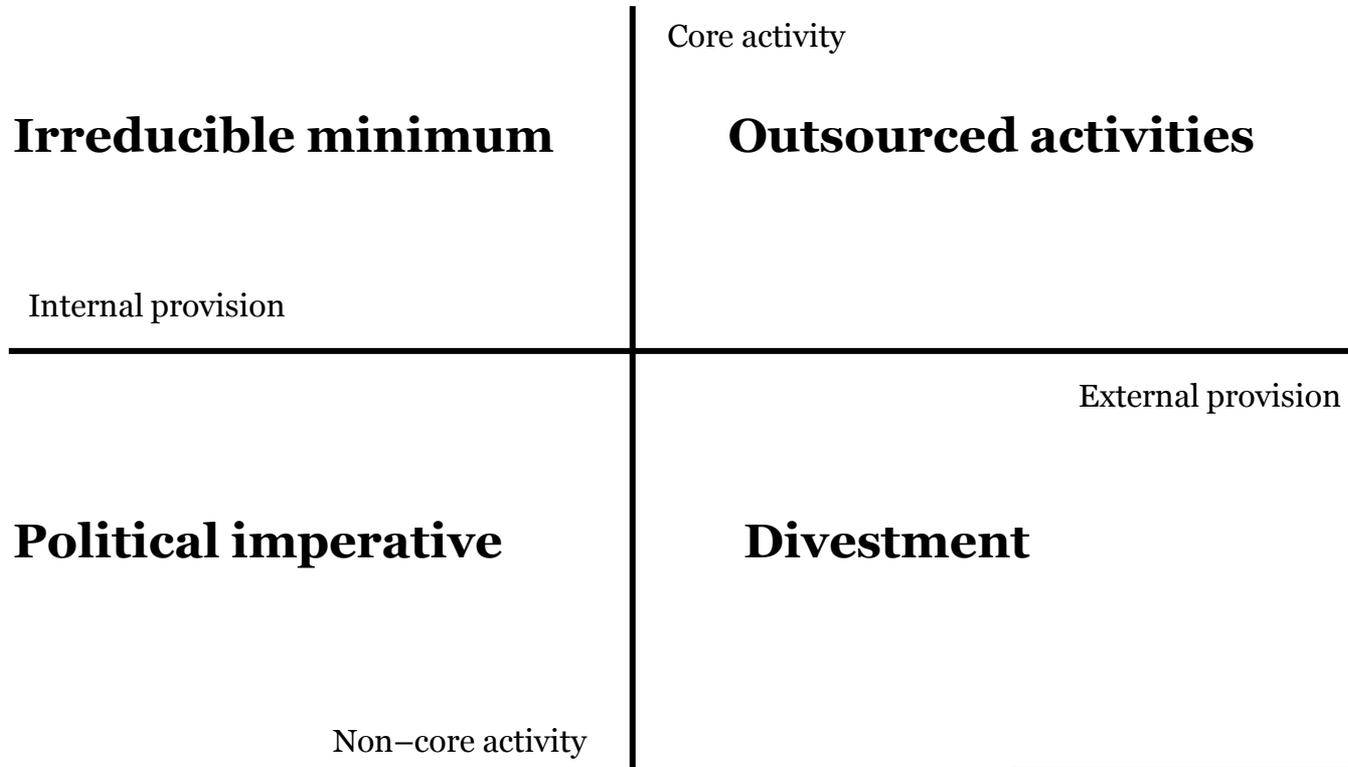
It all means that something has to give and that we cannot continue along our present route.



We have a model for political action ...



... that could be of some help to us.



In this model:

Our view of activities changes over time (e.g. Railways 1945 against Railways 2010).

All activities have many dimensions (e.g. Policing as ‘Irreducible minimum’ and Policing as ‘Divestment’).

The model describes the operational activities and not the Balance Sheet (Who ‘owns’ the assets?).

Our view of which activity fits into which category is partly determined by where we are in the 20 year political cycle.



What does this mean for the future?

Outsourcing is the way to enhance public sector productivity, but at the cost of quality and at a higher risk of failure.

Divestment is the means to address structural operations, as long as those activities remain non-core and there is no political pressure to provide them publicly.

The irreducible minimum is likely to get smaller until such time as market failures lead to pressure for activities to be brought back into the public sector.

Our model suggests that this should be at some point in the 2020s.

