A PRIVATE SECTOR FAILURE, A PUBLIC SECTOR CRISIS – REFLECTIONS ON THE GREAT RECESSION

Ron Hodges* and Irvine Lapsley**

*University of Birmingham (r.hodges@bham.ac.uk)

** University of Edinburgh (Irvine.Lapsley@ed.ac.uk)

ABSTRACT

The Great Recession from 2007/08 to date (2016) has challenged policymakers in significant ways. The initial challenge became a mission to rescue the banking sector, which had major implications for public services. The severe constraints on public finances after the rescue resulted in cutbacks in public services; an example of financial conservatism in action. Neoliberalism is the dominant mode of thinking by central governments, but its application has been questioned both on its rigour and on the evidence which is available to inform this policy. This paper examines the UK experiences of financial conservatism by mobilising ideas of failure, hope and bricolage.

Keywords: Banking failure; public sector cutbacks; failure, hope and bricolage
A PRIVATE SECTOR FAILURE, A PUBLIC SECTOR CRISIS – REFLECTIONS ON THE GREAT RECESSION

INTRODUCTION

This paper examines the experiences of the UK in the era of the Great Recession from 2007/08. The paper depicts the UK experience of the Great Recession as falling in three periods: (1) the Recognition of Failure, (2) The Presentation of Hope and (3) Bricolage. The first of these is the realisation that major UK banking corporations were on the verge of collapse. The second phase refers to the election of a Coalition Government in the UK with its plans for the economy. The final phase recognises the experimental nature of UK Government reforms as they turned to what was to hand – conventional financial practices – in their attempts to overcome the influence of the Great Recession.

This paper offers a contrasting narrative to the depiction of the need for severe cutbacks in the resources of public services because of their perceived inefficiency and ineffectiveness. Instead, it shows how the public sector funding crisis arose from private sector failure (something underplayed in utterances from the UK Government). There is a certain irony in this as successive UK Governments have held up private sector practices as a role model for public sector organisations for decades (Hopper, 1986). This is exacerbated by reflecting on the nature of this banking failure which, it can be argued, was predictable but which was not predicted. Rather than a ‘Great Recession’, policies were more likely to be predicated upon continuation of the ‘Great Moderation’, running from the 1980s until, say, 2007, which was the term given to a period with much shallower business cycles and which was variously attributed to the independence of central banks, better monetary policy, improved inventory management and to good luck (during this period there were no major energy price shocks) (Summers, 2005; Benati, 2007). The equivalent prediction in political language might be there would be ‘no return to boom and bust’ (Brown, 2006).

This paper concludes that the success of policies of financial conservatism and fiscal retrenchment are not evident from the UK experiences. This conclusion identifies a future research agenda around accounting in government and the recognition of transparency and trust as key dimensions of public finances.
THEORY: FAILURE, HOPE and BRICOLAGE

There are many studies which demonstrate the complexity of the public sector as a study setting (Arnaboldi et al, 2015). In the face of this, there are proponents of the blending of different theories in the study of such complex phenomena (Jacobs, 2012, 2016). This approach is seen as particularly relevant to the study of the impacts of the global crisis (Cohen et al, 2015). Therefore this study mobilises ideas of failure, hope and bricolage, to unpack the reactions and policy actions in the wake of the global fiscal crisis of 2008. There is an established literature on government failure, notably in the works of Miller and Rose from 1992. The idea of hope as a transformative power which proves elusive is most associated with Brunsson (2006). Finally, we acknowledge the ideas of bricolage, as introduced to the literature by Levi-Strauss (1967), which refers to the need to turn to what is at hand to seek solutions and to improvise and experiment in the face of challenging situations.

Failure is evident in many writings on reforms in and by organisations. In this context we examine both corporate and government failure, both inextricably interwoven in the initiation of, and the struggle to resolve, the issues flowing from the global financial crisis.

In a study of corporate failure, Hamilton & Micklethwait (2006) examined the experiences of leading corporations which failed, including Barings and the Allied Irish Banks, Enron, Worldcom, Tyco, Marconi, Swissair, Royal Ahold, and Parmalat. They concluded that:

The causes of corporate failure are surprisingly few...poor strategic decisions; over expansion, especially through ill-judged acquisitions; the dominant CEO; the greed, hubris and lust for power of CEOs and other star performers; poor risk management and weak internal controls; and ineffective boards and their audit committees (Hamilton & Micklethwait, 2006, p. 173).

These observations were made before the collapse of the Royal Bank of Scotland (RBS) and the Lloyds Banking Group (LBG), but they look very like the comments that could be made about these more recent banking failures.

Regarding government failure, one distinct strand is the manner in which governments elaborate narratives which justify the policies which they have taken when there are no signs of these policies succeeding. There are a number of behaviours associated with policy failure. In the classic work of Edelman (1977, p. 99), policy makers may describe a failure as a routine matter, that some pain that has to be experienced to get a happy outcome or by exaggerating the success of their record in Government. These scenarios are seen as classic defensive stances.
(Bovens et al., 1999), but which may be accompanied by aggressive confrontations and the blaming of political opponents as part of blame avoidance strategies by governments and other political actors (Hood, 2011).

These political narratives can be seen against a landscape in which many agencies and organisations are seen as underperforming or as failures, locked in repetitive patterns of poor performance (Meyer and Zucker, 1989; Meyer, 1999). This pattern of behaviour has been attributed to Governments which experience recurring and endemic policy failures (Rose and Miller, 1992). Governments have unrealistic expectations over policy proposals and their effective implementation:

The history of post-war British Cabinets has been a continuous story of people trying to do too much, believing that they had power over events which in fact they lacked, treating national circumstances as entirely within their control and twirling the wheel on the bridge as though every move would produce an instant response in some well-oiled engine room below (Howell, cited in Hennessy, 1990, p. 300).

Governments seek to identify failures in society, reveal problems in contemporary living and articulate responses around programmes of government (Rose and Miller, 1992). However, government is a ‘congenitally failing operation’ (Miller and Rose, 2008, p. 71).

While failure can be regarded as the negative approach to the analysis of government policy making, its sister, hope (being related to a feeling of positive expectation and desire), offers a different perspective. The most elegant articulation of the nature of hope as a mechanism of management is the work of Brunsson (2006). In this book, Brunsson (op.cit., p. 185) offers a number of systematic practices by which hope is maintained: the avoidance of practice, where practice is not working; interpreting everything as ‘for the best’; and selective identification of relevant practice which sustains hope. These behaviours encapsulate an articulation of what might occur from public sector reforms in very positive terms (Brunsson, op.cit., p. 172). These articulations may take the form of saying that there is no alternative to the current proposal; or watering down the proposal but staying with it; by focussing on the characteristics of reform models rather than their effects; by defending particular reforms by saying the principle is right, but the practice is wrong and by distancing policy makers from failing projects while still being optimistic about them (Brunsson, op.cit., p. 182).

These characteristics provide a platform for a kind of recipe management in which an Act of Hope can be constructed by elaborations of positive thinking, herd behaviour and a reluctance to accept that things cannot or will not work (Brunsson, op.cit., p. 211-213). Collectively these
practices can engender a culture of hope (Brunsson, op.cit., p. 224) with a tendency to articulate what is being done as new, even when it is merely an old idea rebadged as new (Brunsson, op.cit. p. 229). These manifestations of hope resonate with an early observation by Vickers (1995) that the progressive redefinition of what is acceptable or unacceptable can be a recurring feature of government policy making. McCann (2013) sees these ideas as imbued in articulations of government policy in the post global crisis era as governments seek to come to terms with the enormity of the challenge facing them.

These observations by Brunsson of denial and hope in the face of failure contrast with the concept of *bricolage* which was first employed by the French sociologist Claude Levi-Strauss (1967). Bricolage as a concept means ‘making do’ or improvisation by applying the means ‘at hand’ to achieve a purpose (Baker and Nelson, 2003). The concept of bricolage has been used in a variety of settings including innovation (Halme et al., 2012) entrepreneurship (Stinchfield et al., 2013); crisis management (Bechky and Okhuysen, 2011) and accounting (Miller, 1998).

When faced with constraints, the bricoleur draws upon whatever is at hand to overcome the obstacles. This may entail improvisation or experimentation, but the approach adopted is drawn from a set ‘that is always finite and heterogeneous because what it contains bears no relation to the current project, or indeed to any particular project’ (Lévi-Strauss, 1967, p. 11). Regarding the global financial crisis, the expertise to hand is dominated by neoliberal thinking (Lapsley and Skaerbek, 2012; Lipsky, 2010). This is uncontested and the global financial crisis has not weakened its resilience (Evans and Sewell, 2013; Radcliffe, 2013; Schmidt and Thatcher, 2013).

**UK PRIVATE SECTOR FAILURE AND PUBLIC SECTOR CRISIS**

In this section we discuss how a private sector failure became a public sector crisis in the UK. First, there is an elaboration of the recognition of failure through the lens of key actors in the midst of the UK financial crisis. Second, we show the huge level of financial support to the UK banking sector provided by the government and reported subsequently by the National Audit Office (NAO).

The Great Recession from 2007/08 has been described as the most severe global financial crisis since the Great Depression of the 1930s (Albers and Jonung, 2010). The antecedents of both crises were the same: cheap credit, speculative property booms and the over exposure of investors to risk. The exposure of US commercial banks to the failing subprime housing market triggered the 2007/08 global crisis. The creative accounting of the commercial banks helped to
export toxic assets within financial instruments and the failure of Lehmann Brothers accelerated the loss of confidence in the banking sector (McDonald and Robinson, 2009). Governments have since devised elaborate rescue schemes to prevent the future failure of their commercial banks. These schemes have included the recapitalisation of weakened banks, government guarantees to the financial sector and quantitative easing.

In the UK the major focus was on the fate of the Royal Bank of Scotland (RBS), once the 5th biggest bank in the world. Alistair Darling, the then Chancellor of the Exchequer, reflected later on the unfolding crisis as RBS careened towards a financial collapse:

At a meeting of the European Finance Ministers I kept leaving to be updated on the banking crisis. I came out to take a phone call from the RBS Chairman, Tom McKillop. He sounded shell shocked. I asked him how long the bank could keep going. His answer was chilling: “A couple of hours, maybe” (Darling, 2011, p. 153).

In 2011, as the crisis continued to unwind, Mervyn King, then Governor of the Bank of England, criticised the UK banking sector’s risk culture and argued that it needed urgent reform (King, 2011). King described the UK banking sector as having a casino culture of short term profits and bonuses. An example of this was the decision of RBS to pay £1.3billion in bonuses to its staff in 2009, despite a loss of £3.6billion (Darling, 2011, p. 330). In King’s view the UK banks routinely exploited their customers. He observed that the feeling within the banks that they were ‘too big to fail’ had no place in a market economy:

Within the space of little more than a year, between August 2007 and October 2008, what had been viewed as the age of wisdom was now seen as the age of foolishness, and belief turned into incredulity. The largest banks in the biggest financial centres in the advanced world failed, triggering a worldwide collapse of confidence and bringing about the deepest recession since the 1930s (King, 2016, p. 1).

The potential for private sector failure to become a public sector crisis is linked closely to the scope and scale of such failures. Any crisis in the banking sector is likely to be significant in both respects. In terms of scope, the UK National Audit Office, in its typically understated manner, suggests that:

Banks are vital to the functioning of the economy… The failure of a major bank has the potential to leave individuals and businesses unable to access savings, raise finance or meet ongoing payments (NAO, 2009b, p. 11).

More dramatically, in the words of the then UK Chancellor of the Exchequer referring to the collapse of RBS in September 2008:

When dealings in bank shares are suspended it is all over. I knew the bank was finished, in the most spectacular way possible. The game was up. If the markets could give up on
RBS, one of the largest banks in the world, all bets on Britain’s and the world’s financial system were off (Darling, 2011, p. 153).

The scale of the rescue of the banking sector can be seen in the context of its size within the UK economy as a whole. The assets of UK banks in 2009 were estimated to be over four times the Gross Domestic Product (GDP) of the UK. The combined balance sheet worth of RBS and Halifax Bank of Scotland (HBOS) which became part of the Lloyds Banking Group (LBG) in 2009, when rescued, were over £3 trillion, more than twice the UK GDP (NAO, 2009b). Even a relatively small bank might have substantial assets; for example Northern Rock (NR) before its nationalisation, has assets exceeding £100 billion (NAO, 2009a). A fall in the value of its assets can quickly erode the regulatory capital of a bank, requiring it to raise further capital to strengthen its balance sheet.

Furthermore, many UK banks and building societies had adopted business models that relied upon the use of short-term money markets and securitisation of loans and mortgages to fund their growing businesses (NAO, 2009b). This made them more vulnerable to falls in confidence of depositors and, in the case of NR, led their depositors to queue for their money when it became known that the Bank of England had provided emergency support in September 2007 (NAO, 2009a).

The subsequent scale of the support provided by taxpayers, through the public sector to support the banks is described by the NAO as ‘unprecedented in modern times’. The support included initial payments of £117 billion, which increased to £132 billion by 2011 for purchasing shares and lending to the banks (NAO, 2011). There were also indemnities of £200 billion against losses that the Bank of England might incur in providing liquidity support, guarantees of up to £250 billion of wholesale borrowing by banks and insurance cover agreed in principle covering £600 billion of bank assets (2009b, p.5). While not all of these commitments crystalized into actual liabilities, they reflect the enormous pressures on government to avoid the collapse of the banking sector in the immediate aftermath of the banking crisis of 2007-08.

Table 1 shows the level of peak support to the UK banking system and the commitments still outstanding at 31 March 2011. The level of commitments is gradually reducing due to asset sales, share disposals and the maturing of liabilities that were guaranteed under various support schemes. Some of these schemes are sector wide, with others relate to individual institutions, notably RBS, NR and Bradford and Bingley all being nationalised, while LBG benefited from
the government investing a substantial equity stake and providing additional loan support and guarantees (NAO, 2009b).

Table 1: Contingent Liabilities under UK Financial Stability Support Schemes

<table>
<thead>
<tr>
<th>Sector-wide schemes</th>
<th>Peak Support (£bn)</th>
<th>31 March 2011 (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Guarantee Scheme</td>
<td>250.00</td>
<td>115.00</td>
</tr>
<tr>
<td>Special Liquidity Scheme</td>
<td>200.00</td>
<td>71.00</td>
</tr>
<tr>
<td>Asset Backed Securities Scheme</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td>Recapitalisation Fund</td>
<td>13.00</td>
<td></td>
</tr>
<tr>
<td>Unused facilities</td>
<td>0.31</td>
<td>0.56</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Royal Bank of Scotland and Lloyds Banking Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Protection Scheme</td>
</tr>
<tr>
<td>Contingent Capital (RBS)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Northern Rock and Northern Rock Asset Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed liabilities</td>
</tr>
<tr>
<td>Contingent capital</td>
</tr>
<tr>
<td>Unused working capital facility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bradford and Bingley</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed liabilities</td>
</tr>
<tr>
<td>Unused working capital facility</td>
</tr>
</tbody>
</table>

| Total Guarantees | 1,029.03 | 332.40 |

Source: adapted from NAO (2011, p. 6)

To summarise the effects of this private sector failure: government intervention led to a reassessment of sovereign credit risk in which the risks attached to banking were reassigned to governments (Attinasi et al, 2009). The question of which banks would survive was replaced by the question of how sovereign states (or their governments) would cope with the simultaneous burdens of increased debt, higher contingent obligations and reduced economic activity. The level of support necessary to rescue the banking system undermined the capability of many governments. These governments found themselves unable to sustain their existing level of public services as they switched resources to support an ailing banking sector.
In 2010, George Osborne, Chancellor of the Exchequer in the UK’s new Coalition Government, offered hope to the UK in his speech to Parliament as he presented an emergency budget which identified £6 billion of public expenditure cutbacks. As he said:

This emergency Budget deals decisively with our country's record debts. It pays for the past. And it plans for the future (emphasis inserted). It supports a strong enterprise-led recovery. It rewards work. And it protects the most vulnerable in our society. Yes it is tough; but it is also fair. This is an emergency Budget, so let me speak plainly about the emergency that we face. The coalition Government has inherited from its predecessor the largest budget deficit of any economy in Europe with the single exception of Ireland. One pound in every four we spend is being borrowed. What we have not inherited from our predecessor is a credible plan to reduce their record deficit (emphasis inserted). This at the very moment when fear about the sustainability of sovereign debt is the greatest risks to the recovery of European economies. Questions that were asked about the liquidity and solvency of banking systems are now being asked of the liquidity and solvency of some of the governments that stand behind those banks. I do not want those questions ever to be asked of this country. That is why we have set a brisk pace since taking office. In the last seven weeks: We have announced, conducted and completed a review of this current year's spending and identified six billion pounds of savings. (Osborne, 2010).

Throughout the period of the Coalition Government, its political leaders continued to convey hope through their elaboration of the merits of their plan. The Prime Minister, David Cameron articulated the message of hope in a speech in Yorkshire in 2013:

Today I want to talk very plainly and clearly about our economic situation. I know that things are tough right now. Families are struggling with bills at the end of the month; some are just a pay check away from going into the red. Parents are worried about what the future holds for their children, and whole towns are wondering about where their economic future really lies. And I know that’s particularly true of people here in Yorkshire and in many parts of the north of our country, people who didn’t benefit properly from the so-called ‘boom’ years and who worry that they won’t do so again.

But I’m here today to say that is not going to happen because we have a plan (emphasis added) to get through these difficulties and to get through them together. It is a plan (emphasis added) to fix the fundamental problems in our economy, to get the jobs and the growth that can make our country a success in the global race, and to back the aspirations of hard-working families who want to get on in life. And my argument today is simple: if we stick to the plan and if we reject the false choices, we can come through this together with a stronger, more resilient and more balanced economy (emphasis added) (Cameron, 2013a).

Later that year, in a speech at the Lord Mayor’s Banquet in London, there was a similar theme, but with a rather different message:
We have a plan – and we are carefully implementing that plan (emphasis added). Already we have cut the deficit by a third. And we are sticking to the task. But that doesn’t just mean making difficult decisions on public spending. It also means something more profound. It means building a leaner, more efficient state. We need to do more with less. Not just now, but permanently (Cameron, 2013b).

PUBLIC SECTOR CRISIS: BRICOLAGE

The process of bricolage is seen here as providing a set of tools, in this case these are ways to reduce public spending, but the project itself is indistinct or at least capable of restatement to suit different audiences. It is, on the one hand, to ‘come through this together with a stronger more resilient and more balanced economy’ and, on the other, to build ‘a leaner, more efficient state’.

While the Coalition Government articulated a plan, which it frequently reiterated, there are questions over whether this plan provided a blueprint to guide governmental actions. It offered hope, but did it actually work or did it encourage improvisation and bricolage? We examine this from four perspectives: first, the intellectual rigour of the case for financial conservatism is explored; second, there is an assessment of available evidence which may or may not support the neoliberal stance; third, policy outcomes are considered to determine if neoliberal policies have worked in the UK; and finally, as evidence of bricolage, suggestions of late, unplanned changes to the Chancellor of the Exchequer’s financial planning are assessed. This rounded perspective can reveal if the Chancellor of the Exchequer is indeed a bricoleur.

Regarding the first perspective of intellectual rigour, the reduction of public debt and finances has been a pillar of neoliberal thinking for decades as shown in Birck’s (1926) publication on public debt as the ‘scourge of Europe’, in which cuts in expenditure and reductions in public debt are seen as the solution to fiscal crises. More recent research evidence has also concluded that governments should reduce government debt to foster economic growth (Reinhart and Rogoff (RR), 2010a, 2010b, 2011). RR analysed government debt and real GDP growth of 44 countries over 200 years and concluded that countries with government debt at 90% or more of GDP had median growth rates about 1% below those with lower debt levels and average (mean) growth rates several percent lower. These findings became influential in the advocacy of the case for austerity and financial conservatism in dealing with the recession.

However, Herndon, Ash & Pollin (2013) challenged the Reinhart & Rogoff thesis. They replicated RR’s study and found coding errors, selective exclusion of available data and unconventional weighting of statistics. They concluded that RR inaccurately represented the
relationship between public debt and GDP growth after 1945 and that average real GDP growth for countries with over 90% debt/GDP was actually 2.2% rather than the -0.1% in RR (2010). Similarly, the recalculation of median growth after 1945 resulted in the median growth of 2.5% being only 0.4% below the growth for the 60%-90% debt/GDP category (HAP, 2013; RR, 2013). RR's findings served to support the politics of austerity, but the application of the austerity agenda deserves to be reassessed in the absence of proven evidence (Summers, 2013).

The preoccupation of central Governments and overarching bodies such as the IMF and the EU with financial conservatism has been criticised. Cautionary advice has been offered by KPMG (2010) who argue that an approach which rethinks public service provision is necessary for the longer term. In their view by focussing on cost reductions and the elimination of services governments may reduce their fiscal deficits, but this can only be a short term approach which is not sustainable in the medium to long term.

Regarding the second perspective, examples of studies of the effects of financial conservatism are shown in Table 2.

Table 2 Evidence for Financial Conservatism

<table>
<thead>
<tr>
<th>CONTEXT</th>
<th>POLICIES</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘The Geddes Axe‘ refers to a government committee appointed to identify budget savings in post WW1 era of austerity. IMF AND UK Labour Government of 1974-79 in wake of 1973 OPEC Oil crisis. Thatcher Government Elected in 1979 on pro-business, roll back the State agenda. In 1995 the Canadian Government planned that public expenditure programmes would be reduced (as a % of GDP) to 1951 levels.</td>
<td>Plan of 25% reduction in public expenditure from 1920 to 1925. Government sought financial assistance from the IMF in return for a cutback programme. Privatisation of state utilities and cuts in public expenditure. 1. $25 billion in public expenditure cuts 2. 45,000 posts to be eliminated from public services.</td>
<td>Civil Service staff numbers fell by c. 35% Main cuts – temporary female staff recruited to government posts in World War 1. Public Expenditure fell slightly in real terms in 1976-77. Public expenditure was higher in 1985 than in 1975 (in both absolute terms and as a % of GDP). Hailed as a success but only possible because of the growth in the US economy at the same time.</td>
</tr>
</tbody>
</table>

Sources: Compiled from Dunsire and Hood (1989); Burrows and Cobbin (2009); Robson and Scarth, 1995.
Of the four examples cited in Table 2, it could be argued that only the first example of the Geddes Axe achieved significant reductions in public expenditure. However, the manner by which these savings were realised would surely be seen as repugnant and unacceptable in modern society. The more recent UK examples – the experiences of both Labour and Conservative administrations are not too convincing either. This leaves the celebrated case of Canada in the 1990s. Critically, if the USA had also chosen recessionary or deflationary policies, it is unlikely that the Canadian experience could be hailed as a success story (Blyth, 2013). These findings further undermine the neoliberal case for deflationary policies.

Regarding the third perspective, seeking UK evidence of the success of policies of financial conservatism, the Coalition Government set itself specific targets to lead the economy to recovery. In this framework, recovery of the economy was measured by % changes in GDP, by reducing the deficit, by reducing indebtedness and by growing employment. The policy outcomes are shown in Table 3. The growth in GDP is uneven and weak. The proportion of debt has become worse than ever. The deficit to GDP ratio is almost back where it was in the first year of the crisis. Unemployment can be seen as returning to pre-crisis levels, but this begs the question of whether these levels of unemployment were ever necessary.

Table 3: UK Policy Outcomes

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change in GDP</th>
<th>% DEBT/GDP RATIO</th>
<th>% DEFICIT/GDP RATIO</th>
<th>% UNEMPLOYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-1.1%</td>
<td>37%</td>
<td>3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2009</td>
<td>-3.0%</td>
<td>48%</td>
<td>7%</td>
<td>7.6%</td>
</tr>
<tr>
<td>2010</td>
<td>-3.2%</td>
<td>62%</td>
<td>10%</td>
<td>7.9%</td>
</tr>
<tr>
<td>2011</td>
<td>+1.2%</td>
<td>69%</td>
<td>9%</td>
<td>8.1%</td>
</tr>
<tr>
<td>2012</td>
<td>+0.7%</td>
<td>72%</td>
<td>7%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2013</td>
<td>-0.2%</td>
<td>77%</td>
<td>7%</td>
<td>7.6%</td>
</tr>
<tr>
<td>2014</td>
<td>+1.5%</td>
<td>79%</td>
<td>6%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2015</td>
<td>+2.4%</td>
<td>81%</td>
<td>5%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2016</td>
<td>+1.8%*</td>
<td>80%*</td>
<td>4%*</td>
<td>4.9%*</td>
</tr>
</tbody>
</table>

Source: Office of National Statistics  *forecasts

One distinct feature of this approach is the narrowness of these particular statistics. These policy targets do not take account of environmental or sustainability issues. Furthermore, there
is evidence that young people have been most adversely affected by the Great Recession. People aged between 16 and 24 had the highest unemployment rate, the highest increase in unemployment and declining payments for work done (EHRC, 2015).

Regarding the fourth perspective of bricolage, there are indications of improvisation in financial planning which is indicative of the absence of a blueprint, despite repeated protestations that there is ‘a plan’. Two particular examples of this cited here. First in 2015, the Chancellor of the Exchequer proposed to abolish tax credits, which were available to those in work but on low incomes and which supported these workers and their families and helped to keep them in work. Second in 2016, the Chancellor proposed to cut welfare benefits, particularly those affecting the disabled, as part of the cuts in public expenditure in his budget. This proposal met with outrage in the House of Commons and more widely in the country. Both proposals were withdrawn and the budget cuts reversed shortly after their announcements. These are two significant examples of improvisation and bricolage.

We acknowledge that bricoleurs can do good things with their improvisations. However, repeated adherence to ‘the plan’ resonates with Brunsson’s (2006) observations that such adherence may represent a reluctance or unwillingness to admit failure and to recognise the need to depart from that plan associated with improvisation and bricolage.

CONCLUSIONS

This section summarizes the implications of our earlier analysis, which is linked to the other papers in this special edition. It then provides some themes to constitute a research agenda of the effects of the Great Recession on public sector financial management and accountability.

The Great Recession illustrates how a private sector failure can lead to a public sector crisis. Governments around the world needed to protect social and economic well-being from the effects of a failure of their banking systems. This required substantial cash investments to protect the banks from their immediate liquidity problems and to make good the losses of bank capital. It needed governments or their agents to provide indemnities and guarantees to encourage depositors not to withdraw their money and to get the banks to lend to businesses. In the case of the UK, the net cash outlay was over £132 billion while the peak values of contingent liabilities were over £1 trillion (NAO, 2011).

We have reviewed these events through the theoretical lenses of failure, hope and bricolage. Failure is seen in the collapse of individual banks and the near-collapse of the banking system;
but there is also failure up to 2007 by governments for imposing inadequate regulation to oversee their own banking systems and for accepting a view that the ‘Great Moderation’ was a permanent condition. Hope is seen in the actions and rhetoric of government leaders, with the implication that a ‘plan of action’ is available, has been determined and will be successful. Bricolage is experienced from the actions taken: these are wedded to the principles of financial conservatism being ‘what is at hand’ to deal with the problem. In the UK the solution is framed in terms of the need to reduce public expenditure, by passing the provision of those services to the private sector or eliminating the services altogether. This is in spite the fact that increases in government debt were affected significantly by the need to rescue large sections of the private sector led banking system.

The papers in this special edition of Financial Accountability & Management reflect a diversity of reactions to the challenges of the Great Recession. Tonkiss (2016) examines the financial management of ‘Arm’s Length Bodies’ (ALBs) in the UK. She finds ambiguity in governance arrangements resulting in a ‘delegated finance problem’ to ALBs, whose responses include not engaging in projects because the burden of time and effort needed to gain approval to incur necessary expenditure is too great. Benito, Guillamon and Bastida (2016) compare factors that influence the cost of sovereign debt of 18 countries in 2008 and 2012. Their results suggest that financial agents concentrate on economic indicators, rather than wider factors of accountability and transparency, in more recent, challenging times. Barbera, Guarini and Steccolini (2016) identify a range of responses of eight Italian municipalities to austerity and recession, including reorientation, buffering, continuous adjustment, avoiding problems and catching opportunities. The adoption of a finite set of different responses to a common context appears consistent with the theme of bricolage and its associated improvisations. One reaction to crises is to attempt to pass blame (e.g. for financial losses) to others. Garseth-Nesbakk and Kjaerland (2016) provide a detailed analysis of such ‘blame games’ using the context of eight Norwegian municipalities attempting to recover losses brought on by the global financial crisis. The case provides a stark warning of the dangers to the public sector of underestimating the complexity of financial instruments.

There is considerable scope to extend and develop related research of the impact of the Great Recession on public sector financial management. We indicate some themes here, while accepting that this is not an exhaustive list.
First, our examples in this paper are drawn primarily from the UK, which we see as illustrating the dominance of policies of financial conservatism. There is scope for comparative and international governmental accounting research to seek to discover the role of political choice in democratic countries. Is it the case that all countries, irrespective of the political stance of their governments, are forced down a route of financial conservatism? If so, what is the role of supra-national organisations in this movement? If not, how effective are national governments in providing different responses to support their public sectors?

Second, the UK might be seen as an extreme case in the application of financial conservatism. It has a highly centralized political system and a well-established set of NPM-style public sector financial management structures including accrual based budgeting and financial reporting. It would be informative for studies to examine federal or more dispersed systems of government to consider the impact of their financial management structures and systems on responses to the Great Recession.

Third, the policies and practices of supra-national, national and sub-national governments in the wake of the Great Recession will be influenced and informed by the availability and use of information, including that derived from financial information systems. We still know relatively little about how financial information is used in government and other public sector settings in the context of austerity. Do cash-based systems for both budgeting and financial reporting become more significant under a dominant theme of reducing (cash) borrowings? Alternatively, one might speculate that accrual-based systems gain in significance as governments seek to understand the effects of societal changes on fiscal sustainability, particular in terms of assessing and controlling obligations arising from ageing populations, increasing migration and the demand for improved infrastructure.

Finally, how do these financial and accounting based agenda fit the changing demand for public services? Is it really the case that financial imperatives dominate decision making in large parts of the public services? An alternative perspective may be that democratic processes can make a difference in determining what and how public services are provided and that financial management has an important supporting role to play. There is an important future agenda for financial management researchers in the public sector, working with other disciplines, to seek a better understanding of the roles of financial accountability and management in the public services.
The Great Recession has private sector origins but current narratives portray it as a public sector dilemma. There seems to be no end to this saga, almost 8 years after the initial crisis. The rationale for the austerity-driven approach of fiscal conservatism remains unproven. Key proponents have been heavily criticised and it is not evident that continual retrenchment works. This remains a hotly contested debate.
REFERENCES


Summers, L. (2013), ‘The buck does not stop with Reinhart and Rogoff: political leaders pushing austerity made their choice, then cast about for intellectual buttresses’, *Financial Times*, 6 May.


---

¹ The ‘Great Recession’ is a term used to describe a period of general economic decline observed in world markets from 2007. The term is applied to both the recession in the United States from 2007 to 2009 and to the consequential global recession with its scale and timing varying between countries.

² Quantitative easing is a monetary policy used by central banks to boost the economy. A central bank purchases government bonds or other securities from commercial banks and other financial institutions in exchange for liquid assets which are intended to boost monetary supply and reduce interest rates.

³ Other UK financial institutions requiring financial support from the Government around this time included the Lloyds Banking Group (LBG) which included Halifax Bank of Scotland (HBOS), Northern Rock (NR), London Scottish Bank, Dunfermline Building Society and the UK elements of various Icelandic banks (NAO, 2010).

⁴ In 2010, the governing Labour administration was defeated in the UK general election. The Conservatives won the greatest number of seats in the House of Commons but fell short of an overall majority. A Conservative / Liberal Democrat coalition government was formed, which held office until 2015.