The Politics of Public Sector Reform in Post-Colonial Hong Kong

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Introduction

SINCE THE establishment of the Hong Kong Special Administrative Region (HKSAR), the government has set forth a series of public sector reform programs. This paper argues that while a lot of these reform measures are technically similar to those adopted by western liberal democracies if not directly borrowed from their experiences, the significance of the reform has to be understood in the local context. There are both continuities and changes in the significance of public sector reforms before and after the handover of sovereignty. In both periods, the crises of state legitimacy and capacity were the major reasons for reforms, while the incongruity between the political, economic and social institutions was the major cause of the crises. The crises in the post-colonial period, however, were deepened by an increasing politicization of issues of distribution and accumulation, leading to an increasing pressure for state intervention.

The Rise of Public Sector Reforms in Western Liberal Welfare States

The new managerialism arose in western liberal democracies as a result of the crisis of the welfare state. The origin of the crisis was generally believed to be financial, as there was a continuous increase in social expenditure while economic growth became stagnant (OECD, 1981). The crisis led to the breakdown of the post-war political consensus that the state has the obligation to provide their citizens with a range of social services as a matter of social and economic rights. These services include education, health care, housing, social security and welfare, and commitment to full (male) employment. The breakdown is often associated with the failure of the Keynesian approach toward economic management which assumes that an income maintenance program will be funded by a policy of full (male) employment. It is also attributed to the rise of global capitalism, the breakdown of the nuclear family system, the increase in the dependent population, and the problem of bureaucratic-professionalism (Clarke and Newman, 1997). The ideological criticism of the welfare state is represented by the New Right, which embodies economic liberalism and neo-conservatism. The new managerialism is the administrative technique that serves the political ideology of the New Right. The philosophical and ideological underpinnings of the new managerialism are firstly, the public choice theory, which privileges the market over the state and emphasizes the use of incentive mechanisms to tap the self-interested behavior of individuals. Secondly, there is active utilization of business management techniques, which emphasize values such as productivity, efficiency, and entrepreneurship.

One common understanding of the consequences of the new managerial reform in western liberal welfare states is thus the withdrawal or rolling back of the state.
hollow state” (Milward, 1994), “government by proxy” (Kettl, 1988) and “the contracting regime” (Smith, 1990) are terms that have been used by various scholars to characterize the new state form in which a vast amount of service is contracted out. The state is said to lose power and control over to third sector organizations, the private sector, and subnational and supranational level organizations. In the process, the state also relinquishes its commitment to the universal guarantee of economic and social rights. On the other hand, there are researches showing that there is no substantial loss of state power. For instance, one of the doctrines of the new managerialism, “results-oriented government” claims that the government should fund institutions according to outcomes and performances, not inputs. Managers should be given more autonomy to formulate their budgets and funding should be based on performance measured by indicators. In actuality, the primary concern of the central government to minimize or cut spending means that there is not much effective autonomy left to lower level units. Instead, they became agents for cutback management. Other scholars criticize the coercive nature of the new managerial practices, which runs counter to the ideological claims of employee empowerment and participatory management. The emphasis on shaping a new management culture is merely a form of manipulation and control over the agencies of organizational members. For instance, the use of such quality control measures as Total Quality Management (TQM) creates an atmosphere of constant surveillance over individual behaviors (Reed, 1995). Professional autonomy is often much eroded due to the power given to management to define the content and operational goals of professional work (Davies and Kirkpatrick, 1995).

Clarke and Newman’s (1997) analysis shows that the new managerialism should be understood as micro-technology that reconstitutes the normative order and the power of the state. In terms of normative order, the political values of social and economic rights are replaced by such management ethos as efficiency and productivity, which are regarded as essential for the state to regain its national strength (international competitiveness, financial viability, etc). They create new organizational regimes of public services that confer managers the right to manage through utilizing managerial techniques that are powerful disciplinary tools. Through the practice of contracting out and setting up quangos (acronym for quasi-autonomous non-governmental organization), there is a dispersal of state power and the blurring of the boundary between the public and the private sectors. In sum, the resulting managerial state has the following characteristics: (1) there is managerialized dispersal of power with “the simultaneous shrinking of the state and the enlargement of its reach into civil society (through its engagement of non-state agents)” (Clarke and Newman, 1997: 29); (2) through the construction of managerial discourse and practice, managerialized state power is exercised in a Foucauldian manner—relational and productive, relying less on direct control and more on “productive subjection” (Clarke and Newman, 1997: 30); (3) politics is managerialized in the sense that questions of political value are recast in managerial terms. The relationship between the state and its citizens is marketized and repositioned as that between entrepreneurs and consumers, the latters’ satisfaction and choice in the market of public service being the primal value; and (4) the resulting managerial state is structurally unstable, because the newly established relations of power also create “new sites of resistance, contestation and contradiction” (Clarke and Newman, 1997: 32-33).
What we can conclude from the public sector reform in western liberal welfare states is that the new managerialism is an administrative ideology and technology that arose in relation to the rise of the New Right. It supplies a set of ideological and technical apparatus for the realization of the neoliberal project. The effect of the new managerialism on the transformation of the welfare state is multifaceted. On the one hand, it fulfills the neoliberal project by “realigning a series of relationships—between the state and the citizen; between the state and the economy; and between the state and its institutional or organizational forms” (Clarke and Newman, 1997: 24). On the other hand, while it has facilitated the qualitative change of the liberal welfare state, it has not simply caused its rolling back. Instead, it represents the proliferation of new technologies and relations of power, and new sites of contestation and contradiction. In what follows, I shall analyze the significance of the new managerial reform by the Hong Kong government in the light of the transformation of state power.

**Public Sector Reform in Colonial Hong Kong: Historical Background**

As I have argued elsewhere (Lee, 1998), public sector reform in Hong Kong in the 1980s was a reaction to the political, economic and social changes accompanying development. The socioeconomic development of Hong Kong from the 1960s to the 1970s occurred in the following institutional context:

1. The colonial state was one of limited capacity, in terms of the institutional, financial and human resources it possessed. It was also an authoritarian regime that exercised policy-making power based on political exclusion and insulation from popular power.

2. It adopted conservative fiscal and economic policies based on low tax rate, low public expenditure, surplus budget and high reserve. The state’s support to development was limited to the provision of collective consumption and institutional support to industry.

3. The intervention of the state in the realm of collective consumption was substantial in the areas of housing, education, health care, public transportation and social welfare.

There was institutional complementarity between the state, the economy and society. The fiscal and economic policy of the state worked well to produce phenomenal economic growth, providing the necessary public resources to support social expenditure. The societal demand for popular participation was relatively low and the acquiescence to colonial rule was based on pragmatic grounds. In the course of development, the colonial state constructed a legitimation discourse on “positive non-interventionism.” The term is a technicized version of economic liberalism, which believes that the state should only intervene when there is market failure. However, the term also carries an apolitical overtone in that the conditions for the state’s action/inaction is a technical, not political matter, to be decided by the impersonal force of the market. The significance of the doctrine lies not only in limiting the engagement of the colonial state in social and economic affairs, but also in the way it technicized and
apoliticized the state-economy and state-society relations. The latter was important for the legitimacy of the colonial state as it began to assume, beyond its original imperial mission of maintaining law and order, certain developmental role in the absence of political mandate and the capacity to articulate political norms (such as democracy, liberty, equality, social justice) that could inform public policy discourses.

The doctrine of “positive non-interventionism” crystallized into the political consensus between the late colonial state and its citizens on the role of the state, its approach to public policy, and also the relationship between the state, the economy and society. In the 1980s, however, this political consensus was confronted with challenges. Simply put, economic development generated higher societal demand for policy output and state capacity. The decolonization process unleashed social demand for popular participation and politicized issues of redistribution. On the other hand, the growth in state capacity was limited by the small size of the public sector and the decline in economic growth. The political transition, on the other hand, did not provide a chance for political and economic reforms. Instead, provisions of the Basic Law served to preserve the colonial institutions beyond 1997. Under this circumscription, the public sector reform that was launched in the late 1980s were remedies for enhancing the legitimacy and capacity of the late colonial state.

Starting in the mid-1980s, the government have set up numerous quangos. Adapting Skelcher’s definition (1998), quangos are public bodies having appointed boards with executive and financial authority operating at arm’s length to the government (Skelcher, 1998: 8). Notable examples of new quangos included the Mass Transit Railway Corporation (MTRC), the Kowloon Canton Railway Corporation (KCRC), the Hospital Authority, and the Housing Authority. In 1989, the then Finance Branch published the *Public Sector Reform* document, which delineated a program of financial management reforms. Some of its suggestions were implemented in the *Serving the Community Programme* launched in 1995. The program stated four core principles, namely, “being accountable;” “living with our means;” “managing for performance;” and “developing our culture of service.” “Being accountable” attempted to spell out the new relationship between the executive and the legislature with the introduction of elections in the latter. “Living within our means” formalized the financial guidelines that were formulated in the early 1980s, namely, to maintain the government expenditure below 20 percent of the GDP and not to allow it to grow at a faster rate than economic growth. “Managing for performance” introduced the use of managerial techniques such as performance indicators, program management and other efficiency improvement techniques. “Developing our culture of service” aimed to improve the quality of service by shaping the organizational culture through practices such as mission statements and performance pledges.

The public sector reform in the late colonial period did not involve the massive use of the new managerialism. It was a project to meet the challenges arising from the social, economic and political changes of the time. The dual effect of socioeconomic development and decolonization shook the very pragmatic basis of state legitimacy and increased the demand for higher state capacity. The provisions of the Basic Law have largely ruled out democratic reform as a way to resolve issues arising from the social, economic and political changes. As the only viable alternative, public sector reform served to articulate a public
philosophy as the normative basis of administrative power, and to use managerial techniques to improve public service performance. Nonetheless, studies for the possibilities of deeper reforms were already underway. As shall be shown later, many were eventually adopted as the major remedies for tackling the crisis of legitimacy and capacity in the post-colonial era.

Public Sector Reform in Post-Colonial Hong Kong

After the handover, the newly established HKSAR was confronted with tremendous problems in governance. I argue that the root of the problem is institutional incongruity caused by the colonial heritage of the administration in combination with a problematic constitutional design (Lee, 1999). The provisions of the Basic Law essentially aims to preserve the old colonial politico-economic-social order which was thought by the law drafters to be the basis of Hong Kong’s economic success. The deadlock between the executive and the legislature, the Asian financial crisis, and successive policy and administrative failures all fully exposed the limits of the old institutions.

The Asian financial crisis and the accompanying economic recession, the first one since the early 1980s, put considerable financial pressure on the government. On the other hand, there was tremendous public demand for expenditure increase and quality improvement in social programs. In fact, since the mid-1990s, expenditure on social programs in the areas of social welfare, education, health care, and housing have been increasing year by year. According to the 2000/2001 public budget, expenditure in the four areas will constitute 56.5 percent of the total public expenditure, which in turn will go up to 21.9 percent of GDP. The imminent public policy issues confronting the post-colonial state include poverty, new immigrants, unemployment, declining economic competitiveness, human resources, aging population, environmental pollution, etc. all of which urgently require upgrading in institutional and financial resources. The increase in public expectation toward government performance adds to the pressure for higher policy output. The existing political structure fails to provide for popular representation as a way to resolve disputes related to the choice of value and the allocation of resources arising from the policy process.

In this context, the public sector reforms in the post-colonial period serve to contain the crisis in legitimacy and capacity arising from a deteriorating financial situation and a higher public demand for social expenditure and policy output. The categories of reform include policy reforms in social programs, new managerial reforms in the civil service, public bodies and the relationship with subvented organizations.

Policy Reforms in Social Programs

Substantial policy reforms in social programs were either implemented or proposed to relieve the financial burden of the state. In the area of health care, the government commissioned a team of experts from Harvard University to study the health care system. Subsequently, its report entitled Improving Hong Kong’s Health Care System: Why and for Whom? points out that the “long-term financial sustainability of the present health care system is highly questionable” (Harvard Team, 1999: 5). Following the recommendation of the Report, the
government is actively considering the adoption of the Singaporean model of financing health care that mandates all citizens to contribute a monthly rate from their salary into individual savings accounts. In social welfare, *Report on Review of the Comprehensive Social Security Assistance Scheme* was released in 1998. With the theme “Support for Self-reliance,” the report proposed welfare cut, more stringent review of claimants’ financial conditions, and a program “encouraging” them to return to the job market.

In the area of education, the government recognized that with the transition of Hong Kong into a knowledge-based economy, the training of human resources is important for maintaining the city’s competitiveness. The latest large scale review of the Education Commission, documented in their *Review of Education System Reform Proposals*, proposed comprehensive reform of the existing elitist and examination-oriented education system to train people for life-long learning, creativity, and analytical ability. Indeed, the expense on education has been rising sharply in recent years, from 2.99 percent of the GDP in 1996/97 to 4.15 percent in 2000/01 (estimates). Ironically, the need for improvement in educational quality also means a competition among educational programs for priority and resources. For instance, the need for both the improvement of basic education and the rapid expansion of higher education has meant that one could only advance at the expense of the other. In 2000/01, the recurrent expenditure on basic education enjoys an increase in 7.8 percent in real terms, while tertiary education will decrease by 2.2 percent.

*Extensive Adoption of the New Managerialism*

In the post-colonial era, the new managerialism has been extensively adopted. Two broad dimensions can be identified. The first involves various projects to improve the efficiency, performance and productivity of the government as a whole. The following are some of the major ones:

- **Target-based Management Process (TMP)** - announced by the Chief Executive Tung Chee-hwa in his first policy speech delivered in October 1997. Adapted from the New Zealand model, the focus of this project is managing for results, directing resources to priorities, and clarifying responsibilities and relationships through establishing top-down hierarchy of layers of indicators from explicit policy objectives to the operational level.

- **Enhanced Productivity Program (EPP)** - announced by the Chief Executive Tung Chee-hwa in his 1998 policy speech. It includes a program that requires all government bureaus, departments and subvented organizations to deliver a five percent improvement in productivity between 2000-2003. Long term productivity gains are to be achieved by other programs, one of which is Fundamental Expenditure Reviews (FERs), which is a top-down process to review whether policy objectives can be achieved by more efficient and effective means.
Civil service reform - In March 1999 a consultative document on civil service reform, entitled *Civil Service into the 21st Century* was published by the Civil Service Bureau. The document proposed some drastic changes in the personnel system, including the replacement of permanent tenure by contract terms at the basic ranks; opening more senior posts for lateral entry; changing the retirement pension to a contributory provident fund scheme; streamlining the procedure for staff redundancy; the introduction of voluntary retirement scheme; the use of performance pay; more frequent salaries review and changes in the fringe benefit package; more stringent assessment method in the performance appraisal system; and the use of performance measurement systems for departments in order to promulgate a results-oriented management culture. So far, the reform measures that have been adopted include the reduction of entry level salary for newly hired civil servants, the use of contract terms to hire new staff, the reduction or repackaging of fringe benefits, and the use of a voluntary retirement scheme aiming at the reduction of 10,000 positions in three years.

Contracting out and corporatization - The Housing Department proposed to contract out the management of public housing estates on the basis that the provision of management service by the staff of the Housing Department was low in cost-effectiveness. A plan to corporatize the Lands Department’s Surveying and Mapping Office is also being negotiated.

Flexible funding models - The use of one-line votes was introduced to several departments in 1999-2000 as test cases. The idea is to increase their financial autonomy and maximize the efficiency in the use of financial resources.

The second dimension specifically relates to public bodies and third sector organizations. One important characteristic of social programs in Hong Kong is that the services are mainly delivered through third sector organizations and public bodies. Religious and charitable organizations have long played a crucial role in social services and education through government subvention. In 1973 the Housing Authority was established, and it was reorganized in 1988 and given financial autonomy in dealing with housing matters. The Hospital Authority was formally established in 1990 to manage all government and subvented hospitals. Recent reforms related to public bodies and subvented organizations include the following:

Social services organizations - In October 1999 the government put forward the use of lump-sum grant (LSG) as a mode of funding nongovernmental organizations (NGOs). Earlier on, the Social Welfare Department has already adopted the Service Performance Monitoring System (SPMS), the aim of which is to ensure that services provided by subvented organizations are customer-focused and output-oriented by means of a set of performance standards and assessment mechanisms. The combined use of LSG and SPMS provides an output-oriented funding model based on maximum
flexibility in financial and personnel management and accountability by results.

- Schools - For the past few years, new managerial techniques have been actively explored in school management. Based on the recommendation of the Education Commission in its *Report Number 7* issued in 1997, the Education Department has proposed the use of School-Based Management (SBM) in primary and secondary schools. The essence of SBM is the decentralization of management power to subvented schools, autonomy in personnel and financial management (including the use of block grants), and the use of performance indicators, analysis of value-addedness and benchmarking as methods of quality assurance.

- The Hospital Authority - In June 2000, the Hospital Authority decided to adopt a new two-tier system in all the public hospitals under their jurisdiction. Essentially, the new system re-classified doctors into specialists and residents, in place of the old system of consultants, senior medical officers and medical officers. Consultants will have to supervise residents and be held responsible for their actions. On the other hand, junior doctors, or residents, suffer a pay cut under the new pay scale. The Hospital Authority claimed that the intent of the reform was to increase accountability in medical service, and that the money saved through the pay cut would be used to hire more specialists, thus alleviating their workload.

**Toward a Post-Colonial Managerial State:**
**Some Preliminary Observations**

Although the Asian financial crisis and the resulting economic recession and deficit budget situation have an immediate impact on the financial situation of the government, the root cause of the need for public sector reform is a combination of several factors: (a) the mounting social pressure for more public expenditure, especially social expenditure; (b) the uncertainty surrounding Hong Kong’s long term economic prospect; and most importantly, (c) the built-in inflexibility of its fiscal policy of balanced budget and low-tax rate, circumscribed both by Article 107 and 108 of the Basic Law, and the unwillingness of the SAR government to deviate from its doctrine of “positive non-intervention.”

Thus while the new managerial reform in liberal democracies occurs mainly because of the crisis of the welfare state, its adoption in Hong Kong is related to a complex situation arising from socioeconomic development. Simply put, social programs in education, social welfare, health care and housing have become issues of social and economic rights. On the other hand, both the constitutional framework and the inherent economic and fiscal doctrines limit the extent to which the state can provide for such needs. The new managerial reform is thus a tactic for the state to cope with the demand for more state intervention in social programs. It did so not by assisting the state to roll back, but by helping the state construct its power. Firstly, the managerial techniques can be powerful, coercive and disciplinary tools
on organizational members. Techniques for managing results, measuring performance and increasing productivity are initiated and applied from the top-down, and in this sense middle management and lower level bureaucrats are being coerced to meet the stated targets. New personnel practices, including the replacement of the permanent tenure system with the contract system and the introduction of private sector practices (such as performance appraisal, performance pay), subject civil servants to stricter discipline. In the context of shrinking resources, flexible funding models easily turn managers into agents of cutback management rather than enhance their initiatives and autonomy.

Secondly, while the new managerial reform often causes state roles and power to be taken over by non-state actors, in the case of Hong Kong, the reform represents a consolidation of state power over subvented organizations, simply because there is a long history of the state being dependent on third sector organizations for service provision. The consolidation of state power takes place through standardized managerial frameworks, performance measurements, quality assurance exercises, and results-oriented funding models. More importantly, while third sector organizations are traditionally forums for the realization of pluralistic values and community participation, pluralism and autonomy have to give way, again to managerial values (of efficiency, productivity, customer satisfaction) as they are further incorporated into the contracting regime (Smith and Lipsky, 1993). For instance, critics of the LSG for social service organizations regard that the measure, which pledges to give organizations more internal autonomy in the management of finance and personnel, is practically a tactic mandating organizations to engage in cutback management. Organizations will have to reduce the number of staff, their salary and benefits in order to meet the stringent financial situation. Under the new system, the traditional partnership between the government and voluntary associations will be lost. Instead, the government becomes the service purchaser, centralizes the power of determining the direction of social services, and forces contracted agencies to take up the role of economizing social services provided to the public.

Thirdly, under the shortage of resources, officials of public bodies and subvented organizations increasingly play the role of the “new street-level bureaucrats” (Smith and Lipsky, 1993). In an atmosphere of cutback in resources, they become agents for rationing services to clients and determining the allocation of resources. In short, they help manage political demands. Doctors in the public hospitals pointed out that under the present situation of severe shortage of specialists, the new two-tier system would further increase their workload, which was already unbearably heavy. The measure obscures the very crucial fact that the increase in public demand for services way exceeds the supply of human and material resources, and that any improvement in the “quality” of service is attained through pressurizing frontline workers to increase their workload with lesser pay.

Fourthly, as Clarke and Newman (1997) argue, the resulting power relations are inherently unstable, because of the new sites of contestation and contradiction they create. Indeed, the reform have created oppositions from both the civil servants and officials of public bodies. Public doctors, social workers and civil servants have taken themselves to the street to protest against the worsening work situation and the compromise on professionalism. Their resistance testifies to a dilemma, namely, that the original aim of the reform was to contain the political
demand from citizens through managerial means. In the process, it politicizes the state agents who have to bear the cost of the reform.

ENDNOTES

1 The welfare state is commonly classified by scholars to include forms such as the liberal democratic type, the social democratic type, and the corporatist type. See Cochrane and Clarke (1994); Ruggie (1996). According to Ruggie (1996), liberal welfare states are less inclined to display centrally directed intervention than their social democratic counterparts. Examples of liberal welfare states include the United States, Britain, and Canada. In this paper, the liberal welfare states are taken as reference mainly because they are the exemplars in adopting the new managerial reforms.

2 For discussions of such phenomena, see Chapman (1995); Pollitt (1990); Pollitt and Harrison (1992).

3 The argument that there was substantial state intervention in the realms of collective consumption has been put forward by Castell (1992).

4 In 1998, the GDP growth was 5.1%, while the unemployment rate was 4.7%. In 1999, the GDP growth was 3.0%, but the unemployment rate rose to 6.3%. See the Census and Statistics Department’s homepage on the World Wide Web at <http://www.info.gov.hk/censtatd>.

5 The trend is a reversal of that in the early to mid-1990s, when there was an expansion in tertiary education at the expense of basic education.

6 The pilot departments and units include the Hong Kong Police, the Treasury, and the Civil Service Training and Development Institute.

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