RESTRUCTURING PUBLIC ORGANIZATIONS IN RESPONSE TO GLOBAL ECONOMIC AND FINANCIAL STRESS

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ABSTRACT

This essay is intended to provide information that elected officials, public managers and others need to understand and to better assess alternative methods for improving the management of economic and fiscal stress through restructuring. Analysis of restructuring may be segmented into a variety of sub-topic areas including the causes of economic and fiscal stress, methods for improved management of restructuring, issues and dilemmas faced by public officials and managers attempting to manage restructuring, The range of non-mutually exclusive approaches to management of restructuring includes (a) doing nothing, likely to work only for a short time if economic and fiscal stress persists, (b) increasing revenues through a variety of means including borrowing while reducing expenditures, (c) increasing employee and organizational productivity and employing a set of more innovative responses that are productivity-related. This essay addresses all of the issue areas indicated above in the context of the ongoing global condition of economic stress. In terms of the immediacy of the issues addressed in this essay, at the time of this writing the fiscal crisis in Greece was most prominent in the news, and a key question arose whether a bailout of Greece and perhaps other financially weakened European nations, if needed, would or should rely on traditional entities such as the International Monetary Fund (IMF) or whether a European Monetary Fund should be established. The motivation to resolve the fiscal crisis in Greece was driven by the potential impact of government bankruptcy on the value of the Euro, the common currency of the European Union.

WHY RESTRUCTURE GOVERNMENT?

Why should public organizations restructure as a means of coping with global financial stress? The most evident answer is the very evident need to cope with and manage financial and fiscal stress as a means of surviving the serious worldwide recession that began with the collapse of the housing market in the USA in August, 2008 and continues as of this writing in 2010. The basic problem facing many governments in most regions and at all levels is that the level of expenditure needed to sustain existing programs exceeds current revenues, including revenues generated through borrowing. The problem is so significant that once relatively wealthy governments now carry large and increasing debt loads, e.g., from the US federal government to the State of California and many US state and local governments to the nations in Europe already bailed out by the International Monetary Fund (e.g., Iceland, Romania) to Greece, Portugal, Italy, Ireland and perhaps others that may require IMF relief.. At the time of this writing the fiscal crisis in Greece was most prominent in the news, and a key question arose whether a bailout of Greece and perhaps other financially weakened European nations would and should rely on traditional entities such as the International Monetary Fund (IMF) or whether a European Monetary Fund should be established.

The motivation to resolve the fiscal crisis in Greece was driven by the potential impact of government bankruptcy on the value of the Euro, the common currency of the European Union.

In the USA and elsewhere from a longer range perspective, part of the answer to the question why restructure and cut costs lies in the relative performance and cost of the services sector of the economy. In the USA the services sector now constitutes approximately 75% of gross domestic product (GDP) and the trend projections are that the relative size of the service sector will continue to grow. This means that the United States must increase service productivity to grow wealthier. However, in recent decades productivity increases have been low and slow. Government productivity poses an especially severe problem. The roughly 20% of the American workforce employed by government generates less than 15% of GDP. Value-added per worker is only 5% lower in private services than in manufacturing, but government productivity lags manufacturing productivity by a third. In contrast, in 1958 the value-added per government worker was 40% higher than in the goods sector.

A second part of the answer goes to the organization of service delivery. Arguably, bureaucracies are relatively effective for mass service production and delivery. Bureaucratic organizational arrangements have successfully provided security, jobs and economic stability, ensured fairness and equity, and delivered the "one size fits all" services needed during the era of government infrastructure development that lasted from the turn of the last century to the 1960s (Osborne & Gaebler, 1992: 14) and even to the present, especially in developing nations. During crises such as the Great Depression and two world wars, bureaucratically organized government has helped solve many problems. In the meantime, however, the hierarchical, centralized, rule-driven organizational arrangements invented during the industrial era seemed to some observers to have become increasingly anachronistic as a result of failure to deal with unpredictable challenges (Jones and Thompson, 2007).

Global economic competition, international capital mobility, and breathtaking improvements in telecommunications and information storage, processing, and retrieval have produced a knowledge-based economy — one where workers demand autonomy and citizens/customers demand high quality products, superior service, and extensive choice. Old-fashioned business bureaucracies in many cases cannot meet these demands and neither can old-fashioned government bureaucracies. Meeting these demands requires flexible, adaptable, innovative, and customer-focused organizations that offer an array of high quality goods, tailored to individual wants and needs, e.g., as demonstrated in recent responses to the earthquakes in Haiti and Chile.

A basic problem in meeting such challenges with appropriate responses is that few public officials or managers have had much experience restructuring. Consequently, better methods for management and management reform are needed. Additionally, better evaluative frameworks against which organizational reduction options and actions may be assessed also are required. Even after economic recovery has occurred it is necessary to deal with its lingering effects. In the USA economic growth is estimated to be greater than 2% in 2010 but the level of unemployment is not expected to fall far below 10% and may end up staying closer to the current 9.8%. In Europe, the OECD advises that while the worst of the extremes of economic crisis probably have passed (while some real problems remain in some nations as noted subsequently in this essay) the focus must remain on structural reform of economies in the region and reducing unemployment (OECD, 2010). To quote a recent OECD report:

> OECD countries have taken a wide range of measures in response to the crisis, notably in the areas of infrastructure investment, taxes, the labour market, regulatory reforms and trade policy...OECD countries have so far avoided major mistakes – in particular concerning trade and labour market policies – but some risks remain. The crisis has in general reinforced the need for structural reforms. These reforms could help to speed up the ongoing recovery, strengthen public finances while protecting long-term growth and, in some cases, contribute to the resolution of global current account imbalances (OECD, 2010).

PATTERNS OF RESTRUCTURING PUBLIC ORGANIZATIONS

This essay will not explore all approaches to restructuring public organizations. However, a guiding principle in the beginning of restructuring asserted here is that each component of the organization should be evaluated in terms of its contribution of value to the delivery of services that meet citizen demand. According to the principles of mission or responsibility accounting, budgeting, and management control, all components of the organization may be classified according to their primary mission or responsibility, for example, mission centers, revenue centers, expense or cost centers, internal service centers, investment centers (Anthony and Young, 1988). This framework can be useful in organizing restructuring initiatives at the organizational level.

Restructuring may result in significant "delayering" or flattening of organizational structure, considerable delegation of authority, responsibility and decision making on day to day operations to levels of the organization closer to its constituency. And restructuring in fact usually means shedding jobs. Indeed, large-scale productivity improvement in government (and the private sector) may depend to a great extent upon elimination of many, perhaps even thousands of jobs. However, accompanying such reductions we should expect that restructuring also to include increased employee education and training, especially in the use of new technologies and work processes.

How has the public sector tended to approach restructuring in the past? A reasonably similar pattern or sequence of events appears to characterize the restructuring initiatives of many public organizations. The first response to restructuring typically involves denial. This is usually followed by short-term measures to reduce spending, accompanied by efforts to assign blame. Organizations at this point must chose between reducing services and cutting positions. Many public officials balk at this choice, arguing that budget cuts should be made gradually, that organizations are better off relying on employee attrition, withdrawal of vacant positions, cuts in support budgets, and even deferral of maintenance than on across-the-board personnel reductions or cuts targeted at specific programs or services. When push comes to shove, they cut "soft" services first. Then they cut things that are invisible to the public, for example, in support operations and maintenance, employee training, and capital asset replacement. These cuts eat up an organization's accumulated capital and often demoralize its employees who understand that ignoring maintenance and investment will lead to higher costs later. Nevertheless, massive layoffs are also costly. When severance pay, replacement costs, loss of morale and valuable skills, not to mention the dislocation experienced by the employees who lose their jobs, are considered, staff reductions through attrition may actually be more cost-effective than termination — especially poorly targeted terminations.

The next phase of restructuring usually involves deeper, across-the-board budget cuts, often accompanied by hiring and salary freezes, increased use of part-time and nonpermanent employees, and other initiatives to reduce total salary costs. However, the across-the-board strategy tends to weaken organizations throughout. It is especially damaging in that high-demand programs and high quality personnel are cut the same amount as programs with lower demand and quality (Jones and McCaffery, 1989). Unfortunately, many public organizations and their employees appear to prefer the across-the-board and attrition approach, with nonessential services cut first and the last-hired employees the first to lose their jobs.

Application of length of service rather than merit criteria often eliminates less experienced and younger staff. Unfortunately, these employees may be more adaptable to change than those with longer records of service. Employees cut in this phase in some cases may include a higher proportion of new entrant women and minorities than is represented in the total organizational workforce. There also may be an accompanying loss of highly skilled employees who find better employment opportunities elsewhere in a less stressful working environment.

HOW SHOULD RESTRUCTURING BE MANAGED?

A number of variables in addition to those mentioned at the beginning of this essay must be addressed in restructuring management. Once the organization has reviewed and assessed its strategic and market plans, determined its core competence areas, performed value chain analyses, decided on what work processes will be retained, contracted out or eliminated, then it must begin to address a number of issues related to managing reduction. Typically, the first issue is how to deal with personnel reduction; personnel may be reduced by attrition or by layoff or termination. It is essential for the organization to develop a deliberate strategy on personnel reduction and then to stick to it. Public organizations often attempt to reduce through attrition, a slow yet effective method given that the costs of this approach can be afforded. Attrition takes longer and is more costly in the long-term; termination appears to be more cost-effective in the long-term but costs more up-front because of the necessity for paying employees for accrued benefits, and in some instances bonuses. Legal constraints, union contracts and other strictures make termination more difficult in the public versus the private sector.

Numerous political and other constraints seem to force public organizations toward the attrition approach. However, it should be kept in mind that termination is used more often in the private sector because of its apparent long-term cost advantage and for other reasons, including sustaining employee morale for those not terminated and the advantages gained from shifting the organization rapidly toward the achievement of new goals and market opportunities. With respect to strategy, we advocate use of both attrition and termination, in short depending on the circumstance and degree of political and market pressure to change. To manage employee reduction, the criteria for cuts and rules on how cuts will be made must be developed and communicated clearly to employees. Some public organizations have developed procedures to mix length of service and merit criteria in determining layoff or employment termination schedules. Employee performance evaluation systems may be designed so that employees generate service credits for high performance ratings. These credits are then added to other credits earned through length of service and total service credits are then used to define employee layoff order and rights to move into the positions held by less senior employees in the same or similar job classification elsewhere in the organization.

The service credit system also may be used to set priorities for employee reassignment to new positions within the organization, either at the point where personnel cuts are made or after a period of layoff. While reduction-in-force rules often include the provision of replacement or “bumping” rights across organizational units, unlimited bumping is stressful, disruptive and may cause serious losses in employee morale and productivity. A “single bump within class” system that restricts movement rights to a single choice and compares the qualifications of those seeking to replace other employees with requirements for the contested positions appears to be a preferable option. Union contracts may constrain the close application of qualification and requirement definitions, as may civil service rules.

One of the most important dimensions of personnel management under restructuring is the extent to which the organization invests in education, training and placement of employees whose jobs have been cut. Education and retraining may be necessary to enable reassignment of employees to new positions within the organization. Investment in education, training and placement services, and job search assistance is costly but desirable in most instances. Responsible management of job loss can build rather than reduce morale, and may help sustain or even promote the productivity of employees whose jobs are not cut, particularly for those continue to face the threat of elimination. It should be reiterated that strategic planning and the establishment of program, personnel and budgetary priorities should guide restructuring. Maintenance of service quality and the retention of valuable employees must continue to be of paramount importance to the restructuring organization.

Under conditions of program reduction and termination, enforcing priorities requires strong political support, effective strategic planning, a sophisticated information base for decision making, and considerable attention to negotiation with employees, citizens receiving services and stakeholders. All of this can be assisted through definition of critical mass program and core resource operation levels, i.e., resource levels below which programs cannot operate and still achieve their mission and objectives satisfactorily.

Assessment of value added to the services delivered to citizens and employee and stakeholder participants is critical to effective restructuring. The capable manager will recognize that cuts ought not to be based on organizational prestige, program longevity and employee seniority, budget size, or other convenient but non-value added criteria. Regrettably, the program information needed to do otherwise is often lacking. At this point, the implementation of a strategic planning process that generates accurate and reliable information about market and citizen demand patterns and shifts in demand and to enable comparisons between programs, service production costs and productivity is critical. The planning process and strategic plans also ought to fit with longer-term financial, debt management, and capital planning. In attempting to plan and execute restructuring effectively, managers are likely to be frustrated as they recognize the extent to which they have under invested in or simply squandered valuable accounting, planning, program and policy evaluation, information technology, and other analytical resources in the past.

The issue of participation in restructuring decision making is sensitive and may be dominated by management-labor contracts to a considerable extent. Arguments for broader participation of employees are often made on the grounds of fairness, contribution to employee morale, and adherence to democratic management values. A much stronger argument for participation is that employees and program constituents have information that needs to be assessed by program managers in deciding whether and how to restructure. Many of the best suggestions on how to save money and increase efficiency are likely to come from program managers, their staffs, and citizen consumers if they are asked.

Centralization of planning and the reassessment of priorities are typical in public sector restructuring. Prolonged dependence on one or a few individuals to make restructuring decisions can result in reintroduction of many of the bureaucratic weaknesses that contributed to the need to restructure in the first place. A “mandarin” system of management by personal influence is inimical to effective restructuring because of its effect on workplace moral and on the openness of the organization to restructuring, reengineering, reinvention, redesign, and rethinking. However, the degree of centralization of authority in restructuring may be less important than other variables in explaining successful restructuring.

Smoothing the impact of cuts, continuity of leadership, the extent to which restructuring is politicized, ability to define and communicate organizational mission and goals, the extent to which service priorities are established and budgeted, form of government, and degree of cooperation between executive and legislative arms all appear to be more important variables than centralization *per se*.

The dilemma of centralization of decision authority versus broader participation in restructuring comes down to a fundamental trade-off — either centralize and limit representation for purposes of decision and execution efficiency, or allow decision participation to be more open and, consequently, open to greater fragmentation and delay. Open access and participation in restructuring more fully utilizes the knowledge extant in the minds of employees, those served by the organization and stakeholders. However, broad participation often limits the ability of public organizations to establish new priorities quickly and to target cuts. Broad participation may make significant restructuring impossible as all parties have the opportunity to articulate reasons why the organization should remain as it is rather than adapting to new market, social, and political conditions. Either way, something of value is sacrificed, which reinforces the view that the best approach may be a combination of the two wherein politicians and managers cooperate but employ a procedural mechanism to limit choice and constrain the time in which choices can be made and appealed. For example, in the closure of military facilities in the United States, the Congress and executive branches of government used a self-constraining procedural mechanism (Base Realignment and Closure or BRAC) to close hundreds of military bases that had been proposed for termination, in some cases for decades, but were not closed due to political opposition motivated by the need to preserve employment in the areas where targeted bases were located. This and other examples indicate that under "perfect storm" conditions elected officials can act to discipline themselves to do things they have not been willing to undertake when fiscal crisis is not present (Thompson & Jones, 1994: 210-215). Again, budget cuts by the national government in Greece offer a current example.

RESTRUCTURING UNDER FISCAL STRESS CONDITIONS

Where the organization faces fiscal stress or financial crisis as is the case for many public entities presently, prolonged, acute mismatches between jurisdictional means and policy commitments may severely inhibit the ability to continue in the status quo. Budget deficits may accrue and interest payments increase as a percentage of total revenues and spending. Credit ratings may suffer, and the ability of public organizations to finance capital construction and to borrow to meet short-term cash shortages may be impaired. In many instances, the need for restructuring may not be recognized until the government as a whole or specific public organizations face a financial crisis and cannot continue to earn revenues either through the political/budget process or from the market, then the need for restructuring becomes readily apparent. Where public organizations, including municipal governments, rely in part on deficit financing and borrowing, the ability to get credit from external lenders may become impaired or lost. At minimum the cost of borrowing typically increases so as to push a higher fiscal burden of debt repayment responsibility onto future taxpayers.

Where the confidence of elected officials is lost in ways that affect budget decisions and willingness to fund programs, and where loss of external market user revenues and credit-worthiness has occurred, longer-term financial planning and action is needed to evaluate the effects of program and service demand shifts and, from a financial perspective, to improve cash flow, cash management, and investment practices. Under conditions of fiscal crisis, special attention must be given to insure entitlement and pension fund solvency, to limit debt load to fit tax base and debt service capacities, to assess property and equipment leasing or liquidation options, to develop accurate capital asset depreciation and replacement costs and schedules, to improve inventory management and, in some cases, to establish sufficient fund reserves to support the budget in the event of future revenue short-falls.

Long-range program and financial planning may require the counsel of financial management consultants and may involve the participation of other public entities, bankers, municipal bond market advisors and others to rebuild confidence in the accountability and credit-worthiness of the enterprise. Public organizations often discover, as have many private organizations, that long-term productivity improvement requires risk capital for investment in new equipment, employee training, additional program analysis and market research. Because restructuring requires analysis of service value, additional costs for accounting system modification, data collection, analysis, and decision making is inevitable.

Of course, some organizations are penny wise and dollar foolish — they choose to reduce costs by cutting deeply across-the-board without regard to the impact on their capacity to deliver quality services in the future. This approach is not a model for successful restructuring despite the obvious advantages of expedience and ease of compromise it gives to elected and appointed officials. Indeed, it is possible only where governments practice cash rather than accrual accounting, which means that organizations can convey a false impression of fiscal health by play games (often in violation of the law) with the timing of income and expenditures, for example, in New York City in the fiscal crisis of the mid-1970s. Fiscal smoke and mirrors gimmicks sometimes will suffice for a period of time to persuade the news media and the public that a crisis has been averted, apparently without serious long-term loss, when in fact it has only been temporarily delayed. Unfortunately, the costs of mismanaging the financial component of restructuring are high and are borne for a long time, for example, in the Orange County, California bankruptcy in the mid-2000s and more recently to varying extents in a wide range of other venues including the State of California and other US state and local governments, Iceland, Ireland, Latvia and the Baltic nations, Greece, Spain, Italy, Romania, Ukraine and other Central and Eastern European nations, in selected provinces of China and elsewhere in Asia and the pacific region (Wescott et al, 2009), particularly in developing nations hard hit by the economic stress of 2008 through 2010.

OPPORTUNITIES PRESENTED IN RESTRUCTURING

Perhaps the most important contribution restructuring can make to increasing public sector and government productivity comes from the replacement of out-of-date technology. In many public organizations shortsighted, across-the-board budget cuts made over a multiyear period create substantial technology and employee education and training gaps. Also, significant process reengineering may be needed to better utilize new technologies to gain full benefit from the productivity increases expected but sometimes not realized despite costly investment, for example in information technologies and the development of comprehensive enterprise system architecture, e.g., for accounting and funds management and reporting.

Under restructuring, some of the ideas proposed to resolve organizational and citizen problems may initially appear to be too radical but may later prove to be workable. For example, under the pressure of fiscal necessity the city of Oakland, California sold the public building that housed its museum to private investors. The city continued to provide museum services under lease agreement with the new owners. Similar sale and lease-back agreements have been successful for other cities. These arrangements enable local governments to reduce their maintenance and operation costs while private investment incentives help to insure proper maintenance and care for facilities. Users of facilities may be required to bear a larger proportion of costs through user fees. Better cost accounting can help in setting prices and appropriate fee levels relative to measures of ability to pay.

Justifications for provision of services by government must be thoroughly reevaluated by public officials in making decisions about user fees, program reductions, or whether to continue provide the service at all. The trend toward privatization has been driven by recognition that many of the services provided traditionally by government can and ought to be provided by the private or not-for-profit sectors of the economy. Restructuring that includes contracting out, privatization and other options often associated with the New Public Management (NPM) may be compatible in some instances as a means of reducing the scale and scope of government while increasing productivity. However, out-sourcing, public-private partnerships (PPP), privatization and other alternative service delivery methods have revealed their many weaknesses over the past decade or so and thus need to be thoroughly evaluated relative to the nature of perceived problems, their contexts and the range of alternative actions. Regrettably, we have learned that some alternative service provision methods that appear to promise cost reduction and increased productivity fail to achieve either outcome.

Further, it is fair to observe that restructuring has to be managed taking into account the rigidities and constraints built into hierarchical public bureaucracies. Typical manifestations of such constraints include overspecialization of function, devotion of inordinate amounts of time to self-defense rather than to problem solving, problem avoidance through obfuscation, resistance to the implications of new information, and a fear of adaptation to new social and economic conditions. Inability to adapt reduces the probability of survival. Recognition that these rigidities and constraints exist should cause us to devote more resources to the study of restructuring and to the education and training of public decision makers, managers, and service providers in methods for diagnosing the need for and managing public organizational change.

THE CHALLENGING POLITICAL CONTEXT FOR PUBLIC SECTOR RESTRUCTURING

Beginning in the United States in the mid-1970s and continuing through 2010 much public discussion has focused on the need to reduce the size, scope and role of government in the economy. Ironically, this dialogue continues as many governments add to the size and scope of their responsibilities including buying into or assuming ownership of private and third sector entities, e.g., private sector banking institutions and the auto manufacturing industry in the US in 2009. To a considerable extent the debate in the United States has and continues to parallel that occurring elsewhere in the world; such dialogue has taken place and presently continues in fiscally threatened nations around the world. The stimulus for serious dialogue about the size, scope, and role of government and the need for government restructuring is essentially economic in origin as noted at the beginning of this essay. However, politics always plays an important role in influencing decisions and typically reflects the dilemma posed to elected officials when they ponder how to respond to both economic stress and public opinion. For example, in the USA most citizens understand and dislike the high costs of health case but opposition among the public to reform intended in part to reduce costs is widespread. Consequently, in managing fiscal stress elected officials have to consider two important variables: how costs and services are to be affected by reform, and public fear of the negative consequences of any and all changes proposed.

Views on the pervasiveness and relative disadvantage resulting from the broad social and economic role played by government in general, and perceptions of inadequacy of public service performance specifically are subject to interpretation based on different political and ideological perspectives. Further, the condition of the economy may be, in some cases, somewhat independent of views on the need for restructuring government. In the United States, political demand for restructuring continued during a period of unprecedented economic growth that produced a balance federal government budget in the 1990s and then into the period of federal budget deficits in the 2000s, with the budget deficit dialogue presently a high priority in 2010 given the extensive neo-Keynesian stimulus spending undertaken by the federal government to rescue the economy and accompanying large annual budget deficits and total debt incurred. The US Congressional Budget Office has projected that total US debt could rise from 60% in 2010 to as high as 67% of GDP by 2020 if some means of reducing deficits is not developed and implemented by Congress and the President (Congressional Budget Office. 2010). While this level of debt may not be high compared to that of Italy at present for example, it is high for the USA, and the level of debt in Italy, Portugal, Spain, Ireland and Greece is of immediate concern to Western European nations and the European Union. Based on a number of economic assumptions a US debt load of 67% in 2020 is estimated to more than triple the amount of the annual interest payment on the federal government debt in that year compared to that projected for 2010 (from $207 billion to $723 billion).

Where public dissatisfaction increases, some politicians are able to orchestrate public frustration resulting from reduced economic opportunity and employment uncertainty to their own benefit, as was the case with the U.S. economy in the early 1990s which resulted in a change in the US presidency, and in the period 2008 to 2010 where members of Congress oppose restructuring because they know their constituents' fears of the consequences of any change. Typically the party out of power attempts to exploit public fear into voter support against government programmatic and fiscal restructuring.

The political as well as economic dilemma complicating the need for restructuring the public sector results in large part from the fact that for more than 50 years Western societies and economies have become accustomed to and to a great extent dependant upon continued growth of their governments and economies. Growth has fit well with the motives of political decision-makers seeking electoral and financial support on the basis of providing jobs, public works projects and welfare assistance, and the preferences of citizens desiring the benefits of increased political representation of their demands, needs, and preferences. Labor union power, although diminished in some nations including the United States, typically resists restructuring (e.g., Greece in March 2010), although the inevitability of budget and salary and staff reductions in government and in the private sector eventually has to be faced and negotiated carefully by union leadership.

Restructuring and budget cutting are not particularly attractive to politicians who, because of it, are no longer able to reward constituents in the traditional manner. Neither is it attractive to public managers desiring to preserve their programs and staffs, or to citizens benefiting from the provision of transfer payments and services by government. It is little wonder that, collectively, we tend to want to avoid thinking about public sector restructuring given that its outcomes are likely to displease great numbers of citizens and politicians.

CONCLUSIONS

Over the period from the early 1990s through 2010 in the United States and also globally, public sector revenues have accelerated and declined for number of reasons including (a) increased economic competition, (b) recessions that have reduced economic growth, tax revenues and employment, (c) major political changes including the end of the Cold War and corresponding economic and social reformulation in Germany, Central Europe, and other nations of the former Soviet Union, (d) tax reductions approved by the US Congress and President and other legislative bodies and executive officials internationally, some of which have been intended to stimulate economic growth, (e) for local and municipal governments reductions in national government transfer payments to subordinate governments (f) changes in government funding priorities for a wide variety of domestic services including education, social assistance programs, health care, national defense and security and other programmatic areas. Expenditure cuts by government decision makers have resulted from sizable reductions in tax and non-tax revenues as noted, as well as from shifts in policy priorities influenced by differing social philosophies regarding the costs and value of many services provided by government. However, as noted political motivation to redistribute or reduce the rates of growth of government expenditure, or to actually reduce spending levels in nominal or constant dollars, may be viewed to emanate from a variety of factors independent of public dissatisfaction with government and public sector performance.

Issues that must be addressed when public sector officials and managers face restructuring in response to economic challenges and changes in patterns of political and social demand include the following: Should the scope of public policies, programs and organizations be reduced? Why do government policies become immune to review, modification, and termination? How can we tell which policies and programs should survive and which should be modified, reduced, or terminated? How should decision-makers attempt to reduce or terminate public programs or organizations where this appears desirable?

The challenges confronted presently probably are the most serious for most nations since those faced during the depression of the 1930s and by Europe and Japan the end of the Second World War in 1945. Still, over the past five decades elected officials, public managers, fiscal and policy analysts, and the public have had to respond to the effects of changes in government policies, shifting political and spending priorities and restructuring of government organizations. Still, two factors are evident in observing responses to current fiscal conditions. The first is that public memory of past periods of fiscal stress appears to be almost nonexistent. Secondly, many public officials or managers now in office have had little or no experience with serious restructuring of government. Thus we are left to wonder not only how well present challenges will be managed but whether the lessons of success and failure resulting from attempts to cope with current circumstances will be learned and internalized so that we may manage such conditions better in the future.

This essay is intended to provide information that elected officials, public managers and others need to understand to better assess alternative methods for improving organizational restructuring during times of economic and fiscal stress. Evaluation of restructuring may be segmented into the determination of (a) the causes of economic and fiscal stress, (b) methods for improved management of restructuring, (c) the issues and dilemmas faced by public officials and managers attempting to manage restructuring, and (d) methods for either achieving or avoiding restructuring. The range of non-mutually exclusive approaches to management of restructuring includes:

- Doing nothing, likely to work only for a short time if economic and fiscal stress persists,
- Increasing revenues through a variety of means including borrowing and reducing expenditures,
- Increasing employee and organizational productivity and employing a set of innovative responses that are productivity-related, only some of which have been addressed in this essay.

The third category of productivity-related responses may be viewed to include a number of approaches including increased cooperation between and networking between organizations, programs and constituents, increased citizen volunteerism in provision of services to the public, mission and program rethinking and modification, joint service agreements within and between governments, and in some cases contracting out and privatization, given the caveats about such arrangements identified in this essay.

Before developing plans to manage restructuring, prudent elected officials and public managers need and likely will recognize and better define the characteristics of demand for restructuring. In doing so, they may wish to consider responding to this demand in a holistic manner rather than in the piecemeal fashion that has characterized attempts to restructure the public sector and public sector organizations in the past. Finally, it is important to note that restructuring initiatives must be tailored to the contextual demands of each national, regional, local, and organizational circumstance and cultural environment in which they are applied around the world. There is no one best way to restructure. Therefore, in managing economic and fiscal stress we are better off thinking about better rather than best practice. What works well in once circumstance many not work at all in others.

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