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# **Neoliberal Failures and the Managerial Takeover of Governance**

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## **Neoliberal Failures and the Managerial Takeover of Governance**

The history of neoliberalism is a messy attempt to turn theory into practice. Neoliberals struggled with their plans to implement flagship policies of monetarism, fiscal prudence and public sector privatisation. Yet, inflation was still cut, welfare slashed, and the public sector ‘marketised’. Existing literature often understands this as neoliberalism ‘failing-forward’, achieving policy goals by whatever means necessary and at great social cost. Often overlooked in this narrative, though, is how far actually existing neoliberalism strayed from the original designs of public choice theorists and neoliberal ideologues. By examining the history of Thatcher’s 1980s public sector reforms we demonstrate how, after neoliberal plans for marketization ran aground, neoliberal governments turned to an approach of Managed Competition that owed more to practices of postwar planning born in Cold War USA than neoliberal theory. Rather than impose a market-like transformation of the public sector, Managed Competition systematically empowered top managers and turned governance into a managerial process; two developments that ran directly against core precepts of neoliberalism. As we show, the history of these early failures and adjustments provides vital insights into the politics of managerial governance in the neoliberal era.

Keywords: Neoliberalism, New Public Management, Thatcherism, Managerial governance

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# Neoliberal Failures and the Managerial Takeover of Governance

## Abstract

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## Introduction

Neoliberalism, it seems, keeps succeeding where it fails. Its flagship monetarist programme failed to control the supply of money and was quickly abandoned. Yet neoliberal governments succeeded in cutting inflation anyway.<sup>1</sup> Supply-side reforms failed to balance government budgets, but still slashed welfare spending.<sup>2</sup> Public choice proponents failed to privatise the public sector, but still transformed it into a market-like environment of internal competition and outsourcing.

This paradox is well recognised. A range of scholars - who have variously treated neoliberalism as an ideology<sup>3</sup>, a theory of politics<sup>4</sup>, a class project<sup>5</sup>, a network of ideas<sup>6</sup>, or an uneasy combination of all<sup>7</sup> - have noted how neoliberals are effective at instrumentalising crises of their own making in order to further promote their agenda.<sup>8</sup> Bob Jessop, for example, argues that Margaret Thatcher and Ronald Reagan pursued 'strategies of destabilization' precisely to engineer crises they could then exploit.<sup>9</sup> Similarly, Jamie Peck and collaborators have described neoliberalization as a 'crisis-induced, crisis-inducing form of market-disciplinary regulatory restructuring'<sup>10</sup> that 'fails forward', hegemonic while forever in

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<sup>1</sup> Martijn Konings, 'Rethinking Neoliberalism and the Subprime Crisis: Beyond the Re-Regulation Agenda', *Competition & Change* 13, no. 2 (2009): 108–27; Jacqueline Best, 'The Quiet Failures of Early Neoliberalism: From Rational Expectations to Keynesianism in Reverse', *Review of International Studies* 46, no. 5 (December 2020): 594–612.

<sup>2</sup> Melinda Cooper, *Family Values: Between Neoliberalism and the New Social Conservatism* (Cambridge: MIT Press, 2017).

<sup>3</sup> Bruno Amable, 'Morals and Politics in the Ideology of Neo-Liberalism', *Socio-Economic Review* 9, no. 1 (1 January 2011): 3–30.

<sup>4</sup> Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution* (New York: Zone Books - MIT, 2015).

<sup>5</sup> David Harvey, *A Brief History of Neoliberalism* (Oxford University Press, 2007).

<sup>6</sup> Philip Mirowski and Dieter Plehwe, *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Harvard University Press, 2009).

<sup>7</sup> Colin Crouch, *The Strange Non-Death of Neoliberalism* (Cambridge: Polity, 2011).

<sup>8</sup> Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (London: Penguin, 2008); Fred Block and Margaret R. Somers, *The Power of Market Fundamentalism: Karl Polanyi's Critique*, (Cambridge: Harvard University Press, 2016); Graham Harrison, 'Authoritarian Neoliberalism and Capitalist Transformation in Africa: All Pain, No Gain', *Globalizations* 16, no. 3 (16 April 2019): 274–88.

<sup>9</sup> Bob Jessop, 'Ordoliberalism and Neoliberalization: Governing through Order or Disorder', *Critical Sociology* 45, no. 7–8 (28 March 2019): 967–81.

<sup>10</sup> Jamie Peck, Nik Theodore, and Neil Brenner, 'Neoliberalism Resurgent? Market Rule after the Great Recession', *South Atlantic Quarterly* 111, no. 2 (2012): 268.

construction.<sup>11</sup> From such accounts, neoliberalism seems unimpeachable, transforming the crises of its own making into yet further resources for neoliberalisation.<sup>12</sup>

In a recent contribution, however, Jacqueline Best questions this framing.<sup>13</sup> Her archival work lays bare the struggles neoliberals faced dealing with the realities of governance when they took office in the early 1980s. Her work confirms the insights of a broader literature that has highlighted how failures in governance proved more challenging for neoliberal governments than is often recognised.<sup>14</sup> She demonstrates how neoliberals curbed inflation only through a deep recession, rather than by controlling the money supply as they initially intended.<sup>15</sup> While Best draws attention to how neoliberal failure was far more significant than previously thought, it remains to be determined from her work how these crises impacted the neoliberal approach to governance. Not accounting for how failure changed the neoliberal project risks downplaying the true significance of the early failures and to perpetuate the idea that neoliberalism stumbled into success in spite of itself.

This article contributes to this debate by arguing that the early failures of neoliberals fundamentally altered the nature of neoliberal governance. As we show, neoliberals were unable to provide the ‘fix’ for governance they desired and were instead forced to turn to unlikely substitutes that considerably transformed their project. The result was more meaningful in shaping the legacy of neoliberal governance than is often realised.

To make this argument, we use the case of public sector reform in the United Kingdom by Margaret Thatcher’s governments of the 1980s and the surprising rise of new public management (NPM). The international growth of NPM is particularly interesting because it is

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<sup>11</sup> Jamie Peck, *Constructions of Neoliberal Reason* (Oxford: Oxford University Press, 2010), 33.

<sup>12</sup> Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown*, 2013.

<sup>13</sup> Best, ‘The Quiet Failures of Early Neoliberalism’.

<sup>14</sup> Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: University of Chicago Press, 2006); Martijn Konings, ‘Neoliberalism and the American State’, *Critical Sociology* 36, no. 5 (2010): 741–65.

<sup>15</sup> For a different reading of the failures of monetarism which places the emphasis instead on a broader paradigmatic shift in monetary governance that took place in the 1980s, see Dutta, 2020.

often seen as a key manifestation of ‘roll-out’ neoliberalism; a pragmatic and more interventionist approach meant to socially engineer market-like dynamics.<sup>16</sup> As we show, the literature usually presents these reforms as instilling a competitive logic into public services by enforcing penalties and rewards on service providers through administrative means. From this perspective, NPM entrenched ‘market-like’ techniques of management in the public sector as a substitute for a more direct marketisation that would have curbed the role of the state in providing public services.

While NPM is commonly depicted as part of the logic of neoliberalism, we see it as a departure. We argue that after neoliberal policymakers failed to marketize the public sector as they initially hoped, they resorted instead to a systematic empowerment of *managerial* forces. Managerial governance was radically different to a neoliberal worldview. Neoliberal policymakers entered office hoping to reduce the cost of public services and make bureaucrats at every level of government accountable to the public. Managerialism, instead, focused on empowering top decision-makers. In the process, it lent greater discretionary power to senior managers, who were the very people neoliberal theorists were suspicious about. Moreover, the dramatic expansion of managerial planning, oversight, and audit under NPM necessitated the establishment of a vast bureaucratic infrastructure that neoliberals had long resented.

In making this argument, our aim is not simply to show ‘how neoliberalism actually is’ but to make a more important point about how we frame our interpretations of its practices. While we use the term of neoliberal governance because it commonly refers to the practices of governance put into place from the 1980s onwards, our goal is to challenge how we conceptualise these practices. Many scholars acknowledge that neoliberalism was more messy than its ideological representations and that it necessitated strong state intervention. Yet this often leads to a more limited argument about changes in the form of governance with the

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<sup>16</sup> Jamie Peck and Adam Tickell, ‘Neoliberalizing Space’, *Antipode* 34, no. 3 (2002): 380–404.

assumption that the new practices still pursued the same broad aims, as neoliberals continue to ‘fail-forward’. By contrast, we argued that the gap between ideas and practice reveals instead the vital role of a different political lineage: managerialism. Indeed, NPM had more to do with postwar planning than with the fantasies of public choice neoliberals.<sup>17</sup> For this reason, there is much to learn by contrasting managerial ideas of governance with neoliberal ones. Yet this has too often been neglected in IPE because of a belief that debates about NPM in Britain, and more generally management, are the concerns of other disciplines. As a result, IPE has often misunderstood the widespread managerial dimension of neoliberalism.<sup>18</sup>

This article builds on an argument we previously developed about the dramatic rise of managerial practices in the public and private sector which first emerged in post-war United States before spreading internationally.<sup>19</sup> Here, we examine the ways in which planning was updated for the neoliberal era to restructure the UK public sector starting in the 1980s. To do so, we proceed in three steps. First, we examine how the literature has tried to make sense of neoliberal failure. Scholars have recognised that practices of neoliberal governance have veered far from initial neoliberal plans. Yet they continue to privilege neoliberal theory to make sense of this discrepancy. By contrast, we invert this framing to privilege the practices of managerialism.

Our second section elaborates on the nature of these practices by developing the concept of managerial governance. We highlight its distinctive features, where it comes from, and why it is not possible to understand its practices by starting from neoliberal theory. We argue that

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<sup>17</sup> Johanna Bockman, *Markets in the Name of Socialism: The Left-Wing Origins of Neoliberalism* (Stanford: Stanford University Press, 2011).

<sup>18</sup> Matthew Eagleton-Pierce and Samuel Knafo, ‘Introduction: the political economy of managerialism’, *Review of International Political Economy*, 27, no. 4 (2020): 763-779.

<sup>19</sup> Sahil Jai Dutta et al., ‘Managers, Not Markets’, *IPPR Progressive Review* 25, no. 2 (2018): 166–76.; Samuel Knafo et al., ‘The Managerial Lineages of Neoliberalism’, *New Political Economy* 24, no. 2 (2018): 235–51; Samuel Knafo, ‘Neoliberalism and the Origins of Public Management’, *Review of International Political Economy* 27, no. 4 (2 July 2020): 780–801.

our historical perspective provides an illuminating vantage point to conceptualise governance in the age of neoliberalism.

To demonstrate this, our third section examines the struggles of the Thatcher governments in coming to terms with the practicalities of governing healthcare and education. The UK is a paradigmatic case of the international rise of NPM because it is commonly identified as the place where the shift was the most striking.<sup>20</sup> Along with New Zealand and Australia, it constituted an early template that was then translated internationally through the OECD<sup>21</sup>. As such, focussing on the UK reveals more general insights on the politics of neoliberal governance. We conclude by considering how managerial empowerment is transforming the landscape of global capitalism.

## 1. Beyond the Ideal of the Market: What is Driving the Failures of Neoliberals?

The literature on neoliberalism has focussed on failure to make sense of a striking fact: the disjuncture between the ideals preached by neoliberals and the reality of their practices. According to Peck, the high theory of neoliberalism was quickly swapped for a ‘turgid reality... variously failing and flailing forward’ as early neoliberal attempts in the 1980s at privatisation and deregulation gave way to ‘(mis)intervention in the form of market-friendly governance’.<sup>22</sup>

What makes this gap particularly interesting is that many see it as a crucial window into the role of the state in neoliberalism.<sup>23</sup> As scholars often remark, neoliberals rely on repression

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<sup>20</sup> Antonino Palumbo and Alan Scott, *Remaking Market Society: A Critique of Social Theory and Political Economy in Neoliberal Times* (New York: Routledge, 2017).

<sup>21</sup> L. Pal, *Frontiers of Governance: The OECD and Global Public Management Reform* (Springer, 2012).

<sup>22</sup> Peck, *Constructions of Neoliberal Reason*, 2010, 22.

<sup>23</sup> Peck, *Constructions of Neoliberal Reason*; Loïc Wacquant, ‘Three Steps to a Historical Anthropology of Actually Existing Neoliberalism’, *Social Anthropology* 20, no. 1 (2012): 66–79; Damien Cahill, *The End of Laissez Faire? On the Durability of Embedded Neoliberalism* (Cheltenham: Edward Elgar, 2014); Cemal Burak Tansel, ed., *States of Discipline: Authoritarian Neoliberalism and the Contested Reproduction of Capitalist Order* (Lanham: Rowman & Littlefield Publishers, 2016).

and discipline to produce the market society ordered around competition that they desire.<sup>24</sup> The fact that neoliberal states are highly interventionist is often taken then as a sign of the lengths they must go to produce this.<sup>25</sup> According to this literature, the interventionist drift in neoliberal practices betrays the profoundly undemocratic nature of neoliberalism; a conspicuous contradiction at the heart of a project that seeks to impose itself authoritatively, while promising freedom for all. Scholars have thus widely revealed the latent authoritarianism in the early writings of neoliberals like Friedrich von Hayek,<sup>26</sup> or ordoliberals like Walter Eucken.<sup>27</sup>

Building on this insight, a rapidly growing Foucauldian literature has taken to downplaying the importance of actual markets to neoliberalism and redirected our attention towards administered forms of control. From this perspective, the pursuit of market-rule was never really about the implementation of actual markets. It is instead a defining norm that informs state intervention and political forms of manipulation. This is not to say that markets are unimportant in these accounts, but rather that scholars no longer hold markets themselves to be the defining governing mechanism of neoliberalism. For example, Wendy Brown argues that governance in the neoliberal era never worked by truly marketising all spheres of society. Rather, it ‘disseminated the model of the market to all domains and activities’.<sup>28</sup> Market-like competition became a normative template for political control, rather than markets being a policy device to be rolled out.

The development of NPM is often held up as a perfect example of this. The rampant quantification of the public sector and use of performance indicators is thought to reflect a ‘market-like’ form of social engineering that aimed to embed the norms of competition into the

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<sup>24</sup> Wacquant, ‘Three Steps to a Historical Anthropology of Actually Existing Neoliberalism’.

<sup>25</sup> Fred Block and Margaret R. Somers, *The Power of Market Fundamentalism: Karl Polanyi’s Critique*, Reprint edition (Cambridge: Harvard University Press, 2016).

<sup>26</sup> Ian Bruff and Kathryn Starnes, ‘Framing the Neoliberal Canon: Resisting the Market Myth via Literary Enquiry’, *Globalizations* 16, no. 3 (16 April 2019): 245–59.

<sup>27</sup> Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge: Harvard University Press, 2018).

<sup>28</sup> Wendy Brown, *Undoing the Demos: Neoliberalism’s Stealth Revolution* (Brooklyn: Zone Books, 2015), 31.

public sector. As William Davies points out, NPM's reliance on 'prosthetic prices' was less 'concerned with expanding markets per se, than in expanding the reach of market-based principles and techniques of evaluation'.<sup>29</sup> NPM was not a pragmatic adjustment by neoliberals to their early failure to extend markets. Rather, according to Davies, it was from the very beginning a means for ordering society along market-based lines.

This Foucauldian literature provides an important corrective to early understandings of neoliberalism by emphasising the centrality of social engineering to governance. Moreover, by conceptualising neoliberalism as a broad rationality rather than a specific set of policies, it allows us to make sense of the fact that neoliberal reforms were often carried out by people who may not identify themselves as neoliberals.

However, we argue that specifying the relationship between the neoliberal ideas and the managerial practices we now see spreading is more difficult than often realised. The reason for this is that the approach of public choice that informed the neoliberal view on the public sector was geared towards limiting bureaucratic power, yet NPM often celebrated the discretionary power entrusted to bureaucrats now recast as 'managers'.<sup>30</sup> This tension led public administration scholars to write about NPM as the 'curious marriage' of two opposites: neoliberal and managerial ideas.<sup>31</sup>

While we can doubt the sincerity of neoliberals over their stated desire to empower the public,<sup>32</sup> the important point here is that there is very little in the history of neoliberal thought to account for the rise of managerialism. The calculation debate of the early twentieth century, formative to the rise of neoliberalism, was predicated on a rejection of the idea that planners

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<sup>29</sup> William Davies, *The Limits of Neoliberalism* (Los Angeles: SAGE Publications, 2014), 160.

<sup>30</sup> Davies, *The Limits of Neoliberalism*.

<sup>31</sup> Peter Aucoin, 'Administrative Reform in Public Management: Paradigms, Principles, Paradoxes and Pendulums', *Governance* 3, no. 2 (1990): 115–37; Christopher Hood, 'A Public Management for All Seasons?', *Public Administration* 69, no. 1 (1991): 3–19.

<sup>32</sup> Nancy MacLean, *Democracy in Chains: The Deep History of the Radical Right's Stealth Plan for America* (New York: Viking Press, 2017).

could replicate the workings of a market. Neoliberals at the time were reacting against claims made by state planners that they could do the same kind of optimisation as the price mechanism. For this reason, actual markets were crucial for neoliberals. Hayek warned that ceding any ground on this issue would allow Keynesian planners to claim the mantle of market efficiency and fuel authoritarianism.<sup>33</sup> For market efficiency is a vague notion that can easily be claimed by planning economists.<sup>34</sup> Anyone promoting some form of optimisation can claim to do the work of the market. This is why Hayek insisted that the sole protection against this risk was to only trust actual markets to deliver on the promises of market-based optimisation.

One way to move beyond this apparent paradox is to come back to the theme of neoliberal failure developed by Best. As we show, neoliberals struggled to come to terms with the reality of power. It was not simply that it proved difficult to translate ideas into practice.<sup>35</sup> More fundamentally, they came against the limits of their own political rhetoric revolving around the idea of the market.<sup>36</sup> For what made neoliberal theory so effective politically is also what hindered the ability of neoliberals to reshape society in the way they desired. Indeed, calling on the market as an abstract mechanism to handle social issues was an effective political message. Neoliberals could thus hide behind vague promises of marketisation, simply suggesting ways to put into place the conditions for markets to operate, but leaving it to the market to actually solve the problem. By contrast, others were forced to spell out solutions much more concretely in ways that would make them liable politically. This rhetorical advantage, however, repeatedly left neoliberals with limited resources once in government to address the real problems they confronted. While market rhetoric was effective at justifying one-off moves (e.g. big tax cuts or interest-rate shocks), and in that respect had important policy

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<sup>33</sup> F. A. Hayek, *The Road to Serfdom*, 2 edition (London: Routledge, 2001).

<sup>34</sup> Philip Mirowski and Edward M. Nik-Khah, *The Knowledge We Have Lost in Information: The History of Information in Modern Economics* (Oxford: Oxford University Press, 2017).

<sup>35</sup> Best, 'The Quiet Failures of Early Neoliberalism'.

<sup>36</sup> Samuel Knafo, 'Rethinking Neoliberalism after the Polanyian Turn', *Review of Social Economy* 0, no. 0 (4 March 2020): 1–26.

implications, it proved much less effective as a programme of governance. This problem, we argue, accounts for why scholars of neoliberalism long had the impression that it lacked a governance fix. As late as the mid-1990s, for example, Peck and Tickell still spoke of neoliberalism as a mode of ‘social regulation in waiting’.<sup>37</sup>

Instead of rethinking neoliberalism as a political project revolving around the implementation of market norms, we argue that the new managerialism essentially filled a vacuum of governance at the heart of the neoliberal project. At a time when scholars stress the “messiness” of neoliberalism as a concept<sup>38</sup>, we think it is important to delineate a neoliberal lineage from a managerial one. The case of UK neoliberalism is interesting in this regard because it clearly illustrates how officials in Thatcher’s government rapidly came to the conclusion that public choice ideas were largely unworkable.<sup>39</sup> The initial plans for the marketisation of the public sector (i.e. adopting vouchers for schools and private insurance for healthcare) were difficult to implement and offered limited options for a government to drive change. The Thatcher government feared that it would entrench the status quo by giving more freedom to public sector professionals to carry on as they had previously. This weakness opened the door for managerial actors to push their strategies and practices in the name of getting value for money. They used references to marketisation (or market norms) as a way to repackage an old project of managerial governance. In fact, it was precisely the fluidity of these ‘market’ norms that helped state planners repackage managerial ideas used in the 1960s as a means to pursue market-led reform in the 1980s. The Thatcher government would somewhat reluctantly follow this path. While it provided the political leverage to radically change the public sector, it required far greater centralisation and managerial control than her neoliberal

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<sup>37</sup> Jamie Peck and Adam Tickell, ‘Searching for a New Institutional Fix: The After-Fordist Crisis and the Global-Local Disorder’, in *Post-Fordism* (Hoboken: John Wiley & Sons, Ltd, 1994), 280–315.

<sup>38</sup> Rajesh Venugopal, ‘Neoliberalism as Concept’, *Economy and Society* 44, no. 2 (3 April 2015): 165–87, <https://doi.org/10.1080/03085147.2015.1013356>.

<sup>39</sup> This point was made very effectively by British filmmaker Adam Curtis in his BBC documentary *The Trap*.

convictions warranted. Instead of encouraging public institutions to actually compete, the central state became increasingly involved in steering the minutiae of public services, and placing professionals under the control of managerial superiors rather than the unpredictable hand of the market.

## 2. The Neoliberal Rebirth of Managerial Governance

The practices of managerial governance that were adopted to fix the failure of neoliberalism have a long international history that goes back to the rise of systems analysis in the US defence sector in the 1950s. This approach promised a new science of decision-making that ultimately recast governance in managerial terms. A growing body of scholars have highlighted the importance of this lineage and its underestimated impact on business<sup>40</sup> and public management.<sup>41</sup> Its legacy is seen in the influence of rational choice and game theory,<sup>42</sup> in the reliance on cost-benefit analysis,<sup>43</sup> the imperialism of economics,<sup>44</sup> and development of systems thinking.<sup>45</sup>

Systems analysis was created by the RAND Corporation in an attempt to develop a scientific approach to war making. Building on the innovations of Operations Research (OR) during the Second World War, its architects believed that decision-making could be made more effective by reframing it as a strategic practice of optimisation. This involved processing costs and benefits for different course of actions to determine the best one. It would set the

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<sup>40</sup> Mie Augier and James G. March, *The Roots, Rituals, and Rhetorics of Change: North American Business Schools After the Second World War* (Stanford: Stanford University Press, 2011).

<sup>41</sup> Knafo, 'Neoliberalism and the Origins of Public Management'.

<sup>42</sup> Sonja Michelle Amadae, *Rationalizing Capitalist Democracy: The Cold War Origins of Rational Choice Liberalism* (Chicago: University of Chicago Press, 2003).

<sup>43</sup> Banzhaf, H. S., 'Consumer Surplus with Apology: A Historical Perspective on Nonmarket Valuation and Recreation Demand', *Annual Review of Resources Economics* 18, no. 2, 1-25.

<sup>44</sup> Philip Mirowski, *Machine Dreams: Economics Becomes a Cyborg Science* (Cambridge: Cambridge University Press, 2008).

<sup>45</sup> Heyck, H., 'The Organizational Revolution and the Human Sciences', *Isis* 105, no 1 (2014), 1-31.

foundations for a form of performance management. By assessing how various tactics performed, systems analysts hoped to determine how various parameters affect outcomes and then use this to decide on the course of action most likely to perform in line with what they wished to achieve.

In the 1960s, systems analysis was implemented as an administrative technique in the US Department of Defence. Orchestrated by Robert McNamara in the form of the Planning-Programme-Budgeting System (PPBS), this managerial form of governance was initially deemed a great success. It empowered a new set of actors, often scientists with limited military or policy experience, to take managerial control and challenge entrenched authorities. This promise of scientific control led to its diffusion across the Federal administration in 1965 as part of President Lyndon Johnson's 'Great Society' reforms. The redeployment of a practice initially developed for the military, however, created great administrative strains when applied to a wider array of social policies.

On the one hand, the vast demand for expertise to carry out systems analysis in these new sectors fuelled the emergence of a broad new policy infrastructure.<sup>46</sup> This was comprised of new public policy analysis schools, think tanks and consultancies. Often established by systems analysts coming from the defence sector to provide expertise on social policy, these new institutions held vested interests in the success of this managerial approach to policy-making. They would play a vital role in propagating systems analysis internationally and, later, in repackaging these practices for the neoliberal era.

On the other hand, the brutal adjustments that were required to apply systems analysis to social policy proved unsustainable and led to a spectacular collapse of PPBS in the late 1960s. This gave the misleading impression to scholars that managerial governance was swept

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<sup>46</sup> Elizabeth Popp Berman, *Thinking Like an Economist: How Economics Became the Language of U.S. Public Policy* (Princeton: Princeton University Press, Forthcoming).

away by the market-oriented neoliberal ascendancy. Yet, these practices were in fact in their infancy. They continued to evolve rapidly after the demise of PPBS, being pushed by the policy ecosystem that arose around the implementation of PPBS.

The transition between the managerial governance of the 1960s associated with PPBS and the one that reemerged in the neoliberal era was played out around the efforts of its proponents to solve two important problems deemed responsible for the failure of PPBS.

The first stemmed from the challenge of reformatting decision-making in managerial terms. Using optimization as a framework for policymaking meant that everything that one wished to take into account when making a decision would need to be quantified as an input for modelling. Not only was this computationally difficult, it was logistically impractical. The statistical infrastructure of national bureaucracies did not measure the kinds of things that needed to be taken into account for systems analysis.<sup>47</sup> Administrative statistics had traditionally focused on accounting for resource use, but there was a striking lack of data about policy performance and outcomes. It was this data that systems analysts required for its cost-benefit models to evaluate possible courses of action. The result was a series of attempts to cut corners and plug overly simplistic proxies to stand in for highly complex processes. An egregious example was the much-criticized use of the ‘body count’ during the Vietnam war as the benchmark of progress within McNamara’s managerial war machine.<sup>48</sup> This case would illustrate a recurrent problem for managerial governance: many of the aspects it was supposed to manage were not easily amenable to quantification.

The second problem was related to implementation and would become a defining political fault line for managerial governance. Indeed, systems analysts quickly realized that

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<sup>47</sup> William F. West, *Program Budgeting and the Performance Movement: The Elusive Quest for Efficiency in Government* (Georgetown University Press, 2011), 22.

<sup>48</sup> Michele Chwastiak, ‘Rationality, Performance Measures and Representations of Reality: Planning, Programming and Budgeting and the Vietnam War’, *Critical Perspectives on Accounting* 17, no. 1 (January 2006): 29–55.

the plans developed centrally were often laid to waste once they arrived in the hands of professional public servants tasked to implement them.<sup>49</sup> The distrust on the ground towards the analytical methods of managerial planners led to various forms of resistance that were blamed for the failures of PPBS. Although this was already a problem reflected in the frequent clashes between the military establishment and systems analysts,<sup>50</sup> it proved particularly daunting in the sphere of social policy. The greater decentralization of policymaking in the field of education, healthcare, or urban planning,<sup>51</sup> and a widespread lack of experience with the analytical practices of systems analysis, contributed to spectacular failures.<sup>52</sup>

Together, these problems could have led to the full demise of systems analysis. Yet, the vast investments in a new policymaking infrastructure at the time meant that there was a critical mass of social forces with vested interests in the success of managerial planning.<sup>53</sup> Particularly important were the investments in social reporting and performance management to feed the optimizing calculations of managerial governance.<sup>54</sup> During the 1970s, the proponents of managerial governance found new ways to reframe their techniques and gradually realign their projects with an increasingly popular neoliberal message. The amorphous notion of market competition, in particular, would provide them rhetorical cover to recast planning as a form of ‘market-like’ efficiency.

A good example of this was the trajectory of Alain Enthoven, a key healthcare reformer in the 1980s and 1990s who had a profound influence in the US and in the UK. In the 1960s,

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<sup>49</sup> Jeffrey L. Pressman and Aaron Wildavsky, *Implementation: How Great Expectations in Washington Are Dashed in Oakland* (Univ of California Press, 1984).

<sup>50</sup> Alex Abella, *Soldiers of Reason: The RAND Corporation and the Rise of the American Empire*, Reprint edition (Boston: Mariner Books, 2009).

<sup>51</sup> David R. Jardini, ‘Out of Blue Yonder: The Transfer of Systems Thinking from the Pentagon to the Great Society’, in *Systems, Experts and Computers: The Systems Approach in Management and Engineering, World War II and After*, ed. Agatha Hughes and Thomas Hughes (Cambridge: MIT Press, 2000), 311–59; Jennifer S. Light, *From Warfare to Welfare: Defense Intellectuals and Urban Problems in Cold War America* (Johns Hopkins University Press, 2005).

<sup>52</sup> Jacqueline Best, *Governing Failure* (Cambridge: Cambridge University Press, 2014).

<sup>53</sup> Berman, *Thinking Like an Economist: How Economics Became the Language of U.S. Public Policy*.

<sup>54</sup> Knafo, ‘Neoliberalism and the Origins of Public Management’.

Enthoven was principal advisor to McNamara on PPBS and the person in charge of the systems analysis bureau.<sup>55</sup> After the collapse of PPBS, Enthoven turned his attention to healthcare. In the process, he played a vital role in developing the idea of ‘managed competition’ which became an influential template for public service reform under neoliberalism.<sup>56</sup>

Managed competition was a re-articulation of systems analysis that rebranded managerial optimization as a process of competition. In general, the idea was that top managers would steer the delivery of services by commissioning competing providers. This framing essentially kept the basic ideas of systems analysis but considerably downplayed the responsibility of top managers. PPBS had placed the onus of decision-making on the efficacy of plans drawn up by top managers. In contrast, managed competition recast top officials as adjudicators tasked with evaluating between alternatives, essentially arbitrating a competitive process between different options. The effect was to push the responsibility of outcomes onto subordinates, recasting the decision-making power at the top as an exercise in validating the outcomes of a competition even if in reality top managers continued to exercise their discretionary power. Managed competition thus had the advantage of using the rhetoric of competitive market efficiency, while still working to empower managers.

Enthoven’s conception of managed competition was initially developed to address the failures of a decentralised market of health provision in the US, which he pinned on the lack of managerial leadership. In the US, the average consumer of marketized healthcare, he argued, was prey for unscrupulous providers who inflated costs and selectively treated the easiest/cheapest conditions to cover. He wrote that ‘if not corrected by a careful design, [the] market is plagued by problems of free riders, biased risk selection, segmentation, and other

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<sup>55</sup> Allen Schick is another prominent US expert on PPBS in the 1960s who later became a central voice in the NPM movement via the OECD.

<sup>56</sup> Alain C. Enthoven, *Theory and Practice of Managed Competition in Health Care Finance* (Amsterdam: North Holland, 1988); Alain C. Enthoven, ‘Managed Competition: An Agenda for Action’, *Health Affairs* 7, no. 3 (1 January 1988): 25–47; Alain C. Enthoven, ‘The History and Principles of Managed Competition’, *Health Affairs* 12, no. suppl 1 (1 January 1993): 24–48.

sources of market failure'.<sup>57</sup> To correct this, Enthoven argued for the creation of 'sponsors' (named Health Maintenance Organization – HMOs) that could 'manage the demand side to make the market achieve desirable results'.<sup>58</sup> These sponsors would pool patients into manager-run vehicles (HMOs) that would choose for patients how their healthcare would be delivered. While still working in a decentralised market of healthcare providers, the consumer-patient was removed and replaced by managers acting as guarantors for the quality of services that citizens would get. 'Managed competition,' Enthoven wrote, 'relies on a sponsor to structure and adjust the market... to establish equitable rules, create price-elastic demand, and avoid uncompensated risk selection'.<sup>59</sup> In the process, managers would make use of a vast array of performance data over both patients and providers to manipulate the market towards particular outcomes.

While these themes seem to align well with the neoliberal rhetoric on competition, they betray very different agendas. Neoliberals have traditionally articulated their project in constitutional terms. In other words, they focus on establishing fixed rules of market competition. This is most clearly seen in the ordoliberal lineage.<sup>60</sup> There is certainly room to challenge how fair these rules are in practice, with the language of market competition being seen by many as a rhetorical ploy for pushing pro-business policies.<sup>61</sup> Nevertheless, it remains that governance for neoliberals is a matter of fixing rules and then letting things play out, justifying inequitable outcomes by reifying markets as the arbiter for social competition. By contrast, managerial governance promoted discretionary schemes led by public managers. Organic intellectuals such as Enthoven justified managerial leadership on the grounds that

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<sup>57</sup> Enthoven, 'The History and Principles of Managed Competition', 44.

<sup>58</sup> Enthoven, 'Managed Competition'.

<sup>59</sup> Enthoven, 'The History and Principles of Managed Competition'.

<sup>60</sup> Thomas Biebricher and Frieder Vogelmann, eds., *The Birth of Austerity: German Ordoliberalism and Contemporary Neoliberalism* (Maryland: Rowman & Littlefield, 2017).

<sup>61</sup> Block and Somers, *The Power of Market Fundamentalism*; David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2007).

managers can do the work of optimisation that neoliberals assign to markets. This implies a very different perspective on the use of rules of competition that is much more malleable and instrumental as a means to empower managers to achieve particular outcomes.

As the next section will show, this lineage of managerial governance had an important influence over the neoliberal efforts to reform the public sector in the 1980s. Despite entering office with policy proposals to radically overhaul public services by marketizing it, neoliberals quickly realised that such plans could not drive fundamental change. Seeking to gain political control over a public sector they despised, neoliberals turned to a set of practices linked to managerial governance that promised control in the name of the market.

### 3. How Public Managers Hijacked a Hollow Neoliberal Program

Having shown the difference between the constitutional politics of neoliberal theory and the discretionary schemes of managed competition, we now examine more broadly how neoliberal governments ended up substituting this managerial governance for the market ‘choice’ policies they had initially promised. We look specifically at the case of the Thatcher government in the 1980s to demonstrate this process in three steps. First, we outline the plans initially hatched by British neoliberals to reconfigure healthcare and education by empowering citizen-customers. Second, we show how the Thatcher government quickly abandoned these ideas once it realised that ‘marketisation’ would not drive the change it desired. Third, we examine how the government turned towards practices of managerialism to deal with healthcare and schooling, establishing a new managerial infrastructure inspired by the lineage of managerial governance.

## *The Neoliberal Utopian Dream*

The rise of British neoliberalism initially tapped into a growing feeling that the central state was losing its grip on the standards of public service provision and control over its organisation. In particular, ‘unaccountable’ public sector professionals, such as teachers and doctors, were attacked by neoliberals for being complicit in slipping standards, rising costs, and radical left-wing politics. This concern about the lack of accountability of public service professionals had been building for some time. Already in 1970, the Conservative government of Edward Heath had placed standards and accountability in the NHS high up its agenda. The Heath government perceived the NHS as an overly siloed service run by self-interested professionals who were not working in unison and, consequently, wasting money. This would lead to the 1973 *NHS Reorganisation Act*, that created a new administrative layer to oversee the delivery of healthcare.

Debates about schooling were similarly fuelled by a conservative critique over standards and costs. The post-war expansion of comprehensive education<sup>62</sup> in England and Wales<sup>63</sup> triggered a backlash from conservatives critical of the perceived diminishing of standards. They saw falling standards as a consequence of pursuing educational equality and the emergence of ‘progressive’ teaching methods said to undermine traditional values.<sup>64</sup> A series of local school scandals were used by the conservative national press to drive a sense of crisis in education. Most notably, the refusal of teachers at a William Tyndale Junior School in Islington in July 1975 to allow school managers from the Local Education Authority to inspect their school ‘became the topic of almost daily national coverage’ and emblematic of a sector deemed out of control.<sup>65</sup> It was partly in response that in 1976 Labour Prime Minister James

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<sup>62</sup> Comprehensive schools are the British term for non-selective, state-run schools free at the point of use

<sup>63</sup> Scotland runs an separate education system

<sup>64</sup> Clyde Chitty, *Towards a New Education System: The Victory of the New Right?* (Psychology Press, 1989), 50–51.

<sup>65</sup> Kathryn Riley, *Whose School Is It Anyway?: Power and Politics* (London ; Bristol, PA: Routledge, 1998).

Callaghan's 'Ruskin Speech' made the case for improving school standards by making the teaching profession accountable to central government.<sup>66</sup>

Riding this wave, a neoliberal project of public sector reform began to crystallise around think tanks like the Institute for Economic Affairs (IEA) and the Centre for Policy Studies (CPS). These think tanks promoted the idea that government could create market-like pressures on public services by making it easier for people to choose among different providers. Empowering users to choose, it was thought, would generate competitive pressures akin to a market. By making health or education professionals face the scrutiny of public choice, market discipline would drive up standards and provide a mechanism of accountability.

In health, ideas of reform crystallised around the idea of promoting choice by shifting to a system of private insurance.<sup>67</sup> Shortly after Thatcher became leader of the Conservative Party, a 1976 policy statement *The Right Approach* made the case for growing private sector provision.<sup>68</sup> This commitment was reaffirmed after taking office in 1979. The *British Medical Journal* noted that Thatcher's first Queen's Speech promised to 'facilitate the wider use of private medical care'.<sup>69</sup> Building on this, a lengthy CPS report published in 1980, *The National Health Dis-Service*, argued that private insurance was a useful means to limit state involvement and encourage market initiative.<sup>70</sup> Meanwhile, the Conservative Party's Policy Unit gushed over the 'phenomenal' growth in private health cover in the recent period and hoped 'existing corporate tax reliefs to individuals might well unleash a further spurt'.<sup>71</sup>

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<sup>66</sup> Bernard Donoghue, *Prime Minister: The Conduct of Policy under Harold Wilson and James Callaghan*, vol. 1 (Vintage, 1987), 109; Chitty, *Towards a New Education System*, 1989, 72.

<sup>67</sup> ASI, 'Health and Social Services Policy', Omega Report (London: Adam Smith Institute, 1984).

<sup>68</sup> Conservative Party, 'The Right Approach' (London: Conservative Central Office, 1976). As it was put: "We see no reason for quantitative controls over the development of the private sector outside the NHS" Conservative Party.

<sup>69</sup> *Scrutator*, 'The Week: A Personal View of Current Medicopolitical Events', *British Medical Journal* 1, no. 6175 (1979): 1434.

<sup>70</sup> CPS, 'The Litmus Papers: A National Health Dis-Service' (London: Centre for Policy Studies, 1980), 112.

<sup>71</sup> Conservative Party Policy Unit, 'Mount Minute to MT ("Public Expenditure in the Longer Term") - September 8 1982' (Thatcher MSS (Churchill Archive Centre): THCR 1/15/5A Part 2 f15, 1982), <https://www.margaretthatcher.org/document/123005>.

By early 1981 a working party was established by secretary of state for Health and Social Services, Patrick Jenkin, to examine the possibilities for expanding private sector provision of health services. Drawing on private healthcare policy consultants, the working party explored a range of possible alternatives to tax-based healthcare funding, ‘including national insurance, private insurance, and charges for services’<sup>72</sup>. The most provocative push came with a Central Policy Review Staff (CPRS) ‘quick and dirty’ paper circulated to Cabinet members in September 1982 which included a radical plan to replace the NHS with private insurance and force through a compulsory minimum private insurance for those who might underinsure.<sup>73</sup> Years later, archives of the cabinet discussions revealed that Conservative MPs warned how such changes ‘would, of course, mean the end of the National Health Service’.<sup>74</sup>

The idea of marketizing public services by radically expanding choice was also articulated in neoliberal plans for education. In this case, the privileged tool was the use of vouchers. This proposal had a strong neoliberal lineage, harking back to Milton Friedman’s 1955 paper *The Role of Government in Education*.<sup>75</sup> The premise was to replace Local Education Authority financing of comprehensive schools with vouchers issued directly to parents. The government would subsequently be cut out of education provision and replaced with a self-emerging marketplace of schools. Parents would exercise consumer choice on where to send their children and schools would compete locally to attract parents and the voucher-based funding they brought. The presumption underlying this voucher-based system was that creating adequate price-incentives for the supply of schooling would allow market processes to drive up standards.

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<sup>72</sup> Stephen Harrison, *National Health Service Management in the 1980s: Policymaking on the Hoof?* (Aldershot ; Brookfield, Vt., USA: Avebury, 1994).

<sup>73</sup> Economist, ‘Thatcher’s Think-Tank Takes Aim at the Welfare State’, *The Economist Historical Archive, 1843-2015*, 18 September 1982.

<sup>74</sup> Alan Travis, ‘Thatcher Pushed for Breakup of Welfare State despite NHS Pledge’, *The Guardian*, 25 November 2016, sec. Politics, <http://www.theguardian.com/politics/2016/nov/25/margaret-thatcher-pushed-for-breakup-of-welfare-state-despite-nhs-pledge>.

<sup>75</sup> Milton Friedman, ‘The Role of Government in Education’, in *Economics and the Public Interest*, ed. Robert A. Solo (New Brunswick: Rutgers University Press, 1955).

Conservative publishers had been commissioning articles and books for years that proselytised the virtues of voucher-based education.<sup>76</sup> In an IEA booklet, Arthur Seldon wrote that ‘the voucher would produce new courses, new forms of teaching and, not least, new entrepreneurs who would create new schools and kinds of schools to meet new demands from newly-enfranchised parents which they have hitherto been unable to express’.<sup>77</sup> These ideas left a strong impression on Thatcher, who later wrote in her memoirs that she ‘had always been attracted by the education voucher’.<sup>78</sup>

As these early developments demonstrate, neoliberals reconciled public investment in healthcare and education with their commitment to market dynamism by promoting various strategies to shift the power from ‘bureaucrats’ and professionals to citizen-customers. In those early promises for a neoliberal transformation of the public sector, building active markets was the principal objective. The plan was to put public money directly into service users’ hands, who would then purchase education or healthcare in the open market. While the state was counted upon to construct a market in public services, it was the market itself that was presumed to serve a governance function in shaping outcomes over standards.

### *Market Dreams meet Government Reality*

While the plan to empower customers through market competition was appealing to neoliberal ideologues, the Thatcher government soon found out that market solutions were less practical and desirable than initially envisaged. In health, the NHS held a symbolic position as the

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<sup>76</sup> Edwin G. West, *Education and the State: A Study in Political Economy* (Indianapolis: Liberty Fund Inc, 1965); Alan T. Peacock and Jack Wiseman, *Education for Democrats* (Hatfield: University Of Rhode Island, 1970); Rhodes Boyson, ‘The Developing Case for the Education Voucher’, in *Black Paper 1975: The Fight for Education*, ed. C. B. Cox, Rhodes Boyson, and Kingsley Amis, 1975, 27–28.

<sup>77</sup> Arthur Seldon, *The Riddle of the Voucher: An Inquiry into the Obstacles to Introducing Choice and Competition in State Schools* (London: Institute of Economic Affairs, 1986), 17.

<sup>78</sup> Margaret Thatcher, *The Downing Street Years* (New York: Harper Perennial, 1995), 498.

bedrock of the British social state. Even as early as the 1979 manifesto, the Conservatives recognised that an ‘inescapable public safety-net scheme’ meant they could not ‘avoid the huge complications of fitting a compulsory national private health insurance scheme’.<sup>79</sup> When the 1982 CPRS paper mentioned above was leaked to the press, Thatcher was forced to use her party conference speech to declare ‘the National Health Service is safe with us’.<sup>80</sup> By the 1983 election, discussion of private medical insurance had dropped out of the party manifesto altogether. Although healthcare remained a target of change under Thatcher and beyond,<sup>81</sup> the key early neoliberal aim to generalise private medical insurance never really surfaced again as a realistic policy option. While avenues for private healthcare were expanded, the idea that the market would become the predominant governance instrument for national health was discarded.

The failure of neoliberal policy is also striking in the case of education. Remarkably, it was the principal architect of Thatcherism, Keith Joseph, who turned against the market as a means to organise schooling. Then secretary of state for education (1981-1986), Joseph declared in 1981 that while ‘intellectually attracted to the idea of education vouchers,’ there were ‘no plans for the general introduction of a voucher scheme’.<sup>82</sup> By 1984, he had buried the question altogether, stating in Parliament that ‘the idea of vouchers is no longer on the agenda’.<sup>83</sup> He explained how there were ‘great practical difficulties in making any voucher system compatible with the requirements that schooling should be available to all without

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<sup>79</sup> Conservative Party, ‘General Election Manifesto’, 1979.

<sup>80</sup> Margaret Thatcher, ‘Speech to Conservative Party Conference, 14 October 1983, Blackpool’, 1983, <https://www.margaretthatcher.org/document/105454>.

<sup>81</sup> As late as 1988, ministers Oliver Letwin and John Redwood were publishing papers for the CPS advocating private insurance and a voucher scheme to reform the NHS.

<sup>82</sup> Arthur Seldon, *The Riddle of the Voucher: An Inquiry into the Obstacles to Introducing Choice and Competition in State Schools* (London: Institute of Economic Affairs, 1986), 36–37.

<sup>83</sup> Hansard, ‘Education Vouchers - HC Deb 22 June 1984 Vol 62 C290W’, 1984, <https://api.parliament.uk/historic-hansard/written-answers/1984/jun/22/education-vouchers>.

charge, compulsory and of an acceptable standard'.<sup>84</sup> In the end, Thatcher similarly turned against vouchers 'on the grounds that their effects would be unmanageable'.<sup>85</sup>

For committed neoliberal ideologues, the rejection of vouchers said more about the rigidity of the civil service, who 'seem[ed] to be keen to kill the whole idea rather than to use their skills to help solve the administrative problems'.<sup>86</sup> Nevertheless, the Thatcher government saw real problems with vouchers as a means to intervene in the organisation of education. While neoliberals had predicted a market of schools would efficiently allocate education resources and raise standards, the spontaneous supply of new schools under a voucher system was perceived by Joseph as a fantasy. Expanded choice would not come naturally by creating demand through vouchers because, as Joseph explained, 'the extent of choice depends on the availability of willing sellers' and 'starting a new independent school is a slow, expensive and risky business'.<sup>87</sup> Even if a market in schools could be created, maintaining it would produce financial and administrative chaos as 'the ebb and flow of children at will could create difficult management and organisational problems for schools', with some schools being oversubscribed and others lying empty.<sup>88</sup>

There was also great scepticism within government over how much change consumer choice itself would produce and how desirable the outcomes of it would be.<sup>89</sup> Letting teachers set their own admission criteria in an open market for schooling would potentially restrict options for parents. In addition, the government was unconvinced that parents would exercise choice in line with conservative understandings of education and not entrench the 'progressive' teaching practices that they had spent years critiquing. Here, Joseph questioned 'how far would

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<sup>84</sup> Hansard.

<sup>85</sup> Charles Moore, *Margaret Thatcher: The Authorized Biography, Volume One: Not For Turning* (London: Penguin UK, 2013).

<sup>86</sup> Antony Flew, *Power to the People!* (London: Centre for Policy Studies, 1983).

<sup>87</sup> Seldon, *The Riddle of the Voucher: An Inquiry into the Obstacles to Introducing Choice and Competition in State Schools*, 40.

<sup>88</sup> Seldon, 40.

<sup>89</sup> Seldon, 41.

parental preference for what schools offered coincide with the needs of employers, and indeed of the pupils themselves?'.<sup>90</sup> Marketisation risked lending free rein to professionals to continue running their services as they had done previously. In the end, the Thatcher reform plan for British schooling thus turned away from 'the uncertain discipline of the market'.<sup>91</sup> The government considered national education to be too significant to be left to indeterminate market forces. When Joseph's successor, Kenneth Baker, embarked on a radical reform of education at the end of the 1980s, it was decided that the promises of a market in education based on vouchers were too vague and unwieldy to deliver the levels of change and control they desired.<sup>92</sup>

### *From Marketisation to Managerial Empowerment*

With early hopes of reform to health and education thwarted, alternative avenues for intervention were explored. It was near the end of the Thatcher government that the biggest changes were made in health and schooling, setting these sectors on the path to what was later characterised as NPM. Most notably, the 1988 *Education Reform Act* (ERA) and the 1989 white paper *Working for Patients* (WFP) profoundly reoriented schooling and healthcare. Both were characterised by their aim to create a managerial infrastructure to provide central government control over public services. To this extent, the neoliberal government was less concerned with diffusing a norm of competition than it was with disciplining public sector professionals and making the welfare state more malleable to their interventions. As Thatcher

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<sup>90</sup> Seldon, 41.

<sup>91</sup> Ken Jones, *Right Turn: The Conservative Revolution in Education*, (London: Radius Books, 1989), 16-17.

<sup>92</sup> Jones, *Right Turn*, 30.

would later say about healthcare, ‘if more money had to be provided, I was determined that there must at least be strings attached’.<sup>93</sup>

These strings, we argue below, drew from the experiments in managerial governance that had been developing since the 1960s. The public sector was systematically restructured around targets, audits, and the quantification of policy outputs in ways that could be monitored. Of special significance was the way budgeting was made into the central instrument of managerial decision-making in the public sector. The result was a managerial programme of planned ‘optimisation’ to replace the previous emphasis on ‘marketised’ public services. While this was explained at the time as a means to promote choice, or at least deliver value to customers, its real impact had much more to do with establishing managerial authority. New structures of accountability reshaped power dynamics in the public sector by systematically targeting professionals and lower orders of the public sector while shielding top managers and the consultants that worked with them.

In healthcare, a key development was the publication of the Griffiths report in 1983. Roy Griffiths, a director of the supermarket chain Sainsbury’s, was commissioned to lead an inquiry into the use and management of resources in the NHS.<sup>94</sup> His report ‘examine[d] the way in which resources are used and controlled inside the health service, so as to secure the best value for money and best possible service to the patient’<sup>95</sup> The report challenged what he saw as the ‘consensus-based’ management of the NHS, which gave medical professionals the final sway. He deemed this practice unable ‘to initiate the kind of dynamic approach needed in the health service to ensure the best quality of care and value for money for patients’. Its provocative charge was summarized in these terms: ‘if Florence Nightingale were carrying her

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<sup>93</sup> Thatcher, *The Downing Street Years*, 513.

<sup>94</sup> The institutional historical detail about NHS reforms draws on S. Harrison, *National Health Service Management in the 1980s. Policy Making on the Hoof?*, vol. 31 (Aldershot: Avebury, 1994)..

<sup>95</sup> DHSS, ‘Griffiths Report on NHS October 1983’ (London: Department of Health and Social Security, 1983).

lamp through the corridors of the NHS today she would almost certainly be searching for the people in charge.’

To address this lack of leadership, the report proposed bold structural reforms with the establishment of new layers of professional managers. Building on the earlier imposition of compulsory performance indicators in the NHS,<sup>96</sup> the Griffiths report attempted to force a managerial function into healthcare. At the top was to be a Health Services Supervisory Board and a full-time NHS Management Board. Together these would establish strategic direction, approve overall budget and resource allocation decisions, and receive and evaluate performance metrics. This attempt to establish and empower a cadre of managers to control the NHS was, however, a highly contested process with professionals questioning whether it should be management know-how or clinical expertise that takes primacy in the planning and delivery of healthcare. The British Medical Association (BMA), in particular, responded to Griffiths by pushing back against the creation of ‘non-medical’ general managers and requested an appeals mechanism that could counter management decisions.<sup>97</sup>

The key tool to empower a managerial cadre and function was the budget – just as it had been with PPBS in the 1960s. Enthoven, the American RANDite Cold Warrior turned health economist, was of particular importance here. In 1985, he published an in-depth report, commissioned by the Nuffield Trust, into healthcare reform in the UK.<sup>98</sup> Lamenting how change was being stifled by a seemingly unaccountable professional clinical staff, Enthoven highlighted the use of budgetary planning as a means to establish managerial control. As he pointed out, the emphasis of budgetary planning was not to directly cut costs, but to empower managers as decision-makers in order to build a governance infrastructure that could make

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<sup>96</sup> DHSS, ‘Performance Indicators: National Summary for 1981’ (London: Department of Health and Social Security, 1983).

<sup>97</sup> BMJ, ‘Business Management for the NHS?’, *British Medical Journal (Clinical Research Edition)* 287, no. 6402 (1983): 1321–22.

<sup>98</sup> Alain C. Enthoven, ‘Reflections on the Management of the National Health Service’ (London: Nuffield Trust, 1985).

public services malleable. He proposed increasing the ‘units’ with general managers that would hold their own budget and be recast as ‘commissioning’ services from their staff, rather than simply administering them. For Enthoven, the key reform was to separate as far as possible the ‘providers’ of health services from the ‘purchasers’. In doing so, a budgetary function controlled by managers would be placed more clearly at the centre of healthcare. As its proponents described, clinical budgeting involved ‘agreeing service and expenditure plans for the future in contrast with simply assigning and tracking costs to different parts of a service’.<sup>99</sup>

As with systems analysis in the 1960s, budgeting looked forward to plan, rather than backwards to account for spending. As they stressed, ‘costing information alone will not encourage clinicians to participate in the planning of services’.<sup>100</sup> Another report similarly emphasized how budgetary planning ‘should not be seen as an accounting exercise, or as a device for containing costs... [t]he key purpose is to improve services through more effective management at all levels’.<sup>101</sup>

This managerial initiative led to the adoption in 1985 of four schemes of clinical budgeting. Shortly after, the programme was expanded in six hospitals and six community sites as part of the *Resource Management Initiative*. The 1989 *Working for Patients* White Paper further developed Enthoven’s proposed split between purchasers and providers of care and radically expanded the use of clinical budgeting. In the new arrangement, an NHS Executive body would oversee eight regional health offices with budgetary oversight on 100 Health Authorities, 13,000 GP Fundholders, 429 NHS Trusts and 13 Special Health Authorities. These budget holders would act as ‘buyers’ of services provided by hospitals, earn revenue from the patients they treated, set the rates of pay for their own staff, and borrow money to respond to

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<sup>99</sup> Iden Wickings et al., ‘Talking Point: Review Of Clinical Budgeting And Costing Experiments’, *British Medical Journal (Clinical Research Edition)* 286, no. 6364 (1983): 575.

<sup>100</sup> Wickings et al., 576.

<sup>101</sup> Alistair M. Preston, David J. Cooper, and Rod W. Coombs, ‘Fabricating Budgets: A Study of the Production of Management Budgeting in the National Health Service’, *Accounting, Organizations and Society* 17, no. 6 (1 August 1992): 575.

demand. Similarly, GP practices were pressed to hold their own budgets and procure services directly from hospitals.

Together, these measures marked the introduction of what became the ‘internal market’ in healthcare advocated by Enthoven. The BMA warned that these measures ‘would undoubtedly increase substantially the administrative and accountancy costs of the service’.<sup>102</sup> Yet from the start, this was driven by a logic of managerial empowerment rather than efficiency. This was best reflected in the fact that instead of establishing the *patient* as consumer, as neoliberals had initially advocated, the reforms gave a ‘consumer’ status to managerial budget holders (District Health Authorities and GP group practices) who were empowered to choose for the users of services.<sup>103</sup>

This shift made Thatcher uncomfortable. Though keen on Enthoven’s ideas, she later admitted that the actual mechanism of clinical budgeting did not match her neoliberal ideals: ‘What made me uneasy was that... the reforms under discussion, while vital, extended choice to the doctor and to health service managers but not to the patient who would continue to be the dependent of a locally monopolistic DHA.’<sup>104</sup> While uneasy, Thatcher’s acceptance of such managerial empowerment reflected the turn against the marketisation agenda.

A similar process took place in education too. The pivotal turning point cementing managerial authority came in 1988 with the *Education Reform Act* (ERA). The ERA introduced a limited form of parental choice (where parents could express their preferred schools), new types of schools operating outside the supervision of Local Education Authorities (Grant Maintained Schools and City Technical Colleges), the first National Curriculum, and the option for schools to control their own budgets outside of local authorities (i.e. the Local Management

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<sup>102</sup> BMJ, ‘Special Report Of The Council Of The British Medical Association On The Government’s White Paper “Working For Patients”’, *British Medical Journal* 298, no. 6679 (1989): 3–20.

<sup>103</sup> S. T. Walby and J. Greenwell, ‘Managing the NHS’, in *Managing Social Policy*, ed. John Clarke, Allan Cochrane, and Eugene McLaughlin (Los Angeles: SAGE Publications, 1994), 68.

<sup>104</sup> Thatcher, *The Downing Street Years*, 517.

of Schools or LMS). As with healthcare, the linchpin of the reforms was the use of budgeting as the instrument to impose a managerial function into schools. Headteachers and school governors were given direct control over budgetary planning for teaching, building, and maintenance costs. Previously, local authorities had administered education budgets and individual schools did not have to consider the cost implications of their activities. By forcing schools to link the delivery of education to its financial implications, the effect of LMS was similar to PPBS in ‘linking, at the school itself, [...] discussions about curriculum and school organisation with budgeting’.<sup>105</sup> A key report from management consultants Coopers and Lybrand operationalising LMS for schools made the point that it was more than a purely financial tool. Instead, LMS represented ‘a general shift in management’.<sup>106</sup> The report noted that ‘it would be a mistake to see financial delegation primarily as an efficiency device, it is more concerned with effectiveness: as such it is more concerned with the “value” component in value-for-money rather than the “money” component’.<sup>107</sup>

The significance of the ERA was less in its specific provisions than in its ‘strategic’ implications for the remaking of education.<sup>108</sup> It set in motion changes that gave central government a direct means to intervene in schooling via a new managerial infrastructure. At the centre of these changes was the repurposing of the position of school headteacher.<sup>109</sup> Previously, central government had almost no role in education beyond financing. Individual schools and headteachers in this system had significant autonomy and tenure to shape their curriculum, assessments, and the internal allocation of responsibilities. Speaking to the BBC

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<sup>105</sup> Stuart Maclure, ed., *Education Re-Formed: Guide to the Education Reform Act* (London: Hodder Arnold H&S, 1992), 55.

<sup>106</sup> Coopers & Lybrand, ‘Local Management of Schools : A Report to the Department of Education and Science’ (London: Coopers & Lybrand, 1988), 5.

<sup>107</sup> Coopers & Lybrand, 7.

<sup>108</sup> Stephen J. Ball, ‘The Legacy of ERA, Privatization and the Policy Ratchet’, *Educational Management Administration & Leadership* 36, no. 2 (1 April 2008): 185–99.

<sup>109</sup> Ross Fergusson, ‘Managerialism in Education’, in *Managing Social Policy*, ed. John Clarke, Allan Cochrane, and Eugene McLaughlin (London: SAGE Publications, 1994), 94.

in 1989, Reverend Harvey Hinds, chairman of the Inner London Education Authority, described how traditionally ‘nobody felt that we had the right to override in a dictatorial way the professional judgments of the teachers’.<sup>110</sup> The creation of new responsibilities for budgetary planning, however, turned headteachers from senior peers into more clearly demarcated ‘managers’ of schools. As one commentator at the time put it, the ERA produced ‘the emergence of a professionalized cadre of specially trained, teacher-managers’.<sup>111</sup> The empowerment of headteachers through tools of budgetary planning inaugurated a new regime of vertical accountability that began to strip teachers of their professional autonomy.

These new ‘teacher-managers’ were placed within a broader managerial infrastructure of national regulatory agencies that increasingly bypassed local authorities and placed schools under centralised, national scrutiny. Most notably, the Office for Standards in Education (Ofsted) was created by the 1992 *Education (Schools Act)* and given new powers of inspection over schools. Following this, the Qualifications and Curriculum Authority was created in 1997 to supervise testing and curriculum development. Together with the earlier adoption of a National Curriculum, this ‘bureaucratisation of the system’ stripped teachers of their autonomy.<sup>112</sup>

Such developments antagonised neoliberal think tanks who had championed ‘as much diversity as possible both *between* schools and *within* schools’.<sup>113</sup> The IEA wrote how ‘the Government's proposals will put the schools' curriculum into a straitjacket, removing all flexibility and retarding the continual process of improvement and updating’.<sup>114</sup> Elsewhere, the

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<sup>110</sup> Riley, *Whose School Is It Anyway?*, 52.

<sup>111</sup> Stephen J. Ball, ‘Education Policy, Power Relations and Teachers’ Work’, *British Journal of Educational Studies* 41, no. 2 (1993): 106–21.

<sup>112</sup> Roy Lowe, *The Death of Progressive Education: How Teachers Lost Control of the Classroom* (Abingdon: Routledge, 2007), 103.

<sup>113</sup> Quoted in Clyde Chitty, *Towards a New Education System: The Victory of the New Right?* (Psychology Press, 1989).

<sup>114</sup> Chitty.

IEA argued that ‘a national curriculum and a market in education cannot be compatible in any logic we understand’.<sup>115</sup>

This managerial restructuring would have another important dimension. Schools at the time were ill-equipped to deal with the new managerial demands placed on them by the changes. Reflecting on earlier experiments with local school management in Cambridgeshire, school governor Robert James described how Roger Duffet, from BP’s Management Services Unit, was enlisted to review the managerial competence of headteachers and ‘brought it home to us, and others, how backward we were’.<sup>116</sup> Seizing a commercial opportunity, an industry of management gurus arose to fill the gap, offering the latest advice in school management.<sup>117</sup> Leading this charge was Brian Caldwell and Jim Spinks’ *The Self-Managing School*, that spun administrative experience with similar developments in Australia into consultancy work.<sup>118</sup> Government actively facilitated the commissioning of a management training industry, putting significant policy and financial efforts into expanding teacher training. Most notably, the School Management Task Force report in 1990 shifted the locus of training away from established sites associated with local education authorities and universities and into on-site training commissioned externally from private consultants.<sup>119</sup>

The creation of this managerial infrastructure thus opened important avenues for consultancies and corporate managers to enter the public sector offering ‘management solutions’. Indeed, ‘the scale and depth of private involvement in the education service’ has been a profound but relatively invisible development in schooling since the late 1980s.<sup>120</sup> This

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<sup>115</sup> John Tomlinson, ‘Curriculum and Market: Are They Compatible’, in *Take Care, Mr. Baker! The Advice on Education Reform Which the Government Collected But Concealed*, ed. Julian Haviland (London: Fourth Estate Ltd, 1988), 10.

<sup>116</sup> Peter James Downes, *Local Financial Management in Schools* (Simon & Schuster Education, 1988), 50.

<sup>117</sup> Sharon Gewirtz, *The Managerial School: Post-Welfarism and Social Justice in Education* (Abingdon: Routledge, 2002).

<sup>118</sup> Jim M. Spinks and Brian J. Caldwell, *The Self-Managing School* (London: Routledge, 1988).

<sup>119</sup> Tony Bush, ‘Crisis or Crossroads?: The Discipline of Educational Management in the Late 1990s’, *Educational Management & Administration* 27, no. 3 (1 July 1999): 239.

<sup>120</sup> Pat Mahony, Ian Hextall, and Ian Menter, ‘Building Dams in Jordan, Assessing Teachers in England: A Case Study in Edu-business’, *Globalisation, Societies and Education* 2, no. 2 (1 July 2004): 18.

form of privatisation without marketisation has produced a dynamic within the public sector with a considerable lack of transparency and accountability. A new ‘education service industry’ has sprung up offering management training for repurposed heads, implementing policy programmes for government,<sup>121</sup> delivering education services commissioned by budgetary planners in schools, running the audit and inspection machine centred on Ofsted, and constructing new school infrastructure through PFIs.<sup>122</sup>

For all the talk about consumers and choice, the political battle waged by Thatcherite governments was between the central state, keen to gain administrative leverage over the running of public services, and front-line professionals who wanted to retain their autonomy and the primacy of their expertise. Framing this as a struggle over power reveals how the promises of the market were repeatedly discounted by government officials, who expressed their lack of confidence over the ability of markets to drive change. From this perspective, the reality of the neoliberal reform of the public sector was that it veered far from the policy ideas or principles of neoliberals, instead binding itself to a framework of managerial governance.

## Conclusion: Neoliberal Shock or Managerial Fix?

Scholars have often pointed out that neoliberals govern through shocks.<sup>123</sup> The idea that neoliberalism has more to do with producing effects through creative destruction, rather than finding lasting arrangements of governance, has normalised the idea that neoliberals govern through failures. The stories of monetarism and the curbing of inflation, or the production of

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<sup>121</sup> Most notably, national strategies on literacy and numeracy in the early 2000s were primarily delivered by firms like Capita Richard Hatcher, ‘Privatization and Sponsorship: The Re-agenting of the School System in England’, *Journal of Education Policy* 21, no. 5 (1 September 2006): 599–619.

<sup>122</sup> Stephen J. Ball, *Global Education Inc: New Policy Networks and the Neo-Liberal Imaginary* (Abingdon: Routledge, 2012). Corporate involvement in education even extended as far as entirely running LEA functions for those deemed as ‘failing’ by OfSTED or through ‘partnerships’ between companies and LEAs, such as through the 2001 £1.8 million ‘New Ways of Working’ project Hatcher, ‘Privatization and Sponsorship’, 602.

<sup>123</sup> Klein, *The Shock Doctrine*.

fiscal crises through tax cuts, lend themselves well to such a narrative. It has helped underline the violence that is inscribed in neoliberalism; its reckless nature and willingness to gamble in order to destabilise social arrangements, despite the high social costs involved.<sup>124</sup>

Although there is much to learn from these studies, one of the downsides of such a framing is that it tends to downplay more lasting forms of governance and more generally the processes of institutionalisation that are reshaping not just neoliberal governance, but the nature of capitalism. While it may be attractive to critiques wishing to highlight the unsustainable nature of neoliberalism, it often comes at the costs of a reflexive account of governance practices and a more careful study of their politics. Scholars thus end up largely thinking neoliberalism through its effects rather than the actual means that it deploys. We end up tracking its destructive impacts, not what it constructs.

In this paper, we have made a case for tightening our reading of neoliberalism to put the emphasis more squarely on the actual practices of governance rather than the vague ideals that are invoked to justify them. This leads to a radically different interpretation of the early failures of neoliberalism, one which sees them as profoundly transforming the very nature of governance in the era of neoliberalism. As we showed, the Thatcher government took office armed with a battery of policies to remake the British social state. These ideas had been developed through the international neoliberal thought collective and the policy entrepreneurs it courted. Yet, within a few years, most of these plans had been abandoned. Rhetorical tropes about the promises of the market did produce a worldwide cultural and ideological shift. Yet, for the Thatcher government that spearheaded this shift, the market failed to provide a workable

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<sup>124</sup> Martijn Konings, *Capital and Time: For a New Critique of Neoliberal Reason*, (Stanford: Stanford University Press, 2018).

or desirable governance solution. As we have shown in the case of public sector reform, it led to a dead end, forcing the Thatcher administration to turn to the managerialism of NPM.

This case was pivotal for a broader international transformation as the UK became a key progenitor of a broad NPM movement that found strong roots not only in Australia and New Zealand, but gradually throughout the OECD countries.<sup>125</sup> As we argued, this managerial turn marked a profound departure from the market ideals of neoliberals. It was informed by a managerial lineage that goes back to the US defense sector and new forms of planning based on performance management and strategic optimisation. Initially launched as an experiment in budgetary planning in the 1960s, managerial governance was remade in the neoliberal era around a notion of competition. Its rise helped established a newly empowered managerial class who took control of sectors such as healthcare and schools. Whereas neoliberals had talked up empowering citizen-consumers, NPM was designed to empower the very bureaucrats neoliberals despised.

The implications for our understanding of neoliberalism are profound. Managerial governance started as an experiment in governance in the 1960s, but became a social project through the institutionalisation of consultancies, changes in business schools and public policy schools. By the 1990s, managerial governance was attached to clearly defined interests that were entrenched by the dramatic growth of consultancies and a new managerial class invested in the success of this form of governance.<sup>126</sup>

More broadly, the story of NPM is just one aspect of a much wider managerial remaking of global capitalism. It sets the foundation for a broader research agenda on the ways in which

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<sup>125</sup> Lee Jones and Shahar Hameiri, 'COVID-19 and the Failure of the Neoliberal Regulatory State', *Review of International Political Economy* 0, no. 0 (1 March 2021): 1–25.

<sup>126</sup> Heather Whiteside, 'Public-private partnerships: market development through management reform', *Review of International Political Economy*, 27, no. 4 (2020): 880-902.

the economy, and society more generally,<sup>127</sup> is being restructured along managerial lines. Regulation has come to work increasingly around setting standards and monitoring performance through complex reporting requirements, rather than democratic accountability.<sup>128</sup> Market outcomes are increasingly dictated by elaborate contract bidding systems rather than free competition.<sup>129</sup> Arguably, big capitalist firms have found such managerial governance a much more attractive set up for securing their strategies of accumulation than the mythical free markets they claim to support. At a time when scholars have questioned whether we have reached ‘peak neoliberalism’ in our theorising,<sup>130</sup> coming to terms with this new managerial landscape, with its distinct social configuration and strategies of accumulation, is now necessary.

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<sup>127</sup> Matthew Eagleton-Pierce, ‘The rise of managerialism in international NGOs’, *Review of International Political Economy*, 27, no. 4(2020): 970-994.

<sup>128</sup> Sarah Sharma and Susanne Soederberg, ‘Redesigning the business of development: the case of the World Economic Forum and global risk management’, *Review of International Political Economy*, 27, no. 4 (2020): 828-854.

<sup>129</sup> Brett Christophers, *Rentier Capitalism: Who Owns the Economy, and Who Pays for It?* (Verso, 2020).

<sup>130</sup> Kean Birch and Simon Springer, ‘Peak Neoliberalism? Revisiting and Rethinking the Concept of Neoliberalism’, *Ephemera* 19, no. 3 (2019): 467–85.