

Reducing public spending: the lessons of experience

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Constrained by high levels of public deficit or debt, most developed countries are seeking to implement strategies for reducing public spending. In France, the 2014-2017 Stability Programme, presented in April 2014¹, calls for a decrease of the share of public expenditure in GDP of three percentage points over the next three years. Studying the experience of other developed countries in reduction of spending is a way of identifying general principles.

An effort like the one being undertaken in France is nothing new among developed countries. From 1990 to 2007, 17 OECD countries reduced their public expenditure by at least 3 percentage points of GDP over three years. On average, the adjustment in these countries took five years and totalled 7 percentage points of GDP. We shall analyse how these reductions affected different types of spending.

Our study also shows that in order to achieve ambitious objectives in spending reduction, strategic choices among expenditures are preferable to uniform reductions of all expenses. A strategic review of spending implies the use of methods that allow identification of areas of expenditure reduction; the experiences of other countries provide examples. The framework of the review must also aim to prevent the transfer of expenses from one field to another. It is essential that the government be actively involved and that the public be kept informed.

EPISODES OF REDUCTION OF PUBLIC SPENDING* (1990-2007)

Germany	2003-2007	Italy	1993-1999
Austria	2004-2007	Norway	1992-1996
Canada	1993-2000		2003-2006
Denmark	1994-1999	Netherlands	1995-1999
Spain	1995-2001	United Kingdom	1996-1999
Estonia	1999-2004	Slovakia	2002-2007
Finland	1993-2000	Slovenia	2001-2007
Hungary	1998-2000	Sweden	1995-2000
Ireland	1993-1999		2003-2007
Israel	2002-2006		

* By public spending we mean government expenditure in the broad sense, including spending by the central government, by federal and local bodies and by social security and welfare administrations.

* Economy and Finance Department.

1. www.economie.gouv.fr/grandes-orientations-du-programme-de-stabilite-2014-2017.

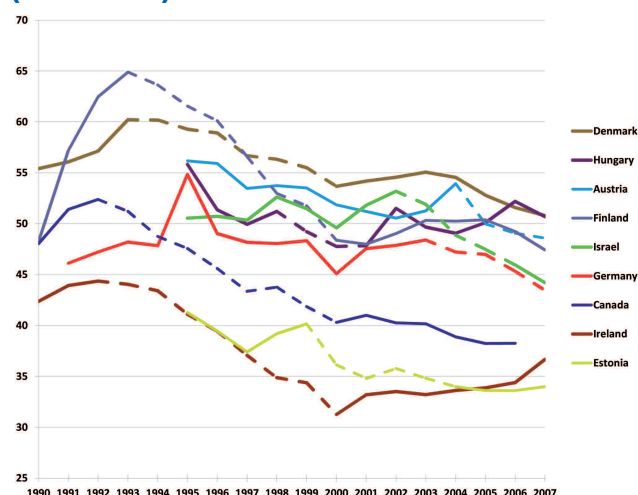


AN ANALYSIS OF 1990-2007 (OECD COUNTRIES) AND 2009-2012 (EU COUNTRIES)

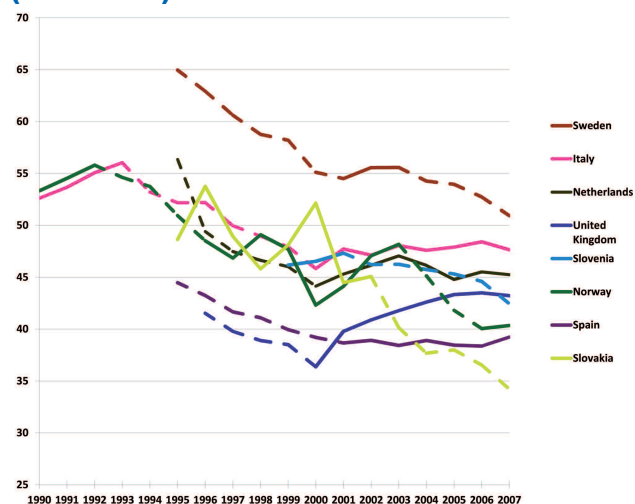
In our quantitative analysis, we use the variation of public spending as a percentage of GDP to identify episodes of spending reduction (Box 1).

Graphics 1a and 1b identify episodes of reduction for each country during the period 1990-2007.

GRAPHIC 1A
TOTAL GOVERNMENT SPENDING, % OF GDP (1990-2007)



GRAPHIC 1B
TOTAL GOVERNMENT SPENDING, % OF GDP (1990-2007)



For each country the period or periods of consolidation are indicated by dotted lines.
Source: OECD.

For the 17 countries chosen, the average adjustment is 7 percentage points of GDP over five years.

BOX 1 METHODS FOR IDENTIFYING EPISODES OF SPENDING REDUCTION

The spending-to-GDP ratio

International comparisons have generally recourse to the ratio of public spending to national wealth. However, this indicator provides imperfect information on discretionary strategies for spending reduction because GDP and a share of public expenditure (spending linked to automatic stabilisers, for example) depend on the economic climate and not on political decisions.

Spending in real terms

The second way of identifying an episode of spending reduction is to consider the variation of flat spending in real terms, i.e. corrected for inflation and independently from the level of GDP.

Study of budget decisions

The final way of identifying episodes of spending reduction is to study political decisions as they appear in the budget documents produced by public authorities. This approach is sometimes called *event-based* or *action-based*². It implies checking to ensure that the planned reductions have actually been carried out.

BOX 2 METHODOLOGY FOR IDENTIFYING EPISODES OF REDUCTION OF PUBLIC SPENDING FROM 1990 TO 2007

In order to identify episodes of spending reduction, we decided to subtract the spending-to-GDP ratio for the year $n+3$ from the ratio for the year n . If the result is greater than 3 percentage points and there is no increase in spending in the year $n+4$, we select the episode. This means that from the start of the year $n+1$ to the end of the year $n+3$, or three full years, the spending-to-GDP ratio has decreased by 3 points. We repeat the process with the years $n+1$ and $n+4$, and so on, to identify the entire episode.

This method makes it possible to select only those episodes that are sufficiently intensive and sufficiently lasting to denote a policy of spending reduction.

2. Devries P. and *al.* (2011), « A New Action-Based Dataset of Fiscal Consolidation », IMF Working Paper WP/11/128.

TABLE 1
1990-2007 - EPISODES OF REDUCTION OF TOTAL GOVERNMENT SPENDING IN OECD COUNTRIES*

	Start of consolidation	End of consolidation	Spending at start of period in % points of GDP (Ssp**)	Decrease in total public spending in % points of GDP (Sep** - Ssp)	Proportion of reduced spending (Sep - Ssp) / Ssp	AAGR*** of flat spending in real terms	AAGR*** of real GDP
Germany	2003	2007	48.4	-4.9	-10.2%	-0.5%	2.2%
Austria	2004	2007	53.9	-5.4	-9.9%	-0.1%	3.3%
Canada	1993	2000	51.2	-10.9	-21.3%	0.4%	3.9%
Denmark	1994	1999	60.2	-4.7	-7.8%	1.1%	2.8%
Spain	1995	2001	44.5	-5.8	-13%	1.6%	4%
Estonia	1999	2004	40.2	-6.2	-15.3%	3.8%	7.3%
Finland	1993	2000	64.9	-16.5	-25.5%	0.2%	4.5%
Hungary	1998	2000	51.2	-3.4	-6.7%	0.2%	3.7%
Ireland	1993	1999	44.1	-9.7	-22%	6%	9.4%
Israel	2002	2006	53.2	-7.2	-13.6%	0.2%	4.3%
Italy	1993	1999	56	-8.1	-14.5%	-0.8%	1.8%
Norway	1992 2003	1996 2006	55.8 48.2	-7.3 -8.1	-13.1% -16.9%	-2.4% 0.9%	2.2% 5.7%
Netherlands	1995	1999	56.3	-10.3	-18.3%	-1.1%	4.1%
UK	1996	1999	41.5	-3	-7.3%	1%	3.6%
Slovakia	2002	2007	45.1	-10.9	-24.1%	1.3%	7%
Slovenia	2001	2007	47.3	-4.9	-10.3%	2.8%	4.7%
Sweden	1995 2003	2000 2007	64 55.6	-9.9 -4.7	-15.2% -8.4%	0.2% 1.5%	3.5% 3.8%

* The episodes shown involve spending reductions of at least 3 percentage points of GDP over at least 3 years. See Box 2 for methodology.

** Ssp is spending at the start of the period; Sep is spending at the end of the period.

*** AAGR: Average annual growth rate.

Source: OECD.

THE TIMING OF THE ADJUSTMENT: A COMBINATION OF FINANCIAL AND POLITICAL CIRCUMSTANCES

The timing of the adjustment is most often dictated firstly by **high levels of deficit and debt**. The Finnish budget deficit, for example, had reached 7% of GDP in 1993 as a result of a severe economic crisis, an increase in welfare spending and government support of banks.

But the existence of a **window of political opportunity** is the determining factor in triggering an episode of consolidation. At the start of the 1990s, the federal deficit was one of the main concerns of Canadians, with opinion polls

showing that up to 80% of those surveyed were worried about its high level. Thus, during campaigning for legislative elections in 1993, most political parties made deficit reduction one of their chief priorities.

In addition, **supranational circumstances**, notably the need to qualify in order to join the eurozone, can trigger spending reduction initiatives. The 2008 economic crisis, by increasing pressure on markets and supranational bodies, reinforced the need for budgetary adjustments and contributed to the **synchronisation** of spending reduction initiatives.



GREATER OR SMALLER REDUCTIONS

The size of the reduction varies among different countries. Over the period **1990-2007**, four countries cut public spending by more than 10 percentage points (Canada, 1993-2000; Finland, 1993-2000; Netherlands, 1995-1999; Slovakia, 2002-2007). To better quantify countries' efforts, we can compare reduction in points of the spending-to-GDP ratio with the ratio of spending at the start of the period. It is effectively easier to cut spending by a given number of GDP percentage points when starting from a higher level of expenditure.

From **2009 to 2012**, public spending decreased by 1.7 percentage point of GDP in the European Union and by 1.3 percentage point in the eurozone. As shown in Table 2, twelve European countries cut spending by more than 2 percentage points of GDP from 2009 to 2012, and seven countries cut spending at current prices.

THE SOURCES OF SAVING

There are two ways to analyse changes in the make-up of public spending:

- according to its nature: compensation of state employees; intermediate consumption (government purchase of goods and services); social transfers (social benefits and pensions); interest payments to creditors; investment;
- according to policies and objectives, classified according to the functions of public spending (COFOG³).

The types of expenditure

For the period **1990-2007**, Table 3 shows - for each episode of reduction - the type of spending with the sharpest drop in GDP percentage points and the type with the second sharpest drop. Decreases in spending mainly involved **social transfers** and compensation for state employees. Since these are the categories where spending is greatest, this is not surprising.

TABLE 2
2009-2012 - EPISODES OF REDUCTION OF TOTAL GOVERNMENT SPENDING IN EU COUNTRIES

	Gros consolidated debt in GDP % points		Spending in GDP % points			Spending (current prices) - variation from 2009 to 2012	AAGR** of GDP in volume over the period	AAGR** of spending in volume over the period
	2008	2012	2009	2012	Variation from 2009 to 2012			
Bulgaria	13.7	18.5	41.4	35.9	-5.5	-1.56%	0.9%	-3.9%
Germany	66.8	81	48.3	44.7	-3.6	3.94%	2.7%	0.1%
Estonia	4.5	9.8	44.7	39.5	-5.2	9.94%	5.3%	1.0%
Ireland	44.2	117.4	48.1	42.6	-5.5	-10.65%	0.4%	-3.6%
Lithuania	15.5	40.5	44.9	36.1	-8.8	-0.69%	3.8%	-3.5%
Hungary	73	79.8	51.4	48.7	-2.7	3.60%	0.3%	-1.5%
Poland	47.1	55.6	44.6	42.2	-2.4	12.28%	3.5%	1.5%
Portugal	71.7	124.1	49.8	47.4	-2.4	-6.71%	-0.9%	-2.5%
Romania	13.4	37.9	41.1	36.6	-4.5	4.37%	0.6%	-3.2%
Slovakia	27.9	52.4	41.6	37.8	-3.8	2.89%	3.1%	0.2%
Sweden	38.8	38.2	54.9	52	-2.9	8.08%	3.4%	1.5%
UK	51.9	88.7	50.8	47.9	-2.9	4.12%	10%	-0.8%

* AAGR: Annual average growth rate.

Source: Eurostat.

3. The standard reference known as COFOG, or Classification of the Functions of Government, classifies government expenditure data by the purpose for which the funds are used.

TABLE 3
EVOLUTION OF PUBLIC SPENDING BY TYPE, 1990-2007 (IN GDP PERCENTAGE POINTS)

	Compensation of employees	Intermediary consumption (1)	Social payments (2)	Property income (3)	Investment
Germany	-0.89	0.02	-2.93	-0.20	-0.16
Austria	-0.33	-0.17	-1.33	-0.09	0.01
Canada	-3.88	-0.77	-3.20	-2.05	-0.43
Denmark	0.26	0.33	-3.22	-1.99	-0.13
Spain	-1.12	-0.20	-1.61	-2.08	-0.43
Estonia	-0.29	-2.08	-0.65	-0.31	-1.10
Finland	-3.41	-1.03	-7.16	-1.60	-0.35
Hungary	0.13	-0.01	-0.47	-1.77	0.19
Ireland	-2.39	-0.29	-5.22	-4.10	0.89
Israel	-1.59	-1.56	-1.44	-1.74	-0.78
Italy	-1.47	-0.38	0.08	-6.00	-0.15
Norway 1992-1996	nd	nd	nd	nd	nd
2003-2006	-2.08	-1.39	-3.43	-0.29	-0.15
Netherlands	-0.88	0.03	-3.56	-1.35	-0.13
Slovakia	-2.50	-1.64	-0.48	-2.17	-1.29
United Kingdom	-0.78	0.30	-1.60	-0.68	-0.19
Slovenia	-1.21	-0.99	-1.68	-1.09	1.00
Sweden 1995-2000	-1.10	-1.35	-1.86	-1.81	-1.02
2003-2007	-1.10	-0.62	-2.14	-0.47	0.14
Average	-1.37	-0.65	-2.33	-1.65	-0.23

Note: The greatest decrease in spending is shown in orange, the second greatest in pink.

(1) The purchase of goods and services by government – (2) Social benefits and pensions. – (3) Interest, payable, and other property income, payable. These are essentially costs linked to the public debt.

Source: Eurostat.

The function of spending

From 1990 to 2007, three functions in particular contributed to spending reduction: social protection, general public services (general administration, interest on the debt, foreign economic aid...) and economic affairs (Table 4). In general, essential functions of government and health are relatively spared.

For the period 2009-2011, the burden of adjustment, measured in absolute terms, essentially concerns public employment, **social spending** (social protection and, to a lesser degree, education and health) and **economic affairs** (Table 5). Spending cuts in social protection generally represent half of all reductions in public spending per country.

STRATEGIC OR UNIFORM CUTS? (2009-2011)

It is possible to analyse the strategic choices made between 2009 and 2011 by considering the evolution of the share of each function in total spending (Table 6).

By adding up the absolute values of the variations of functions in percentage points of total spending, we arrive at an index where the value is higher or lower according to how much the weight of each function in total spending has varied from 2009 to 2011. A high index thus indicates presumed strategic choices and a low index the predominance of uniform spending cuts.

This table shows that Sweden, Poland and Germany opted most often for uniform cuts.



**TABLE 4 - EVOLUTION OF PUBLIC SPENDING BY FUNCTION FOR EPISODES FROM 1990 TO 2007
(IN GDP PERCENTAGE POINTS)**

	General public services	Defence	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation leisure religion	Education	Social protection
Austria	-0.23	-0.04	-0.08	-3.58	-0.04	-0.08	-0.07	0.09	-0.11	-1.21
Canada	-3.40	-0.43	-0.41	-0.97	-0.10	-0.17	-0.73	-0.20	-2.10	-2.41
Denmark	-1.83	-0.20	-0.10	-0.15	0.11	-0.18	0.03	-0.06	0.38	-2.70
Estonia	-1.20	0.22	-0.74	-0.44	0.03	-0.29	-0.79	-0.03	-1.16	-1.75
Finland	-1.40	-0.57	-0.14	-3.78	0.00	-0.23	-0.89	-0.11	-1.41	-8.00
Germany	-0.44	-0.11	-0.13	-0.79	-0.08	-0.27	-0.46	-0.07	-0.25	-2.33
Hungary	-1.76	-0.03	0.09	-1.16	-0.13	-0.15	-0.30	0.16	0.08	-0.25
Ireland	-4.16	-0.34	-0.43	-0.69	0.14	0.29	-0.12	0.04	-1.20	-3.22
Israel	-1.92	-1.49	-0.10	-0.10	-0.03	-0.34	-0.43	-0.18	-0.93	-1.73
Italy	-5.49	-0.35	-0.09	-1.38	0.04	-0.20	-0.39	0.16	-0.60	0.17
Netherlands	-1.70	-0.15	0.07	0.19	-0.10	-5.18	-0.12	-0.05	-0.22	-3.06
Norway	-1.36	-0.62	-0.11	-2.38	0.01	0.01	-0.13	-0.37	-0.12	-2.20*
	-0.82	-0.32	-0.25	-0.79	-0.02	-0.16	-1.34	-0.18	-1.31	-2.93**
Slovakia	-3.43	-0.58	-0.76	-2.56	-0.25	-0.27	1.39	-0.27	0.22	-4.33
Slovenia	-1.50	0.26	-0.30	-0.33	-0.02	-0.06	-0.68	-0.02	-0.59	-1.64
Spain	-1.86	-0.27	-0.13	-1.15	0.08	-0.03	-0.20	-0.01	-0.31	-1.92
Sweden	-1.16	-0.15	-0.12	-2.07	0.07	-1.86	-0.16	-0.78	-0.26	-3.37***
	-0.30	-0.41	0.01	-0.20	0.05	-0.14	-0.32	0.01	-0.55	-2.70****
UK	-0.73	-0.42	-0.07	-0.49	0.13	-0.29	-0.08	0.11	0.07	-1.36
Average	-1.82	-0.32	-0.20	-1.20	-0.01	-0.51	-0.31	-0.09	-0.54	-2.47

* 1992-1996; ** 2003-2006; *** 1995-2000; **** 2003-2007.

Note: The greatest reduction in spending is shown in orange, the second greatest in pink.

Source: OECD

**TABLE 5
EVOLUTION OF PUBLIC SPENDING BY FUNCTION FROM 2009 TO 2011 (IN GDP PERCENTAGE POINTS)**

	General public services	Defence	Public order and safety	Economic affairs	Economic protection	Housing and community amenities	Health	Recreation culture religion	Education	Social protection
Bulgaria	-3.5	0.0	-0.5	-0.2	-0.4	-0.2	0.4	0.0	-0.7	-0.7
Germany	-0.2	0.0	-0.1	-0.4	-0.1	-0.1	-0.3	0.0	-0.2	-1.7
Estonia	-0.3	-0.7	-0.2	-0.7	-1.4	0.5	-0.6	-0.4	-0.7	-2.7
Ireland	0.9	-0.1	-0.2	0.5	-0.2	-0.7	-1.0	-0.1	-0.8	0.1
Lithuania	0.2	-0.3	0.0	0.0	-0.3	-0.2	-0.4	-0.2	-1.0	-4.2
Hungary	-1.5	0.2	-0.1	1.4	0.0	-0.5	0.1	0.4	-0.1	-1.4
Poland	0	0.1	-0.2	0.1	0.0	-0.3	-0.4	0.0	-0.1	-0.5
Portugal	1.1	-0.2	-0.1	-0.4	-0.1	-0.2	-0.4	0.0	-0.5	0.2
Romania	0.7	-0.8	0.0	-1.5	0.2	-0.3	-0.7	-0.1	-1.1	-1.0
Slovakia	0.5	-0.5	0.0	-1.5	0.3	0.2	-1.9	0.0	-0.3	-0.3
Sweden	-0.2	-0.1	-0.1	-0.3	-0.1	-0.1	-0.3	-0.1	-0.4	-1.5
UK	1.2	-0.2	-0.3	-1.9	0.0	-0.5	-0.4	-0.1	-0.4	-0.1

SOME LESSONS FROM INTERNATIONAL EXPERIENCE IN METHODS AND PRINCIPLES OF ACTION

Classical problems of political economy complicate the conception and implementation of spending reduction programmes. These problems include asymmetrical information within the administration and government, and low incentives for the 'big-spending' ministries to propose options for cutting expenditure.

Identifying programmes that need public expenditure and abandoning or reducing the others

The method that generates the most substantial reductions is a strategic review of public spending. During a strategic review, choices are made concerning the expenses that must be abandoned and those that must be preserved.

The Canadian spending review conducted for the years 1994-1999 formalised this approach for the expenses of the federal government. The following questions were asked successively for each programme:

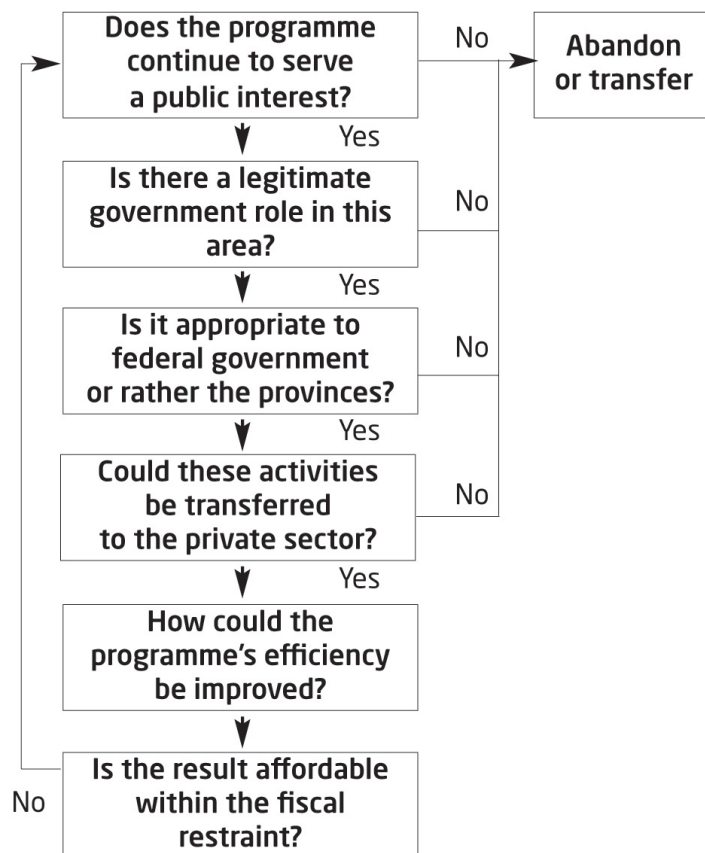


TABLE 6
EVOLUTION OF THE SHARE OF FUNCTIONS IN TOTAL PUBLIC SPENDING FROM 2009 TO 2011 (IN PERCENTAGE POINTS)

	General public services	Defence	Public order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation culture religion	Education	Social protection	Sum of absolute values - index of strategic intensity	Rank
Bulgaria	-7.1	0.4	-0.2	1.2	-0.7	0.1	2.7	0.4	-0.2	3.4	16.3	1
Germany	0.6	0.1	0.1	-0.4	-0.3	-0.4	0.5	0.0	0.6	-0.7	3.7	10
Estonia	0.8	-0.9	0.5	0.3	-3.3	1.4	0.9	-0.2	1.0	-0.5	9.8	7
Ireland	2.4	-0.1	-0.2	1.6	-0.4	-1.4	-1.5	-0.3	-1.2	1.2	10.3	5
Lithuania	2.1	-0.3	0.7	1.5	-0.2	-0.4	1.3	-0.2	-0.1	-4.5	11.4	3
Hungary	-2.6	0.4	0.0	3.1	0.2	-0.9	0.5	0.8	0.1	-1.7	10.3	6
Poland	0.4	0.3	-0.2	0.7	0.0	-0.6	-0.6	0.0	0.2	-0.3	3.4	11
Portugal	2.4	-0.4	-0.1	-0.7	-0.1	-0.2	-0.7	-0.1	-0.8	0.8	6.3	9
Slovakia	2.3	-0.9	0.6	-2.8	1.1	0.8	-3.3	0.4	0.1	1.7	13.9	2
Sweden	0.4	0.0	0.1	0.0	0.0	-0.1	0.2	-0.1	0.0	-0.5	1.4	12
UK	2.9	-0.2	-0.2	-3.3	-0.1	-0.9	0.2	-0.1	-0.1	1.9	9.8	8
Romania	2.6	-1.3	0.7	-0.5	1.1	0.0	-0.2	0.3	1.2	2.6	10.6	4

Source: Eurostat. The data for Sweden and Romania are calculated for 2012/2009.



The principle of strategic review contrasts with the method of uniform cuts, which distributes spending reductions among functions across the board without discrimination. While this method is effectively easier to put in place, and appears to be more egalitarian, it makes little or no distinction between efficient programmes and those that are less useful.

Although most strategic reviews make choices among the expenses of various ministries, it is also possible to make strategic choices within ministries (e.g. the Canadian strategic review of 2009 called on each ministry to identify the 5% of expenses with highest priority and the 5% with lowest priority).

In order to maximise the impact of the spending review, several principles have been applied.

A. Efficiency principles: how to generate substantial spending reductions?

- *Apply the strategic review to the greatest possible range of public policies*

In this way, the probability of detecting sources for savings is maximised. In the 1990s, Canada applied the 'nothing off the table' principle: all ministries were potentially concerned by spending cuts. This promotes the acceptability of expenditure reductions, both within the government and among the public.

- *Don't set ministry targets too early, and then 'aim high' by proposing ambitious reduction options*

Setting a target figure for a ministry at the start of the process allows it to limit its proposals to the strict minimum and not to disclose the whole range of savings measures that are theoretically achievable (Netherlands, 1981-1991).

- *Don't decide on anything until everything is decided*

This strategy prevents wait-and-see behaviour on the part of ministries hoping that pressure to cut spending will diminish as other ministries unveil their savings plans.

- *Introduce a fixed timeframe for spending reviews in order to make the effort sustainable and/or to prevent future increases in spending*

A way of making review a recurring process is to include it in the budget calendar. But annualisation can be quite energy consuming for administrations. A solution is to carry out the review less frequently than on an annual

basis (in the Netherlands, since 2010, a spending review is to be carried out every four years).

- *Back up the strategic spending review by finding ways to improve efficiency*

Certain countries have chosen to set up programmes aimed at improving efficiency (*Gershon Efficiency Review* of 2004-2007 in the United Kingdom, Finland's *Productivity Program* of 2005-2015).

B. Principles of completeness: how to avoid the transfer of spending to other functions?

- *Limit the tendency of local bodies to get into debt or to increase taxes in the years following a decrease in transfers from the central government*

The effectiveness of this principle is linked to the capacity of the central government to influence the financial decisions of local bodies.

- *Get the public involved in public services*

The 'Big Society' project in the United Kingdom (2010) identified public services that could be provided jointly with citizens, NGOs or the private sector. In Italy (2009), provision of public services by private distribution bodies (post offices, tobacconists, banks, etc.) is encouraged.

C. Principles for mobilisation and acceptability

- *Get officials involved early in the process*
- *Solicit the support of private-sector consultants if this is justified by the nature of spending reduction*

It is also possible to call on specialists from outside the administration in an indirect and innovative way. The review carried out in the United Kingdom in 2010 led to the creation of a group of independent experts - from government, the private sector and academia - whose role was to creatively question and challenge the reductions in spending proposed by ministries.

- *Offer incentives to ministries by allowing them to re-deploy some of the cuts they achieve*

This allows ministries to better finance their new priorities and gets them involved in the strategic process of prioritisation.

- *Inform the public*

- *Get political parties to take a stand on the proposed savings measures and to identify the ones they would choose*

In the Netherlands, the results of the spending review carried out in 2009 provided material for the programmes of all candidates in the legislative election of 2010.

- *Use improvements in efficiency to avoid harming the quality of public service*

The question of optimal spending levels is a delicate one. In Australia, the size of administrative structures was shown to matter in the search for improved efficiency. Such improvements were found to be hard to achieve in small structures (OCDE, 2011).

- *Protect certain expenditures*

Budget reductions can go hand in hand with the protection of certain expenditures that are considered both efficient and of high priority. In Finland (1993-2000), research and development, considered to be a strategic investment, was protected. In general, spending reviews do not concern investment projects that are already underway.

CONCLUSION

In addition to quantitative study of expenditure reduction in GDP percentage points, another necessary element is an approach in terms of political economy that sets out the principles that have guided political decisions at the different stages of a spending reduction programme.

This note highlights the diversity of principles that have been applied at a given time in one or several countries. Each one meets one of the four following demands: reducing spending substantially; decreasing the spending of public bodies in the broad sense; making the reduction acceptable to the administration and the public at large; implementing the reductions successfully.

The principles that guide political action depend on the context of each country. We can nevertheless consider that some of these principles are particularly important.

In this sense it appears relevant to:

- review as many expenditures as possible and make strategic choices among functions;
- get the administration fully involved in the process so that it proposes and implements ambitious spending reductions;
- inform the public about the strategic choices that are being made and that to some extent affect the country's future.

D. Principles for implementation

- *Act quickly once decisions have been made*

While it is possible to take time for reflection and decision making, once decisions on savings are made they must be put in place quickly. Otherwise the ministries known as big spenders and the administration can be tempted to revisit the decisions.

- *Spread implementation of the cuts over time*

This principle is especially valid when spending reviews are well integrated into the culture of the administration and public authorities and when the objective is not a drastic reduction. Otherwise it can be preferable to revise all programmes at the same time.

- *Do not overload the government's agenda for other reforms*

A spending review is obviously a very challenging and energy-consuming process for the government, the legislature, the administration and public opinion.

Key words:
public spending, budgetary consolidation, international comparisons, political economy.



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