

Viewpoints

Editorial: New cover, new publisher, same dedication

**Andrew Gray, Editor,
Jane Broadbent, Deputy Editor and
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Editor**

After 12 years, *Public Money & Management* has a new cover. It marks the decision by CIPFA, which owns the journal, to appoint Routledge (part of the Taylor & Francis group) as its publisher for the next five years. We have enjoyed many fruitful years working with Blackwell Publishing and wish it well as part of the larger Wiley group. During this time the journal has grown in published pages by 50%, the quality of the submissions has improved very pleasingly and the journal's impact factor has increased. This progress would not be possible without our authors and readers, our guest editors of themed editions and, of course, our academic and practitioner referees who volunteer their advice so professionally (our 2008 referees are listed on p. 58 of this edition).

We now look forward to working with Routledge to sustain our dedication to providing a forum for academics to bring their research to the world of practice and for practitioners to reflect on developments. The emphasis, initially at least, will be on consolidating this growth and quality. For a journal committed to topicality and a faster track of publication than other journals in our field, we now face the challenge of publishing the longest list of accepted regular articles in our history. We have made arrangements to publish all currently accepted articles by the end of 2009. As part of this plan we shall be limiting our themed editions to three per volume. Our intention is to balance the publication of the popular themed editions with the improving quality of regular articles. And we are planning a special edition in 2010, our 30th anniversary.

With Routledge our editions will be published in January, March, May, July, September and November. We intend to continue our record of having never published

late! The themed editions for 2009 will include 'Consumerism in public services' (guest editor: Catherine Needham); 'Whole of government financial reporting' (guest editors: Sue Newberry and Giuseppe Grossi) and 'Religion, third sector, policy and public management' (guest editor: Francis Davis).

We look forward to your continuing support and encourage you to spread news of *Public Money & Management* to colleagues at home and abroad. ■

Debate: The future of public administration— Serving beyond the predictable

Jocelyne Bourgon

The past 30 years has been an extraordinary period of experimentation and innovation in public administration. During this period, public sector reforms have swept the globe. The rapid pace of public sector reform has been one of the constants in our complex, globalizing world (Kettl, 2002). 'May you live in interesting times!' someone once said. Indeed we have.

These transformations nevertheless represent an incomplete journey. Public sector organizations are not yet aligned with the new global context or with the problems they are there to solve. The models, concepts and solutions on offer in the field of public administration have not kept pace with the reality of practice and the needs of practitioners. As the 21st century unfolds, the quest for a sound governance and good government is not over. Future reform agendas will entail a search for 'a new balance' in the roles of government.

A compliance model of the role of government emerged in the Industrial Age of the 19th and early 20th centuries. Under this model, the public service was governed by precise rules and was expected to exercise

minimal discretion in executing tasks (Bourgon, 2008a). This model gave public administration a solid foundation. It remains relevant in the 21st century for undertaking predictable tasks, ensuring due process and equality of treatment under the law, and providing uniform services.

By the late 1980s and the early 1990s, as their role became more complex and demanding, governments needed more flexibility. As a result, many of the reforms that they introduced during this period were aimed at making public service organizations more productive, efficient, and effective. A premium was placed on the performance role of government, which is now seen to be as important as governments' policy and regulatory functions. Many of the reforms have also involved a focus on improving governance. They aimed to rebalance the roles of the public sector, the private sector, civil society and citizens.

Progress to date has been real but remains fragile. Governments have paid insufficient attention to building the support systems needed to sustain a commitment to results, continuous performance improvements and innovation. Three sets of reforms would help to consolidate the progress to date:

- Clarifying and reconciling commitments to compliance and performance.
- Shifting the performance focus to system-wide and societal results.
- Integrating the political and administrative spheres into a common learning cycle.

But this will not be enough to prepare governments to serve citizens in the 21st century. Future public service reforms must also explore the role of governments in a world that is characterized by unpredictability, discontinuity, disruptions, unforeseen risks and unprecedented breakthroughs.

Words such as 'anticipation', 'exploration', 'experimentation' and 'discovery' would feature in the language of public sector reforms needed to point governments in this new direction.

The term 'emergence'—borrowed from systems theory—describes the role of government in an unpredictable world. Applied to public administration, this term emphasizes that governments are complex and adaptive systems that interact with numerous other complex systems, such as the human community, the global economy, the natural environment and the world wide web, to name a few. Governments can place greater emphasis on shared governance, the use of networks and

citizen engagement to improve their own and their societies' capacity to anticipate, innovate and flourish in an unpredictable world (Bourgon, 2008b).

But would it be enough? In an unpredictable world of black swans, wild cards and 'wicked' problems (Petersen, 1999; Taleb, 2007; Ho, 2008), the proactive role of government should be further extended to:

- Building the capacity to anticipate, experiment and intervene ahead of time.
- Reducing friction, deflecting risks, avoiding preventable failures and taking preventative action.
- Promoting the equitable distribution of benefits stemming from major innovations and breakthroughs.
- Ensuring equitable risk-sharing so that citizens do not bear a disproportionate share of the consequences of crises and failures.

In pursuing this role, governments will work with imperfect knowledge. They will need creativity and a high tolerance for ambiguity. This would be a significant departure from our traditional view of the role of government. It would emphasize systems thinking, collective intelligence and proactive intervention.

In the end, the unpredictable events of our interdependent world are borne by society as a whole. The responsibility of government is to build the resilience of citizens and communities to cope, to adapt and to adjust to negative events, to absorb change and to learn from adversity. To help create resilience, governments can work with citizens and communities on identifying and mitigating vulnerabilities, and on building adaptive capacity, which allows for dynamic equilibrium in society (Glavovic, 2005). Important elements here will be highly participatory, decentralized and empowering approaches to public policy and decision-making.

In their quest for sound governance and good government, some countries may choose to strike a new balance in the roles of government. This new balance may be designed to foster a combination of compliance, performance, emergence and resilience. Time and events will reveal which journey each country will take.

As researchers and inquisitive practitioners who aim to support governments, we need to embrace other disciplines relevant to a comprehensive understanding of our complex, interdependent world. This is our contribution to serving the collective good. As we face an

exciting and uncertain future, this much is certain: we will once again live in interesting times. ■

Acknowledgement

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Debate: Delivering public services: Are we asking the right questions?

Stephen P. Osborne

I have previously argued that the New Public Management (NPM) was a transitory stage in public services delivery, in the evolution from traditional public administration' to 'New Public

Governance' (NPG) (Osborne, 2006). Public services delivery has thus passed through three design and delivery regimes:

- A longer, pre-eminent one of public administration, from the late 19th century through to the late 1970s/early 1980s.
- A second one, of the New Public Management (NPM), through to the start of the 21st century;
- An emergent third one, of the NPG, since then.

This short piece will first expound upon the natures of these regimes, before asking what challenges they pose for the public services delivery research agenda.

Public administration

Public administration has at its core a concern with the unitary state, where policy-making and implementation are vertically integrated as a 'closed system' within government (see Scott, 2002 for a discussion of systems theory applied to organizations). Drawing upon the political studies discipline, it focuses upon the policy-making and implementation cycle—with an assumption that effective service delivery is comprised of the successful implementation by public managers of policies decided 'upstream' by democratically-elected (and, it is implicitly assumed, accountable) politicians. Because of its vertically integrated nature, hierarchy is the key resource allocation mechanism for public administration, relying upon vertical line management to ensure accountability for the use of public money. The value base is one of an explicit assumption of the hegemony of the public sector for the implementation of public policy and the delivery of public services.

New public management (NPM)

By comparison, the NPM is a child of neo-classical economics and particularly of rational/public choice theory. It is concerned with a disaggregated state, where policy-making and implementation are at least partially articulated, and where implementation is through a collection of independent service units, ideally in competition with each other. NPM, as discussed here, is the market-driven version prevalent across the UK, the US and Australia/New Zealand in particular. An alternative version, that is common across mainland Europe, does not place such an emphasis upon external competitive environment. Rather, it emphasizes contractual mechanisms within rather than without government (Schrijvers,

1993).

The key role of the state here is regulation, often within a principal–agent context (Vickers and Yarrow, 1988). Its focus is almost wholly upon intra-organizational processes and management. Drawing upon ‘open rational systems theory’, it models public services delivery as an intra-organizational process that turns inputs into outputs (services) within a mediating environment, and with an emphasis upon the economy and efficiency of public services delivery. As already noted, it assumes competitive relationships between the independent service units inside any public policy domain, taking place within a horizontally organized market-place—and where the key resource allocation mechanism is a variable combination of competition, the price mechanism and contractual relationships. Its value base is formed around ‘the logic of accounting’ (Broadbent and Laughlin, 2002) and is contained within its belief that this market-place, and its workings, provides the most appropriate place for the production of public services.

New public governance (NPG)

In contrast to both the above, the NPG is rooted firmly within institutional and network theory. It posits both a *pluralist* state, where multiple processes inform the policy-making system, and a *plural* state, where multiple inter-dependent actors contribute to the delivery of public services. Drawing upon ‘open natural systems theory’, it is concerned with the institutional and external environmental pressures that enable and constrain public policy implementation and the delivery of public services within such a plural and pluralist system. As a consequence of this systemic approach, its focus is upon the co-production of public services, inter-organizational relationships and the governance of processes—stressing service effectiveness and outcomes that rely upon the interaction of PSOs with these systems. The central resource allocation mechanism of these service systems is the inter-organizational network, with power and accountability being negotiated at the inter-organizational and inter-personal level within these networks. Importantly, such networks are rarely alliances of equals but are rather riven with power inequalities that must be navigated successfully for their effective working. Hence the value base in such networks is often contested. The NPG

is thus both a product of, and a response to, the increasingly complex, plural and fragmented nature of public policy implementation and service delivery in the 21st century.

Significant work has already taken place that might legitimately be said to fall within the boundaries of the emergent regime of the NPG. This includes work on the nature and governance of the policy process (Klijn and Koppenjan, 2000); the development of key management skills in an inter-organizational context; the evolution of social accounting models; and the development of performance measures for network performance.

However, it has become increasingly apparent that the public services delivery research agenda is one whose parameters and questions have been set within the previous regimes—and particularly within that of the NPM. This research agenda is asking ‘old questions’ about public services delivery. A good example of such questions is the ESRC Public Services Programme in the UK. This well-managed programme has been an important one and has produced many outstanding research findings. Nonetheless, because of its genesis in the early part of this decade, it is characterized precisely by these ‘old questions’ of intra-organizational efficiency and effectiveness. These can be summarized as:

- How do we manage public policy implementation to ensure that the political will is carried out in practice? (*The policy implementation question.*)
- How do we ensure organizational and individual service performance? (*The audit and targets question.*)
- How do we hold public managers accountable? (*The scrutiny question.*)
- How do we ‘incentivize’ staff for optimal productivity? (*The rewards question.*)
- How do we ensure organizational sustainability? (*The change and innovation question.*)

If we are going to understand the NPG as a public services delivery regime, then we need a series of ‘new questions’ about the fundamentals of the NPG—and which will have important implications not only for such an understanding but also for the practice of public services delivery. Most fundamentally, we need to understand public services delivery as a *dynamic system* where

organizations, services and users interact to co-produce public services. This goes beyond its comprehension as 'simple' inter-organizational networks. Rather, it recognizes that service technology, service users/consumers and service organizations are all in interaction in the production of public services. In this context, the mainstream services management literature (for example Grootenroos, 2000; Nankervis, 2005) has much to offer in understanding the complexities of service systems—and which contribution often been ignored been ignored in much of the public services literature to date

New questions for public service delivery

There are six 'new' questions that flow from this argument:

- How does understanding public services delivery as 'systemic' change our understanding of it—and what are the implications for the design of effective public service delivery systems (*The fundamentals question.*)
- How do we ensure sustainable public service systems—and what does sustainability really mean? (*The sustainability question.*)
- What values underpin contemporary public policy implementation and services delivery in such systems (*The values question.*)
- What key skills are required for relational performance within public service systems? (*The relational skills question.*)
- What is the nature of accountability in fragmented plural and pluralist systems? (*The accountability question.*)
- How do you evaluate sustainability, accountability and relational performance within open natural public service delivery systems? (*The evaluation question.*)

These new questions are not a simple replacement for the old ones. The imperative for effective intra-organizational and service management remains. However such effectiveness, by itself, will not engender the delivery of successful public services in co-productive public service systems. In order to ensure such delivery the NPG needs to encompass an active research agenda that will *both* explore the efficacy and limitations of systemic public services delivery *and* a developing body of evidence influenced public management practice within this systemic environment. ■

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The return of the Westminster supermodel

Michael Duggett

A senior British scholar (Rod Rhodes) delivered a lecture to the JUC's Public Administration Committee annual conference in York in September 2008 dedicated to, basically, the life of a ministerial private office. Civil servants present nodded sagely, if in a slightly embarrassed way as their world was revealed; academics laughed and had preconceptions confirmed. For someone who has a foot in both camps, this struck me as a significant development. The academic discourse over the past 10 years in this field has worked with two paradigms—the first being the New Public Management and the second that of 'governance', led by Rod Rhodes himself.

The first still thrives but there is a

development in the paradigm of governance of which Rhodes' lecture was symptomatic. Perhaps Osborne's interesting piece on p. 3 of this edition is another one. We have stopped talking about 'government' and instead are focusing on 'governance', and we speak of public management rather than administration, networks rather than hierarchies and so on. Much of the argument has been based upon a clear perception that the 'Westminster model' has had its day as an adequate description of how things work in the United Kingdom. That model is taken as meaning that the prime minister and a cabinet, backed by a majority in Westminster and a devoted civil service, was able to rule as it wished throughout the area of its authority—the UK. This model was then criticised in various ways as simplistic, one-dimensional; and the argument that it had been 'hollowed-out', or privatized, or weakened, was bolstered by the empiric development of authority being ceded outwards by Westminster and its cabinet ministers to Brussels and the EU and downwards (the metaphor cannot be resisted) to Wales and Scotland and Northern Ireland within the UK. Left behind, it was argued, has been a thinned-out, hollowed-out Westminster government with weaker capacity to decide and a diminished ability to deliver. Additionally, the concept of 'governance' has been used to point to the complexity of governing today, with a multiplicity of different groups and power-holders. Negotiating between interest groups was seen as the main activity of those involved in governance, where the inhabitant of No. 10 Downing Street and the people that sat around its coffin-shaped cabinet table were mere shadows of their former selves.

'Acquis'

It is observable, however, that we have probably obtained all the learning that can be got from that insight. That governance is complex, that Europe matters, that Cardiff and Edinburgh count, that command and control is over—all these things are I think now academic *acquis*. Like the *acquis communautaire* of the EU they have been gathered in, harvested, internalized, and are unlikely to be lost. We have taken the point. There is no need any longer to flog a dead (Westminster horse) who certainly no longer rides in command down the avenues off Princes Street or Cathays Park. That old simple supremacy has gone—let it go.

But at this precise point in time I think one can argue that the Westminster model has returned. This time she knows how to play the

new game. And she has added powers.

Westminster supermodel

The Westminster 'supermodel', as I shall argue she now is, demands that we—academics and practitioner observers—return to focusing on the activities of ministers and officials in and around that Gothic masterpiece in the centre of London.

Now—and this also is an empirical development—Westminster has learned how to deal with the challenge of Brussels. Its officials are savvy now, and the superiority (what Nigel Lawson once referred to as the 'moral supremacy' of the European Commission) has gone, fallen with the Treaty of Lisbon into a waiting room of unknown dimensions. Led by the dynamism of certain other big states, London is asserting itself. Many of the political 'big beasts' that travelled over to Brussels to make their careers in the once new capital of Europe have returned to live and work here.

Now push has come to shove, London has made its weight felt in places where the devolved capitals cannot go, and in a globalized world it is more evident than ever—I think it can be argued—that a small state cannot rely on federations or structures to protect their interest, while big states can hack it on their own.

This means, I think, that academic and practitioner discussion can forget about pointing out the flaws in the Westminster model's make-up. They should instead look again at how that model, that marvellous machine called the British Constitution, actually works. And this involves at least as much the sort of Peter Hennessy-inspired observation and sleuthing (seeking out hidden wirings), plus journalistic risk-taking and empathy as it does constructing theories of the new managerialism. It is once again, 'yes minister' or (more rarely) 'no minister', a question of 'ayes' and 'noes', good old-fashioned hierarchies and discipline within a revived state. That British government has now extended its sway (over banks and the City of London) in a manner we have not seen since Robert Clive (of India—whose statue still stands by the Foreign & Commonwealth Office and can just peek over No. 10's walls) is surely the moment to say welcome back to the smack of firm government and to a revived Westminster model. The Westminster supermodel, in fact, is strutting her stuff again. ■

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We just do not know: Healthcare expenditure trends

Peter M. Jackson

Rising healthcare expenditures have been a matter of concern to policy-makers for the past 50 years. Do these expenditures provide value for money? Are the increases in expenditures matched by significant improvements in health outcomes or is there a 'Red Queen effect', which means it is necessary to run faster in order to just stand still? Will countries around the world be able to continue to pay for rising healthcare expenditures? The increase in healthcare costs is placing a considerable strain on personal, corporate and government budgets. Is it now time to call time on the juggernaut of healthcare spending and consider ways to reduce future health spending growth?

OECD data show that over the past 50 years healthcare spending has increased by an average of 2 percentage points greater than the growth of GDP. If this continues, then by 2050 healthcare spending would, on average, absorb 20% of the GDP of most OECD countries compared to about 10% in 2006/07. By 2080, on present trends, the figure for Switzerland and the USA could be closer to 50%!

Between 1970 and 2003 total healthcare expenditures (public and private sectors) as a share of GDP in the UK increased from 4.5% to 7.8%. The comparable figures for the USA are 7% and 15.2% respectively. For most OECD countries the share of GDP taken up by healthcare spending has almost doubled over the past 30 years. What will the likely consequences be if there is another doubling over the next 30 years? This is one of the questions asked by the 2004 Technical Review Panel of the Medicare Trustees in America and is a similar question to that asked by policy-makers around the world.

Simple extrapolation of trends is not always a sensible thing to do. Trends can bend—the problem is trying to understand when the turning point will occur and what factors will bend the trend. Rather than making simple extrapolations it is better to gain a deeper understanding of the underlying factors that are driving the trends. This understanding helps to inform policy-makers' decisions and signals what they might need to do. Even if the

growth in healthcare spending does not continue on its current trend, one thing is clear—healthcare spending in 40 years' time will be much more than 10% of GDP for most countries. The healthcare industry will, therefore, most likely be the largest industrial sector in developed economies. Such a significant structural change will have important consequences for the demand for specific skills, the structure of professions and occupations and the shape of further and higher education, which will supply these skills.

Healthcare expenditure drivers

Research into the causes of healthcare spending enables strong conclusions to be drawn. There have been numerous studies carried out in different countries, covering different time periods and using different research methodologies. All of these independent studies come to very similar conclusions. The principal drivers of healthcare spending are: real incomes and wealth, moreover, the income elasticity of demand for healthcare is greater than one; the aging of the population; relative price inflation; supplier induced change and defensive medicine; technological change and expansions in health insurance coverage. The aging of the population accounts for about 20% of the increase in spending whereas technological change, 'the enhanced capabilities of medicine', accounts for 50% of the increase. Growth in real incomes, an aging population and technological change are, therefore, the principal drivers of healthcare spending.

Medical technology

Medical technology, the most significant driver, includes new *procedures* (such as angioplasty, keyhole surgery and joint replacements), *equipment* (for example CT/MRI scanners, mechanical heart pumps), and *processes* (for example IT systems, record systems, telemedicine). In addition, new drugs expand the scope of treatments or make existing treatments more effective. Technology facilitates the achievement of better health outcomes. Previously, palliative treatment dealt with symptoms; today, however, both symptoms and causes are treated. New technologies push at the boundaries and create new opportunities. This creates new demand. New technologies mean that improvements can be made to how the body functions, for example motor and sexual functions etc. Performance enhancing medicine moves beyond providing treatments for symptoms and causes. Technological change also enables previously untreatable illnesses to

be treated and extends existing treatments to new areas of the population. Medical technology, by extending life-expectancy, contributes to the aging of the population.

Why does technological change in healthcare not result in improvements in productivity and reductions in unit costs? In some areas it does but healthcare is a labour-intensive service and much of technical change in this area simply expands the scope of care by creating expensive new products.

Policy challenges

What then are the issues and challenges facing policy-makers? Can healthcare expenditures continue to rise at their current rates? Developments in medical technology will continue to be made, but should they be adopted? Decision-makers need to be much more aware than they are at the moment about the costs (price) of adopting new procedures and treatments. There are opportunity costs within healthcare and between healthcare and other competing claims such as spending on education, pensions and social welfare. As long as publicly provided healthcare is perceived as free at the point of access then price signals will be badly distorted. Will taxpayers be prepared to accept increases in tax rates (and hence reductions in private spending) to fund an expanding healthcare sector or will they be prepared to see other items of public spending reduced? It tends to be the public sector which picks up the bill for healthcare for the aged. Will there be a willingness on the part of younger generations to fund this from their taxes? How secure is the implicit social contract between the generations?

The discipline of the price mechanism tends to be weak in the case of healthcare services. Even if it worked well, a high price elasticity of demand coupled with a highly income elastic demand still results in rising healthcare

spending. Third party decision-making on behalf of the users of healthcare, healthcare professionals motivated by professional goals, and strong commercial lobbying all combine to increase healthcare spending.

With such an emotive service as healthcare, there are no easy solutions for policy-makers. Better information about the cost-effectiveness of treatments takes time; better incentive systems might have a slight impact; rationing, regulation and strict budget constraints often result in outcries.

While there is clearly an ever-increasing demand for healthcare fuelled by the expanding opportunities of new medical technologies, will there be an adequate supply of people to service it? Consider just some of the occupational groups in healthcare—medics, nurses, dentists, ophthalmologists, dermatologists, radiologists, physiotherapists, nutritionists, pharmacists etc. Is there sufficient capacity in the further and higher education sectors to meet the demand for these skills? What plans are in place to expand this capacity? It takes time to make these adjustments—do we have enough time?

Tinkering around with existing systems and structures is unlikely to produce solutions that will be robust for the next 50 years. A radical re-think of the organization of the supply of healthcare services up to 2050 and beyond is what is required but, having thought, what then when it comes to implementation? It will be like changing all the engines on a jumbo jet while flying at 35,000 feet! Some problems are just too big to imagine. Or should we be sceptical of long-term trends? As Nassim Taleb reminds us in his book *The Black Swan*, we should not be fooled into thinking the future is simply an extension of the past. The truthful answer is we just do not know. ■

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