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Public Management and Administration

An Introduction

Third Edition

Owen E. Hughes

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Preface

Over the past 20 years the public sectors of Western countries have undergone major change as governments try to respond to the challenges of technological change, globalization and international competitiveness. This period saw wider-ranging public sector reforms than any other period of the twentieth century and with no sign of diminution of change into the early twenty-first century. It is argued here that this period of change represents a paradigm shift from the traditional model of public administration, dominant for most of the twentieth century, to 'managerialism' or public management. The theory of bureaucracy in its governmental context is being replaced by economic theories and provision by markets.

This book provides an introduction to, and assessment of, the theories and principles of public management, particularly the public sector reforms associated with the movement most often referred to as 'the new public management' and compares and contrasts these with the traditional model of public administration. The managerial programme is an international one, with quite similar changes occurring in a range of different countries, although the extent of similarity is a point of controversy. What is more, there is common intellectual backing for these changes particularly in economic theory and the principles of private management. For this reason the book concentrates on the broad sweep of international developments rather than concentrating on individual national case studies that could obscure key issues in a mass of unnecessary detail.

The third edition is a major rewrite with little that is unchanged. Chapters 1, 2, 3, 4, 8, 9, 13, 14 have been completely rewritten and Chapter 10 is new; Chapters 5, 6, 7, 11 and 12 have more minor changes. It maintains the same essential argument as the first two editions, but updates it in several areas. Events since the writing of the first edition have shown even more clearly that a major shift has been under way in the management of the public sectors around the world, although the pace of change has been greater in some countries, like New Zealand, Australia and the United Kingdom, than in others, such as the United States and Germany, although even there some signs of change are now apparent. It is also significant that public management is being adopted, in part, in a number of developing countries. It will be interesting to see to what extent public management can be successfully adopted by developing countries, a number of which have already taken significant initiatives, while others are actively seeking alternatives to the discredited traditional bureaucratic model.

The first part (Chapters 1–3) sets out the competing theories of traditional public administration and public management. The two paradigms are argued to be quite different, resulting in contrasting conceptions of the public service, with management being shown as a wider, more comprehensive activity than administration. The second part (Chapters 4–6) considers the changing role of government, a change that is, to a large degree, behind the change in management. This includes discussion of the greatly reduced role of public enterprise and of models of public policy making for government. The third section (Chapters 7–12) sets out in more detail specific aspects of public management – strategic planning and management, personnel and performance management, financial management and managing external constituencies, as well as management in developing countries. Chapter 13 considers the important issue of accountability and how it may have been affected by the reforms, while Chapter 14 looks at some of the criticisms of the new approach as a whole, where individual earlier chapters consider some of the problems with that particular aspect.

In looking at public administration there is a well-established and recognized model with a long history and an extensive literature. Public management, particularly new public management, has now developed its own literature. There are quite extensive critiques of, in particular, the new public management, some of which make interesting points while others are clearly written by adherents to the old-style public administration, trained in its precepts, who are unwilling or unable to see anything positive in the changes. There have been extensive debates as to whether or not there is a new paradigm, or even an old one, whether or not there is a global movement of public sector reform, and even whether or not anything has changed at all.

The argument here is that there has been a major change and that this deserves the appellation of paradigm. Anyone working in public services can see that something has happened. Public management is different from traditional public administration and has been adopted widely. Regardless of critiques it is here and here to stay. There are likely to be problems of accountability, morale and ethics in the adoption of public management and it is possible some managerial changes will result in little, if any, benefit. There is, however, no reason to assume that the managerial programme will be dropped and the traditional model adopted again. There is a major theoretical shift under way affecting the public sector and the public services, which also has substantial impacts on the relationship between government, bureaucracy and citizens. As the reform programme progresses in different countries it appears more evident that the days in which formal bureaucracy and the traditional model of administration characterized government management are rapidly passing.

There are a number of people to thank. First of all I wish to thank my publisher Steven Kennedy, of Palgrave Macmillan, who was willing ten years ago to take a punt on an author from the other side of the world. Sales have been far greater than either of us expected. I also wish to thank others who have assisted me in some way with this book and its predecessors although it should be added that the arguments are mine. In the US, these include: Peter deLeon and Linda deLeon at the University of Colorado, and those I have met through the Colorado link such as Mark Emmert and Robert Denhardt, also Delmer Dunn from Georgia and Colin Campbell, then at Georgetown, now at Vancouver. In Europe Christoph Reichard of the University of Potsdam, Neil Carter at York, Gordon Clark at Oxford, Ignacio Criado from Complutense University in Madrid, as well as colleagues at Monash, notably Gill Palmer, Deirdre O'Neill, Linda McGuire and Julian Teicher. I must also mention Colin Reaney and Karee Dahl from Singapore, whose house in France I used while writing the first edition. Most of all I wish to thank Cathy Woodward and our two girls Caitlin and Sophie, now aged six and three.

Melbourne, 2002 OWEN E. HUGHES

1

An Era of Change

Introduction

There has been a transformation in the management of the public sectors of advanced countries. The traditional model of public administration, which predominated for most of the twentieth century, has changed since the mid-1980s to a flexible, market-based form of public management. This is not simply a matter of reform or a minor change in management style, but a change in the role of government in society and the relationship between government and citizenry. Traditional public administration has been discredited theoretically and practically, and the adoption of new forms of public management means the emergence of a new paradigm in the public sector.

This new paradigm poses a direct challenge to several of what had previously been regarded as fundamental principles of traditional public administration. The first of these was that of *bureaucracy*, that governments should organize themselves according to the hierarchical, bureaucratic principles most clearly enunciated in the classic analysis of bureaucracy by the German sociologist Max Weber (Gerth and Mills, 1970). Although adopted by business and other institutions, these precepts were carried out far more diligently and for longer in the public sector. Secondly, there was *one-best-way* of working and procedures were set out in comprehensive manuals for administrators to follow. Strict adherence to these scientific management principles (Taylor, 1911) would provide the single best way of operating an organization. The third principle was *bureaucratic delivery*; once government involved itself in a policy area, it also became the direct provider of goods and services through the bureaucracy. Fourthly, there was general belief among administrators in the *politics/administration dichotomy*, that is, where political and administrative matters could be separated. The administration would be an instrument merely to carry out instructions, while any matters of policy or strategy were the preserve of the political leadership (Wilson, 1941). Fifthly, the motivation of the individual public servant was assumed to be that of *the public interest*; in that service to the public was provided selflessly. Sixthly, public administration was considered a special kind of activity and, therefore, required *a professional bureaucracy*, neutral, anonymous, employed for life, with the ability to serve any political master equally. Seventhly, the tasks involved in public service were indeed *administrative* in the dictionary sense, that is, following the instructions provided by others without personal responsibility for results.

These seven seeming verities have been challenged. First, bureaucracy is indeed powerful but does not work well in all circumstances and has some negative consequences. Secondly, trying to find the one-best-way is elusive and can lead to rigidity in operation. Flexible management systems pioneered by the private sector are being adopted by governments. Thirdly, delivery by bureaucracy is *not* the only way to provide public goods and services; governments can operate indirectly through subsidies, regulation or contracts, instead of always being the direct provider. Fourthly, political and administrative matters have in reality been intertwined for a long time, but the implications of this for management structures are only now being worked through. The public demands better mechanisms of accountability where once the bureaucracy operated separately from the society. Fifthly, while there may be public servants motivated by the public interest, it now seems incontrovertible that they are political players in their own right. They may also be assumed to work for their own advancement and that of their agency, instead of being pure and selfless. Sixthly, the case for unusual employment conditions in the public services is now much weaker, especially given the changes that have taken place in the private sector where jobs for life are rare. Finally, the tasks involved in the public sector are now considered more managerial, that is, requiring someone to take responsibility for the achievement of results, instead of being regarded as administrative and with public servants merely following instructions.

Economic problems in the 1980s meant governments reassessed their bureaucracies and demanded changes. As Caiden argued, ‘All blamed the dead hand of bureaucracy, especially the poor performance of public bureaucracies and the daily annoyances of irksome restrictions, cumbrous red-tape, unpleasant officials, poor service and corrupt practices’ (1991, p. 74). A radical change in organizational culture is occurring, but not without cost. The new approach has problems, not the least of them the disruption to standard operating procedures and poor morale. There seemed to be a long way to go before a new results-based management could emerge, although there was no going back to the traditional model of public administration.

All these points will be discussed at greater length later, but the main point is there has been total change in a profession that saw little change for around a hundred years. It is argued that the seven verities constitute a paradigm of their own – the traditional model of public administration – and that a paradigm shift has occurred due to the problems of the traditional model.

A new paradigm

There is some debate over whether or not public management, particularly the new public management, is a new paradigm for public sector management.

There are those in favour of regarding the reforms as a new paradigm (Osborne and Gaebler, 1992; Barzelay, l992; Behn, 1998, 2001; Borins, 1999; Mathiasen, 1999; Holmes and Shand, 1995; OECD, 1998). There are others who argue against the notion of paradigm change in public sector management (Hood, 1995, 1996; Lynn, 1997, 1998, 2001, 2001a; Pollitt, 1990, 1993; Gruening, 2001; Pollitt and Bouckaert, 2000). It is argued here that, either using the ordinary meaning of the word or the more recent usage associated with the work of Kuhn (1970), the term 'paradigm' is appropriate both for the traditional model of administration and the public management reforms most commonly linked together as the new public management.

Some argue that a paradigm is a large hurdle to jump, requiring agreement among all a discipline's practitioners – a more or less permanent way of looking at the world (Lynn, 1997; Gruening, 2001). This is a misreading of Kuhn (1970). Instead of a paradigm being a generally agreed framework of all the practitioners in a field, it is actually a contested idea. It does not require agreement among all practitioners; there are often competing paradigms in the same field.

The basic paradigms for public sector management are those following from Ostrom's (1989) argument that there are two opposing forms of organization: bureaucracy and markets. The key difference between the two forms of organization is that between choice and compulsion; allowing the market to find an agreed result or having it imposed by a bureaucratic hierarchy. At this most fundamental level, bureaucracy and markets are very different; they are based on very different ways of looking at the world. In short, the traditional model of administration is based on bureaucracy; public management is based on markets.

To Behn, the traditional model of administration qualifies as a paradigm; as he continues, 'certainly, those who support traditional public administration would argue that they have a "discipline", complete with "theories, laws, and generalisations", that focus their research' (Behn, 2001, p. 231). A paradigm does not mean one set of views that everyone must agree on, rather views that exist for a time and are revealed in the discipline's practices. The traditional model of administration, derived from Weber, Wilson and Taylor, does fit this in the sense of there being, at a given time, a corpus of knowledge, textbooks and ways of approaching the trade. In a paradigmatic sense it derives from the theory of bureaucracy.

The public management paradigm has the very different underlying theoretical bases of economics and private management. As an OECD paper argues, 'this new management paradigm emphasises results in terms of "value for money", to be achieved through management by objectives, the use of markets and market-type mechanisms, competition and choice, and devolution to staff through a better matching of authority, responsibility and accountability' (1998, p. 13).

However, it is not the case that at one point in time everyone in the discipline decided that the traditional public administration paradigm had been superseded; it is more the case that paradigms change gradually. The decline of one school of thought occurs as a result of the rise of an alternative, in this case public management. As Kuhn argues, 'the decision to reject one paradigm is always simultaneously the decision to accept another, and the judgment leading to that decision involves the comparison of both paradigms with nature *and* with one another' (1970, p. 77, emphasis in the original). Paradigmatic change involves the comparison of theories, neither of which work perfectly. If there are problems with the public management reforms, the response will be further changes in the managerial direction. Public management is argued to be a new paradigm.

The emergence of a new approach

By the beginning of the 1990s, a new model of public sector management had emerged in most advanced countries and many developing ones. Initially, the new model had several names, including: 'managerialism' (Pollitt, 1993); 'new public management' (Hood, 1991); 'market-based public administration' (Lan and Rosenbloom, 1992); the 'post-bureaucratic paradigm' (Barzelay, 1992) or 'entrepreneurial government' (Osborne and Gaebler, 1992). Despite the differing names, they all essentially describe the same phenomenon. The literature has more or less settled on new public management, often abbreviated to NPM, a term coined by Hood (1991), a persistent critic. Ten years on perhaps the time has came to question at what point the 'new' should be dropped from the title.

In the United Kingdom there were reforms in the 1980s, such as the widespread privatization of public enterprises and cuts to other parts of the public sector during the Thatcher government. Before long theorists began to see the trend as being to a new form of management. Rhodes, drawing on Hood (1991), saw managerialism in Britain as a 'determined effort to implement the "3Es" of economy, efficiency and effectiveness at all levels of British government' (1991, p. 1). By 1999, Horton would argue 'during the 1980s and 1990s the civil service moved from an administered to a managed bureaucracy and from a system of public administration to one of new public management (NPM)' (1999, p. 145).

In the United States, a key event was the publication in 1992 of *Reinventing Government* by Osborne and Gaebler (1992). Even if simplistic at times with its use of anecdotal examples and its similarity to other works looking at the private sector (Peters and Waterman, 1982), *Reinventing Government* became a runaway best-seller. The book cover included an endorsement by then presidential candidate Governor Bill Clinton. It was no surprise that, after his election, the new president would take an avid interest in reforming government, giving the task of conducting the National Performance Review to his Vice-President Al Gore (Gore, 1993). This review was clearly influenced by Osborne and Gaebler, in the diagnosis of the problem as being too much bureaucracy, the solutions advanced, and the language of reinvention used. The Gore Report set out to change the culture of American federal government through four key principles: (i) cutting red tape 'shifting from systems in which people are accountable for following rules to systems in which they are accountable for achieving results'; (ii) putting customers first; (iii) empowering employees to get results; and (iv) cutting back to basics and 'producing better government for less' (Gore, 1993, pp. 6–7). The Gore Report also cited innovative practices in Britain, New Zealand and Australia suggesting that the United States was somewhat behind in developing this new management.

International organizations, notably the Paris-based Organization for Economic Cooperation and Development (OECD) and, to a lesser extent the World Bank and the International Monetary Fund (IMF) became interested in improving the public management of their member and client nations. The public management committee (PUMA) at the OECD took a leading role in the public management reform process. In a 1990 report, the OECD argued (1990a, p. 1) that 'a shared approach' can be identified in most developed countries in which 'a radical change in the "culture" of public administration is needed if the efficiency and effectiveness of the public sector is to be further improved'. In 1998, it argued that improving efficiency and effectiveness of the public sector itself 'involves a major cultural shift as the old management paradigm, which was largely process- and rules-driven, is replaced by a new paradigm which attempts to combine modern management practices with the logic of economics, while still retaining the core public service values' (OECD, 1998, p. 5). This new approach to public management would emphasize results, a focus on clients, outputs and outcomes; it would use 'management by objectives and performance measurement, the use of markets and market-type mechanisms in place of centralized command-and-control-style regulation, competition and choice, and devolution with a better matching of authority, responsibility and accountability' (OECD, 1998, p. 5).

This provides a reasonable summary of the process of managerial reform, although, as we shall see in Chapter 3 in discussing the various formulations of different theorists; in the early days of reform there was little commonality in views of what was involved. Although the various terms – new public management, managerialism, entrepreneurial government – may vary, there is today much more general agreement: they point to the same phenomenon. Improving public management, reducing budgets, privatization of public enterprise seem universal; no one now is arguing for or increasing the scope of government or bureaucracy.

While there have been striking similarities in the reforms carried out in a number of countries (see Chapter 14), it is argued here that the greatest shift is one of theory rather than practice. The underlying theories of the traditional model of public administration; based on bureaucracy, one-best-way, the public interest and a separation of politics from administration, all had their problems. Indeed, the new public management paradigm is 'a direct response to the inadequacies of traditional public administration – particularly to the inadequacies of public bureaucracies' (Behn, 2001, p. 30). The public management reforms have been driven by totally different underlying theories: that economic motivations can be assumed for all players in government; that private management flexibility provides lessons for government; and that there can be no separation of politics from administration. Above all else, the change of theory is from administration to management, the former being about following instructions and the latter meaning to achieve results and to take personal responsibility for doing so.

Administration and management

It is argued here that *administration* is a narrower and more limited function than *management* and, in consequence, changing from public administration to public management means a major change of theory and of function. Of course, the English language is hardly an instrument of precision, with Dunsire (1973) able to find fourteen meanings of the word ‘administration’. Whether the words ‘management’ and ‘administration’ are any different from each other is an obvious but important part of the present argument. The words are close in meaning, but a brief foray into semantics allows a case to be made that the terms ‘management’ and ‘administration’ are significantly different and that a manager performs a different role from an administrator.

The Oxford Dictionary defines *administration* as: ‘an act of administering’, which is then ‘to manage the affairs of’ or ‘to direct or superintend the execution, use or conduct of’, while *management* is: ‘to conduct, to control the course of affairs by one’s own action, to take charge of’. The Latin origins of the two words also show significant differences. Administration comes from *minor* then *ministrare*, meaning: ‘to serve, and hence later, to govern’. Management comes from *manus*, meaning: ‘to control by hand’. The essential difference in meaning is between ‘to serve’ and ‘to control or gain results’.

From these various definitions it is argued that administration essentially involves following instructions and service, while management involves: first, the achievement of results, and secondly, personal responsibility by the manager for results being achieved. The terms administration and management are not synonymous, neither is their application to the public sector. Public administration is an activity serving the public, and public servants carry out policies derived from others. It is concerned with procedures, with translating policies into action and with office management. Management does include administration (Mullins, 1996, pp. 398–400), but also involves organization to achieve objectives with maximum efficiency, as well as genuine responsibility for results. These two elements were not necessarily present in the traditional administrative system. Public administration focuses on *process*, on procedures and propriety, while public management involves much more. Instead of merely following instructions, a public manager focuses on achieving *results* and taking responsibility for doing so.

Similarly, the words ‘management’ and ‘manager’ have been increasingly used within the public sector. Closely related words may change by usage; one word is used more often, while the other loses favour. As part of this general process, ‘public administration’ has clearly lost favour as a description of the work carried out; the term ‘manager’ is more common, where once ‘administrator’ was used. As Pollitt notes: ‘formerly they were called “administrators”, “principal officers”, “finance officers” or “assistant directors”. Now they are “managers”, (1993, p. vii). This may simply be a ‘fad’ or ‘fashion’ (Spann, 1981), but it might also reflect a real change in expectations of the person occupying the position, pointing to differences between administration and management.

These changes of title are not superficial. In the narrow sense, the words ‘administration’ and ‘management’ are shorthand descriptions of an activity or a function. It does not matter what a person or a function is called, if the work is done. But in a broader sense, words have power. If changing a position description from ‘administrator’ to ‘manager’ changes the way the incumbent sees or carries out the position, the words used to describe it are far from trivial. The term ‘manager’ is used more often, because it is a better description of the work now done. Public servants increasingly see themselves as managers instead of administrators. They recognize their function as organizing to achieve objectives with genuine responsibility for results, not simply as following orders. As a result, usage of the term public management is gaining favour, while public administration now seems old-fashioned, if not quite obsolete.

Public administration and public management

It follows that a public service based on administrative concepts will be different from one based on management and there are continuing and unresolved tensions between the two views. However, there is more involved than merely a change of name. Once the conception of management is adopted, a series of other changes follows, including: changes to accountability, external relations, internal systems and the conception of government itself. These are best seen by comparing the traditional model of public administration with that following the public management reforms.

The term ‘public administration’ always referred to the *study* of the public sector, in addition to being an activity and a profession. It is unfortunate that there is a profusion of words to describe the study of the public sector. Public policy, public administration and public management are terms all referring essentially to the same thing, which is how the administrative parts of government are organized, process information and produce outputs in policies, laws or goods and services. It is notable, however, particularly within the study of the public sector in the US, how little contact public administration, public policy and public management academics have with each other. Although all these approaches are related, there are often quite distinct academic followers of each.

They have their own conferences and journals, though the basic subject matter is essentially the same. There are differing views on the primacy of these terms.

Rosenbloom (1986) argues that 'public administration is the use of managerial, political, and legal theories and processes to fulfil legislative, executive and judicial governmental mandates for the provision of regulatory and service functions for the society as a whole or for some segments of it'. This is a comprehensive, overarching definition, putting within public administration every conceivable part of the public sector. In addition, Ott, Hyde and Shafritz (1991, p. ix) saw public management as a branch of the larger field of public administration or public affairs; the part which 'overviews the art and science of applied methodologies for public administrative program design and organisational restructuring, policy and management planning, resource allocations through budgeting systems, financial management, human resources management, and programme evaluation and audit'. Some earlier usage, particularly in the United States, viewed public management as a technical sub-field of public administration. This usage is now largely superseded by 'public management' or 'NPM', referring to the reform changes of the last decade of the twentieth century (see Bozeman, 1993).

In general, 'public administration' refers here to the academic study of the public sector. The particular theory dominant for most of the twentieth century is usually called the 'traditional model of public administration' in contrast with 'new public management' or 'managerialism', or 'the public management reforms' which are used interchangeably. 'Public policy' also refers to the output of government, as well as to the public policy or policy analysis school that places emphasis on rationality and empirical methods. Other terms like 'the administration' or 'bureaucracy' are unavoidable and should be taken as having ordinary, rather than value-laden meanings.

Administration and management are argued here to have conceptual differences and adding the word 'public' to them should reflect these differences. Public administration and public management are seen as different from each other rather than one being a subset of the other. They should be regarded as competing paradigms. The approach here is to use the term 'public management' more or less interchangeably with 'new public management'. There are two reasons for this. First, new public management is no longer 'new', it is well established. Secondly, as argued in this chapter, the key shift is that between administration and management in the public sector and this is adequately described by the term 'public management'. It is also a better term for what public servants – or public managers – actually do.

Imperatives of change

The changes in the public sector have occurred as a response to several interrelated imperatives: first, the attack on the public sector; secondly, changes in economic theory; thirdly, the impact of changes in the private sector, particularly globalization as an economic force; and, fourthly, changes in technology. Over the period of the reform movement, emphases have changed as well. In the earlier period, there was more concern with reductions in the role of government than later, but all four have had their impacts.

The attack on the public sector

In the early 1980s there were wide-ranging attacks on the size and capability of the public sector. Government, particularly its bureaucracy, was a source of some unease in the community at the same time, paradoxically, as more services were demanded of it. These years saw expressly anti-government parties and leaders at the head of governments, particularly in the United States and United Kingdom. Reforms to the public sector followed the election of Ronald Reagan in 1980 and Margaret Thatcher in 1979 (Flynn, 1997; Farnham and Horton, 1996; Ranson and Stewart, 1994). These were not, however, simply reforms, rather, the whole conception of the role of the public sector within society was challenged, and the way it is managed has altered as a direct result.

There were three main aspects to the attack on government. First, it was argued that the *scale* of the public sector was simply too large: consuming too many scarce resources. Cuts to government spending followed even in those European countries – Spain, Italy, Germany, Sweden – where the public services have traditionally been large. Secondly, there were governmental responses to arguments about the *scope* of government. It was argued that government was involved in too many activities and that alternative means of provision existed for many of these. In response to these criticisms, many formerly governmental activities were returned to the private sector. While privatization was contentious in the United Kingdom during the 1980s, it has since become widely accepted. In some countries, notably New Zealand, but also the United Kingdom and Australia to a lesser degree (see Hughes, 1998), any service which could conceivably be provided by the private sector was likely to be turned over to private providers either by contract or direct sale. Thirdly, there was a sustained attack on the *methods* of government, with bureaucracy in particular becoming highly unpopular. Provision by bureaucratic means was increasingly regarded as guaranteeing mediocrity and inefficiency. If activities were to stay in government other means of organization than bureaucracy needed to be found.

The ideological fervour of attacks on the role of government, and efforts to reduce its size, faded somewhat in the late 1990s. There was a greater appreciation of the positive role of government. Even international agencies, such as the World Bank and IMF, which had encouraged developing countries to reduce government, changed their tune. The landmark *World Development Report* of 1997 (World Bank, 1997) set out the kinds of things governments should do and replaced their earlier rather simplistic view that governments and public services should be minimized. However, there is no doubt that trying to actively reduce government was a major reason for moving away from traditional bureaucracy in the early days of the reform movement. As Holmes and Shand argue 'Reform of public sector management has been a reaction to the perceived excesses of the welfare state, both in the macro sense, as reflected in the growing size of government and associated fiscal deficits, and in the micro sense, in the perceived recognition of limits to government's ability to solve all of our problems' (1995, p. 552).

Economic theory

In the 1970s, conservative economists argued that government was *the* economic problem restricting economic growth and freedom. Theorists claimed that evidence and models backed up their arguments that less government would improve aggregate welfare by improving economic efficiency. Instead of governments forcing people to do things through the bureaucracy, markets were superior in every respect, with words like 'freedom' or 'choice' (Friedman and Friedman, 1980) to replace what had been described as the 'serfdom' of government (Hayek, 1944). A harder-edged form of economics became prominent in the economics profession at this time, usually called 'neo-classical economics' or sometimes 'economic rationalism' (Pusey, 1991). This paralleled the decline of Keynesian economic thought, and the major role it gave to government, as countries tried to cope with stagflation and other serious economic problems following the first oil price shock. As times became harder politics and government became more concerned with economic issues. Within governments, policy advisers and even politicians and the bureaucracy embraced neo-classical economics and its advocacy of making more use of markets inside and outside government for policy-making and the delivery of services.

The change in economic thinking profoundly affected the public bureaucracy (Boston, 1995; Boston *et al.*, 1996). There are now more economists in government and the profession enjoys more influence than before. Government economists, influenced by outside groups and think-tanks, arrived equipped with theories that seemed to offer more precision, more utility and more consistency than the vague, fuzzy notions of traditional public administration. Economists and economic thinking are replacing adherents to the old public administration at the higher levels of the bureaucracy while economic theories permeate the new public management, in particular public choice theory, principal/agent theory and transaction cost theory (Walsh, 1995; Boston *et al.*, 1996).

Public choice theory The most important economic theory applied to the bureaucracy, particularly in the earlier debate over managerialism, was public choice theory. This gave theorists a plausible weapon to support their views that government is too big and inefficient, and offered a sharp contrast to the traditional model of public administration. Public choice is a sub-branch of economic thought concerned with the application of microeconomics to political and social areas (Mueller, 1989; see also Chapter 2). From standard economic assumptions, predictions can be made and evidence sought to see if those predictions were justified.

The key assumption of public choice is a comprehensive view of rationality. According to Stigler (1975, p. 171):

> A rational man must be guided by the incentive system within which he operates. No matter what his own personal desires, he must be discouraged from certain activities if they carry penalties and attracted toward others if they carry large rewards. The carrot and the stick guide scientists and politicians as well as donkeys.

An assumption of such carrot and stick behaviour applies in any area. Instead of being motivated by the public interest, bureaucrats, like anyone else, are assumed to be motivated by their own selfish interest. Bureaucracies do not work well when looked at from this perspective because individual bureaucrats are regarded as trying to maximize their own utility at the cost of their agency; maximizing their own welfare and not the public interest. Similarly, politicians are not to be trusted as they maximize votes and/or money.

Making an economic assumption about behaviour does have its uses. For example, it can be assumed that the consumption of a good supplied by the public sector follows standard supply and demand curves. It follows that, to reduce consumption by clients, the agency can charge for it through user charges or limit its supply, by taking away eligibility to, say, high income earners, or raising its price. Such strategies have become more common and tend to support at least this part of the theory. The difference with other policy or administrative models is that behaviour can be *assumed* and models built from the assumption can be tested empirically. Public choice theorists generally conclude that the 'best' outcome will involve a maximum role for market forces and a minimal role for government. Even if this view is often ideological, and not an axiom of the theory itself, they argue there is a substantial body of evidence that private markets are better than government or political markets. If the role of government in supplying goods and services could be reduced, the economy as a whole would benefit. Markets are also argued to have better mechanisms for accountability as opposed to a bureaucracy accountable to no one.

These views found a governmental response. Public choice provided alternatives, the most obvious being to allow competition and choice and to return as many activities as possible to the private sector. A more subtle use of public choice arises from the point that behaviour could be assumed and modelled. This was a powerful tool in the design of programmes ranging from welfare to traffic control.

After thirty years of public choice theory and attempts to apply it to governmental settings, results have been mixed (Self, 1993; Walsh, 1995, pp. 16–20). Markets do not work better than bureaucracy under *all* circumstances. It could be argued that the assumption of individual rationality is too sweeping and ignores any selfless or public-spirited behaviour by public servants. The most important effect of public choice theory is the implicit questioning of the motives of public servants in some situations. An assumption of utility-maximizing behaviour is more able to account for behaviours, such as office politics, agency politics and the ever-present drive for promotion, than can be explained by regarding public servants as selfless and only motivated by the public interest.

Principal/agent theory The economic theory of principal and agent has also been applied to the public sector, especially concerning its accountability. The theory was developed for the private sector to explain the divergence often found between the goals of managers (agents) in private firms and shareholders (principals). How the interests of agents and principals diverge and are to be dealt with has given rise to an extensive literature dealing with issues of accountability and their effects on organizations.

Principal/agent theory attempts to find incentive schemes for agents to act in the interests of principals. The activities of agents (managers) need to be monitored by shareholders, by the possibility of takeovers or bankruptcy while the presence of a non-executive board may help in 'attenuating the discretion of management' (Vickers and Yarrow, 1988, p. 13). In addition, to ensure their behaviour complies with the wishes of the principals, agents should have contracts that specify their obligations and rights. In the private sector, shareholders seek maximum profits, while managers, their agents, might want long-term growth and higher salaries for themselves. Firms may not necessarily maximize profits for the benefit of the shareholders because the separation of ownership from control reduces shareholder power. There must be some profit, although perhaps not to the extent of profit and dividend maximization.

In the private sector the theory of principal and agent does not supply a complete model or answer to the general problem of accountability, but accountability relationships are at least well known, as are some remedies, such as providing clear contractual obligations.

The application of principal/agent theory to the public sector leads to disturbing comparisons in accountability when compared to the private sector. It is difficult to determine who the principals are, or find out what they really want. The principals, the owners, of the public service are the entire public, but its interests are so diffuse that effective control of the agents – public managers – is unlikely to be effective. It is difficult for the agents to find out what each principal might want them to do in any instance. There is no influence from the profit motive, no market in shares and nothing comparable to bankruptcy. If principals have no adequate means of making sure agents carry out their wishes, agents are less likely to perform. Even if there is an agency problem in the private sector, it is likely to be worse in the public sector.

The agency problem in the public sector could be reduced. The theory gives some backing to those arguing for contracting-out as much of the public sector as possible. In this way, the agency relationships would become those of the private sector, which are assumed to work better. Contracts could be used for employees and for organizations, and those arrangements would have incentives, both positive and negative, although even if theoretically desirable, the notions of performance contracts and incentive pay have problems of their own. If public activities are contracted out, there are problems ensuring compliance. Performance pay can attract resentment from other staff.

Transaction cost theory The other key economic theory in the managerial changes has been that of transaction costs. As set out by Williamson (1986), this challenges the notion that transactions are without cost and specifies the circumstances where a firm may prefer market-testing or contracting to in-house provision. The same applies to the public sector; there are some transactions which would be less costly if contracted out to reduce administrative costs and provide some competition. However, following Williamson's argument further, there are some public sector transactions for which market testing has become mandatory, where in-house provision would actually be better.

The theories of the 'new institutional economics', particularly public choice theory and principal/agent theory, combined with an ideological predilection among many economists for market solutions, have provided some intellectual coherence to cutting the public service, as well as restructuring its management (Gray and Jenkins, 1995). In addition, several public administration precepts – lifetime employment, promotion by seniority, the terms and conditions of public employment, traditional accountability, even the theory of bureaucracy – have been challenged for being based on poor theory and providing inadequate incentives for good performance.

Private sector change

A further imperative for public sector change has been the rapid change in the private sector and the realization that the management and efficiency of the public sector affects the private economy and national competitiveness. Restructuring has taken place in most countries in a continuing process that has been painful for many. Problems of structural adjustment in the economies of developed countries meant the public sector could not be left unscathed.

A concern with national competitiveness leads fairly naturally to a need for reform of the public sector. The desire to seek out and retain international business has 'led countries to try and reform their governments in order to create a better investment and business climate' (Kamarck, 2000, p. 232). Economic adjustment in the private sectors of many countries has been a painful but necessary process.

Increased competition, both national and international, changes in management, changes in personnel have all occurred in private firms no less than in government. The private sector in most countries has faced enormous change in recent years, in an adjustment process that has generally been difficult. It would be defying the credibility of governments if they did not change the public sector as well.

The moves towards privatization in its various forms – contracting-out, reducing government spending – could be considered as shedding aspects of government that are no longer parts of its 'core business'. Globalization adds an extra imperative to the reform of administrative structures within government. In a number of policy areas it is important for government to tailor its policies to enhance national competitiveness. Education, tax, health care, anti-trust regulation, environment, fiscal and monetary policy provide substantial roles for public administrators and managers, but in a public service that is more innovative and capable than before (Porter, 1990). Instead of an era of change in government, or an era of change in the private sector, it is now an era of similar changes in both sectors and in ways hard to foretell (see Held *et al*., 1999).

Technological change

Technological change affects management, including the management of government. This should be regarded as one of the main driving forces both towards new forms of public management and away from traditional bureaucracy. With the adoption of forms of e-government (electronic government) technologically driven change is likely to accelerate. The use of information and communication technologies (ICTs) such as distributed computer systems, Internet linkages, new databases could lead to a reconceptualization of the very way that bureaucracies work. The changes have the potential to be beneficial, even though there are issues of privacy and security yet to be dealt with (Muid, 1994, p. 125). It is inarguable that management of the public sector changes with the kinds of information technology currently available. The potential for e-government is discussed at length later (Chapter 10).

Conclusion

It is argued that the traditional model of administration has been replaced by public management as the culmination of a reform process that has occurred in many countries since the late 1980s. The main reason for this change is simply that the old model did not work very well. Political leaders and the community alike regarded the service they received from the public service as poor, tied up in process and out of touch with reality. As well as reducing their operations, governments have responded to criticisms of their management by instituting a series of reforms. These have taken place in every conceivable area of public life: the machinery of government, personnel practices – recruitment, promotion, tenure – policy-making processes, financial management, relations with outside groups and all kinds of other procedures. There is greater use of empirical methods, sophisticated statistics, and, in particular, the theories and methods of economics and economists.

There have really been two separate changes, with some links between them. First, there is a trend towards the 'marketization' of the public sector, to shift public activities to the private sector. This is occurring through privatization in its various forms, including the contracting-out of many activities. Secondly, there is the trend away from bureaucracy as an organizing principle within the public sector. The two are, of course, related, in that one reason for marketization is the presumed failure of bureaucracy, and provision by markets is the main avenue pursued as an alternative to bureaucracy.

Recent changes to the public sector have led to fundamental questioning of its role and place in society. The main point to be made here is that a new paradigm governing the management of the public sector has emerged, one that moves the public service inexorably away from administration towards management. The earlier, rigidly bureaucratic model of administration is now discredited both theoretically and practically.

Understandably, many public servants have felt under siege. Certainty and order have been replaced by uncertainty. Offices are organized and re-organized, structured and restructured to a bewildering extent. Redundancies have become common in a part of the workforce where jobs were once for a lifetime. In future, the public service may provide an occupation for a very small core of people. Service-delivery agencies, which need not contain government employees, may undertake the bulk of the day-to-day work under contracts with the small policy department. Governments still need a public service, but its size could be very small, confined to contract management and policy advice, even if much of that work could itself be contracted out.

One interesting, albeit expected, aspect of the public management reforms has been the reaction of critics, mainly academic, unwilling or unable to concede that the old traditional model of public administration is disappearing. Every conceivable aspect of new public management has come under attack from one public administration writer or another, to the extent that it seems clear that the reforms have found greater acceptance within the public services than within some parts of academia. The problems of the public management reforms and particular criticisms are discussed later, but there are some key controversies of the whole programme that are dealt with at the end (Chapter 14).

There are, of course, some problems involved in the change to managerialism. Any process of change involves winners and losers and among the losses may be some valued parts of the traditional model of administration. Reform is undertaken with the aim of improvement, but it could be argued that there has been so much reform, so much change, that management capability has deteriorated. There are serious questions to be addressed about ethics, accountability, the theoretical basis of the new model and larger questions concerning the role and organization of public services. However, even if public management is not a settled model, even if some changes may work better than others, there will be no return to the traditional model of administration in place for most of the twentieth century. This has gone for good and public management has replaced it. The change to a managerial model now seems irreversible.

2

The Traditional Model of Public Administration

Introduction

What is here called the traditional model of public administration was once a major reform movement. Where previously amateurs bound by personal loyalties to leaders carried out public administration, the task became a professional occupation which was carried out by a distinct merit-based public service. Serving the public at that time was a high calling, one that required the best people available to form a distinct administrative elite and to act always according to the law and established precedents. Politicians might come and go but, while the apparatus of government was in the hands of permanent officials, the transition between regimes could be handled smoothly. Public administration as both theory and practice began in the late nineteenth century, became formalized somewhere between 1900 and 1920, and lasted in most Western countries largely unchanged until the last quarter of the twentieth century. This is a long period for any social theory, even if, since the early 1980s, governments have moved away from many of its precepts.

The traditional model can be characterized as: an administration under the formal control of the political leadership, based on a strictly hierarchical model of bureaucracy, staffed by permanent, neutral and anonymous officials, motivated only by the public interest, serving any governing party equally, and not contributing to policy but merely administering those policies decided by the politicians. Its theoretical foundations mainly derive from Woodrow Wilson and Frederick Taylor in the United States, Max Weber in Germany, and the Northcote–Trevelyan Report of 1854 in the United Kingdom.

The traditional model of public administration remains the longest standing and most successful theory of management in the public sector, but is now being replaced. It has not disappeared overnight and elements of it still exist, but its theories and practices are now considered old-fashioned and no longer relevant to the needs of a rapidly changing society.

Early administration

Public administration has a long history, one paralleling the very notion of government. As Gladden (1972, p. 1) notes, some form of administration has existed ever since there have been governments:

> First comes the initiator or leader to render society possible, then the organiser or administrator to give it permanence. Administration, or the management of affairs, is the middle factor in all social activity, unspectacular but essential to its continuance.

Administrative systems existed in ancient Egypt to administer irrigation from the annual flood of the Nile and to build the pyramids. China in the Han dynasty (206 BC to AD 220) adopted the Confucian precept that government should be handled by men chosen, not by birth, but by virtue and ability, and that its main aim was the happiness of the people.

In Europe the various Empires – Greek, Roman, Holy Roman, Spanish and so on – were, above all, administrative empires, controlled from the centre by rules and procedures. The development of 'modern' states in the Middle Ages is argued by Weber to have 'developed concomitantly with bureaucratic structures' (Gerth and Mills, 1970, p. 210). Although some kind of administration existed earlier, however, the traditional model of public administration really dates from as late as the mid-nineteenth century.

Earlier systems of administration shared one important characteristic. They were 'personal', that is, based on loyalty to a particular individual such as a king or a minister, instead of being 'impersonal', based on legality and loyalty to the organization and the state. Their practices often resulted in corruption or misuse of office for personal gain, although the very idea that these are undesirable features of administration itself only derives from the traditional model. Practices that now seem alien were commonplace ways of carrying out government functions under earlier administrative arrangements. It was once common for those aspiring to employment by the state to resort to patronage or nepotism, relying on friends or relatives for employment, or by purchasing offices; that is, to pay for the right to be a customs or tax collector, and then to charge fees to clients, both to repay the initial sum invested and to make a profit. In early colonial Sydney, the customs officer personally received five per cent of all duties collected and the police were paid a shilling for 'apprehending and lodging in gaol any sailor who may be found riotous and disorderly'. Key administrative positions were usually not full-time but were only one of the activities of someone in business. The normal way for a young man to gain government employment (only men were employed) was to apply to some relative or family friend in a position to help. There was no guarantee that people employed by the system would be competent in any way.

In the United States for most of the nineteenth century, there existed what was termed the spoils system of administration, derived from the saying, 'to the victor belong the spoils'. After an election in which a new party was elected – and this applied to elections from the local level to the Presidency – every administrative job from the top to the bottom could be filled by an appointee from the winning party. This system reached its nadir in the 1830s during the presidency of Andrew Jackson, who said once (White, 1953, p. 318):

> The duties of all public offices are, or at least admit of being made, so plain and simple that men of intelligence may readily qualify themselves for their performance. Offices were not established to give support to particular men at the public expense. No individual wrong is, therefore, done by removal, since neither appointment to, nor continuance in office is a matter of right. He who is removed has the same means of obtaining a living that are enjoyed by the millions who never held office.

In other words, there is no specific expertise involved in public administration, nor is there any reason that the administration of government should persist when its political complexion changes. The benefits of public office – patronage, direct financial benefits – rightly belong to the successful party in an election.

Jackson thought there were advantages in making the administration more egalitarian and democratic: 'I can not but believe that more is lost by the long continuance of men in office than is generally gained by their experience.' Presumably, by changing officeholders whose loyalties were clearly to the party, much could be gained, perhaps even reduced corruption. It could even be argued that political accountability was enhanced in 'reaction to a sense that government had not been sufficiently responsive to changes in the electoral will' (Romzek, 1998, p. 196). This egalitarian philosophy fit well with the American distrust of government, but had major drawbacks (Mosher, 1982, p. 65):

> Among the consequences of the spoils system run rampant, were: the periodic chaos which attended changes of administration during most of the nineteenth century; the popular association of public administration with politics and incompetence; the growing conflicts between executive and legislature over appointments, which led in 1868 to the impeachment trial of an American president; and the almost unbelievable demands upon presidents – and upon executives of state and local governments as well – by office-seekers, particularly following elections. Such a system was neither efficient nor effective. Citizens did not know where they stood when government administration was, in effect, a private business in which government decisions, money and votes were negotiable commodities.

Eventually, the inherent problems of earlier forms of administration led to changes in the latter part of the nineteenth century and to the reforms associated with the traditional model of administration. Pre-modern bureaucracies were 'personal, traditional, diffuse, ascriptive and particularistic' where modern bureaucracies, exemplified by Weber, were to become 'impersonal, rational, specific, achievement-oriented and universalistic' (Kamenka, 1989, p. 83). Earlier practices now seem strange because of the very success of the traditional model of administration. Professional, non-partisan administration is so familiar to us that it is hard to imagine that any other system could exist.

The reforms of the nineteenth century

The beginning of the traditional model is best seen in mid-nineteenth century Britain. In 1854, the Northcote–Trevelyan Report recommended that 'the public service should be carried out by the admission into its lower ranks of a carefully selected body of young men' through 'the establishment of a proper system of examination before appointment'. It recommended: the abolition of patronage and the substitution of recruitment by open competitive examinations under the supervision of a central examining board; reorganization of office staffs of central departments in broad classes to deal with intellectual and mechanical work respectively; and filling higher posts by promotion from inside based on merit. Northcote–Trevelyan signals the start of merit-based appointments to the public service and the gradual decline of patronage. The Report emphasizes personnel matters and its recommendations were implemented slowly, but it does represent a beginning to the traditional model of public administration. From Northcote and Trevelyan derive appointment by merit through examinations, and non-partisan, neutral administration.

The United Kingdom reforms of the mid-nineteenth century influenced opinion in the United States. The evils of the spoils system were all too evident in the corruption endemic in government, particularly in the cities. In 1881, President Garfield was assassinated by a disappointed spoils seeker – someone who thought he had been promised a civil service position – and this event gave further impetus to the movement for reform that was already in existence. As a result, in 1883, the Civil Service Act (the Pendleton Act) was passed which established a bipartisan Civil Service Commission and contained four key points: (i) the holding of competitive examinations for all applicants to the classified service; (ii) the making of appointments to the classified service from those graded highest in the examinations; (iii) the interposition of an effective probationary period before absolute appointment; and (iv) the apportionment of appointments at Washington according to the population of the several states and other major areas (Gladden, 1972, p. 318). The Pendleton Act was certainly inspired by the British civil service reforms, although the United States did not adopt the rigid four-class system or the requirement that entrance only be at the base grade (Mosher, 1982, p. 68).

The model was greatly influenced by Woodrow Wilson in the United States, one of the key activists in the United States reform movement, and Max Weber in Europe. Weber formulated the theory of bureaucracy, the idea of a distinct, professional public service, recruited and appointed by merit, politically neutral, which would remain in office throughout changes in government. Wilson put forth the view that politicians should be responsible for making policy, while the administration would be responsible for carrying it out. From both is derived the notion that administration could be instrumental and technical, removed from the political sphere. Still later, the principles of scientific management, from Frederick Taylor, were adopted for the public sector.

Wilson, Taylor and Weber, who were contemporaries, are the main influences on the traditional model of public administration (see also Behn, 1998, 2001). As Behn argues, only Taylor had immediate influence in the United States, with Wilson's and Weber's work not well known until some decades after their original publication. This delay in dissemination is sometimes used as an argument for there being no paradigm of traditional administration (see Lynn, 2001). However, bureaucracy as a practice was well-established before Weber set it out as a theory. Similarly Wilson's views were well-known and used even if the original article was not. Each key theorist will be considered in turn.

Weber's theory of bureaucracy

The most important theoretical principle of the traditional model of administration is Weber's theory of bureaucracy. There are some arguments about their direct influence, as his works were not translated for many years. However, as Ostrom argues, Weber's theory of bureaucracy 'was fully congruent with the traditional theory of public administration in both form and method' (1974, p. 9). Throughout its long history, the traditional model followed Weber's theory virtually to the letter, either implicitly or explicitly, although it is important to note that bureaucracy existed as a practice prior to Weber setting it out as a theory.

In setting out a basis for his theory, Weber argued there were three types of authority: the charismatic – the appeal of an extraordinary leader; the traditional – such as the authority of a tribal chief; and rational/legal authority. The latter was both rational and legal, naturally, as opposed to the other forms of authority that were essentially irrational and extra-legal. It was, therefore, the most efficient of the three forms of authority and formed the basis for his theory of bureaucracy.

Weber set out six principles for modern systems of bureaucracy, deriving from the idea of rational-legal authority (Gerth and Mills, 1970, pp. 196–8):

1. The principle of fixed and official jurisdictional areas, which are generally ordered by rules, that is by laws or administrative regulations.
2. The principles of office hierarchy and of levels of graded authority mean a firmly ordered system of super- and sub-ordination in which there is a supervision of the lower offices by the higher ones.
3. The management of the modern office is based upon written documents ('the files') which are preserved. The body of officials actively engaged in 'public' office, along with the respective apparatus of material implements and the files, make up a 'bureau' ... In general, bureaucracy segregates official activity as something distinct from the sphere of private life ... Public monies and equipment are divorced from the private property of the official.
4. Office management, at least all specialised office management – and such management is distinctly modern – usually presupposes thorough and expert training.
5. When the office is fully developed, official activity demands the full working capacity of the official ... Formerly, in all cases, the normal state of affairs was reversed: official business was discharged as a secondary activity.

6. The management of the office follows general rules, which are more or less stable, more or less exhaustive, and which can be learned. Knowledge of these rules represents a special technical learning which the officials possess. It involves jurisprudence, or administrative or business management.

The principles of bureaucracy have become so ingrained in society that these points seem obvious, but they did represent a substantial advance on early administration.

The first of Weber's principles means that authority derives from the law, and from rules made according to law. No other form of authority is to be followed. Following from this, the second principle is that of hierarchy, perhaps the most familiar of Weber's ideas. Strict hierarchy meant that rational/legal authority and power were maintained organizationally, not by any individual but by the position he or she held in the hierarchy. Particular functions could be delegated to lower levels as the hierarchical structure meant that any official could act with the authority of the whole organization. The third point adds to this. The organization is something with an existence separate from the private lives of its employees; it is quite impersonal. Written documents are preserved; something that is essential, as previous cases become precedents when similar events recur. Only with the existence of files can the organization be consistent in its application of the rules. The fourth point is that administration is a specialist occupation, one deserving of thorough training, it was not something that could be done by anyone. Fifthly, working for the bureaucracy was a full-time occupation instead of a secondary activity as it once was. Finally, office management was an activity that could be learned as it followed general rules. These rules would presumably be carried out in the same way by whoever occupied a particular office.

The main differences and advances of the Weberian system are best understood by comparison with earlier models of administration. The key contrast, the most important difference between Weber and previous models, is the replacement of personal administration with an impersonal system based on rules. An organization and its rules are more important than any individual within it. The bureaucratic system must be impersonal in its own operations and in how it acts to its clients. As Weber argued (Gerth and Mills, 1970, p. 198):

> The reduction of modern office management to rules is deeply embedded in its very nature. The theory of modern public administration … assumes that the authority to order certain matters by decree – which has been legally granted to public authorities – does not entitle the bureau to regulate the matter by commands given for each case, but only to regulate the matter abstractly. This stands in extreme contrast to the regulation of all relationships through individual privileges and bestowals of favour, which is absolutely dominant in patrimonialism, at least in so far as such relationships are not fixed by sacred tradition.

This is a very important point. Earlier administration was based on personal relationships – loyalty to a relative, patron, leader or party – and not to the system itself. At times the earlier model may have been more responsive politically, in that the administration was more clearly an arm of the politicians or the dominant classes favoured by appointments. But it was also often arbitrary, and arbitrary administration can be unjust, especially to those unable or unwilling to indulge in personal political games. An impersonal system based on Weber's principles removes arbitrariness completely – at least it does in the ideal case. The existence of the files, the belief in precedent and the basis in law mean that the same decision is always made in the same circumstances. Not only is this more efficient, but citizens, and those in the bureaucratic hierarchy, know where they stand.

Other differences follow. A rigid system of hierarchy follows naturally from the basis in rules and impersonality. The system and its rules persist when particular individuals have left the organization. Though Weber's emphasis is on the system as a whole, he did pay attention to the terms and conditions of those who work in the bureaucracy.

The position of the official

The individual official occupies a key place in Weber's theory. Office holding is considered a vocation, following examinations and a rigorous course of training. Unlike earlier forms of administration, office holding is not considered a source to be 'exploited for rents or emoluments'. Neither does it 'establish a relationship to a person … modern loyalty is devoted to impersonal and functional purposes'. According to Weber, 'entrance into an office is considered an acceptance of a specific obligation of faithful management in return for a secure existence'. He specified the position of the official in the following way (Gerth and Mills, 1970, pp. 199–203):

1. The modern official always strives for and usually enjoys a distinct social esteem as compared with the governed.
2. The pure type of bureaucratic official is appointed by a superior authority. An official elected by the governed is not a purely bureaucratic figure.
3. Normally, the position of the official is held for life, at least in public bureaucracies.
4. Where legal guarantees against arbitrary dismissal or transfer are developed, they merely serve to guarantee a strictly objective discharge of specific office duties free from all personal considerations.
5. The official receives the regular pecuniary compensation of a normally fixed salary and the old age security provided by a pension. The salary is not measured like a wage in terms of work done, but according to 'status', that is, according to the function (the 'rank') and, in addition, possibly, according to the length of service.
6. The official is set for a 'career' within the hierarchical order of the public service. He moves from the lower, less important, and lower paid to the higher positions.

These points follow logically from the six principles of bureaucracy. The official is to be part of an elite with status higher than that of ordinary citizens. Along with Northcote–Trevelyan, Weber's theory required recruitment by merit, not by election or by patronage, into a position normally held for life in exchange for impartial service. Part of the lifetime and full-time career of the public servant is the principle of fixed salary and the prospect of advancement through the hierarchical structure.

The two principles – the model of bureaucracy and position of the official – had specific purposes. A formal, impersonal system offers 'the optimum possibility for carrying through the principle of specialising functions according to purely objective considerations'. Decisions would and should be made according to 'calculable rules' and 'without regard for persons' (Gerth and Mills, 1970, p. 215). The general aims were certainty, impersonality and efficiency. The principle of specialization of function is meant to increase productivity; the hierarchy of authority and the system of rules make for certainty in decision; and the impersonality of the system implies that the same decision can be repeated in the same circumstances. Decisions are not made arbitrarily. The idea was to create a system that was at the highest possible level of technical efficiency. As Weber argued (Gerth and Mills, 1970, p. 214):

> The decisive reason for the advance of bureaucratic organisation has always been its purely technical superiority over any other form of organisation. The fully developed bureaucratic mechanism compares with other organisations exactly as does the machine with non-mechanical modes of production. Precision, speed, unambiguity, knowledge of the files, continuity, discretion, unity, strict subordination, reduction of friction and personal costs – these are raised to the optimum point in the strictly bureaucratic organisation.

Weber's idea that bureaucracy was the most efficient form of organization applies to all large undertakings. The formal model of bureaucracy is applicable to both the private and public sector, but there is little doubt it was embraced more readily and for longer in public administration.

Wilson and political control

In the traditional model of public administration, the rules linking the political leadership with the bureaucracy are clear, at least in theory. Woodrow Wilson – a Professor at Princeton for many years before becoming United States President – argued that there should be a strict separation of politics from the administration; of policy from the strictly administrative task of carrying it out. As he argued in 1886 (1941, pp. 197–222):

> Administration lies outside the proper sphere of politics. Administrative questions are not political questions. Although politics sets the tasks for administration, it should not be suffered to manipulate its offices … Public administration is detailed and systematic execution of public law. Every particular application of general law is an act of administration. The assessment and raising of taxes, for instance, the hanging of a criminal, the transportation and delivery of the mails, the equipment and recruiting of the army and navy, etc., are all obviously acts of administration, but the general laws which direct these things to be done are as obviously outside of and above administration. The broad plans of governmental action are not administrative; the detailed execution of such plans is administrative.

Wilson believed that the evils of the spoils system resulted from the linking of administrative questions with political ones. If administrators act in an overtly political manner, whether due to the process by which they were appointed, or their continuing role within the party organization, corruption is likely to result and arbitrary decisions almost certain. Separation of the political sphere, where policy derives, from the administrative sphere, where policies are administered, could address many evils of the spoils system.

Traditional public administration elevated the distinction between administrative and political matters to its guiding principle – that of the politics/administration dichotomy. Stillman (1991, p. 107) argues that the dichotomy between politics and administration:

> justified the development of a distinct sphere for administrative development and discretion – often rather wide – free from the meddling and interference of politics. The dichotomy, which became an important instrument for Progressive reforms, allowed room for a new criterion for public action, based on the insertion of professionalisation, expertise, and merit values into the active direction of governmental affairs.

In addition, the dichotomy allowed public administration 'to emerge as a self-conscious field of study, intellectually and institutionally differentiated from politics' (Stillman, 1991, p. 107). Even if there were few immediate effects of Wilson's views in the United States, the idea that administration could be a separate, non-political instrument was influential for the discipline for many years.

The traditional system of administration in parliamentary countries similarly aimed for a separation of policy from administration. It could be argued that it was only in such systems that Wilson's principle of separation was actually carried out. The individual minister and the ministry as a whole were presumed to develop policies, which would then be administered by a department headed by a permanent departmental head, who would remain in charge when the government changed. Along with providing stability and continuity, permanence of service was justifiable as it was believed that the public service and individual department heads only carried out policy and did not make it. Political matters would be dealt with by the politicians; administrative matters by the permanent public servants, with the two spheres of action being kept, as far as possible, apart.

There are three main facets to political control in the traditional model of administration, most notably in Westminster systems. First, there is a clear relationship of accountability and responsibility. A department or agency has two basic roles: to advise the political leadership on the development, review and implementation of policy, and to manage its own resources so that policy may be implemented. Each public servant is technically accountable, through the hierarchical structure of the department, to the Cabinet, and eventually to the people. Second, there is supposed to be a strict separation between matters of policy, which are formally the province of politicians, and matters of administration, which are left to the public service. Third, the administration is presumed to be anonymous and neutral, that is, not personally associated with any decisions or policies that are carried out only in the name of the minister; and non-partisan in the party-political sense and able to serve equally any political leader. Westminster systems added the formal system of ministerial responsibility. If ministers accept personal responsibility for all the activities of their departments, public servants should remain anonymous and not publicly identified with the advice they give to ministers. In return for serving ministers from whatever party to the best of their ability, that is, for acting impersonally and objectively, public servants receive certain benefits in their conditions of service, such as security of employment, despite changes of government, and a decent pension.

In the traditional model of administration, the worlds of the politician and the public official were to be separate. As Caiden argued (1982, p. 81):

> Simply put, politicians should rule; public officials should do their bidding. Political offices should be filled competitively in the political arena; bureaucratic offices should be filled competitively in the bureaucratic arena. Political officials should be selected on the basis of their political competence; bureaucratic officials should be selected on the basis of their bureaucratic competence. The separation of political and career routes should be institutionalised by legal or constitutional prohibition on concurrent office holding and interchange. Politicians should be judged by the electorate or their political peers; officials should be judged by their political overseers or their bureaucratic peers. Political office should be of limited tenure and subject to frequent elections; bureaucratic office should be of unlimited tenure, subject to good behaviour.

Although the theory of separation – of dichotomy – between politics and administration was a major part of the traditional model of administration, it was, for many years, widely regarded as a myth, especially useful for the evasion of responsibility. In reality, the two are effectively 'fused with politicians performing administrative duties and administrators assuming political responsibilities' (Caiden, 1982, p. 82). It was a fantasy to assume that politicians and administrators could be separate, but bureaucratic structures were constructed as though the myth was reality.

Taylor and management

The traditional model of administration was fully formed by the 1920s and continued with remarkably little change for at least fifty years. The bureaucracy was supposed to be permanent and neutral; it was not engaged in policy or politics, but was an instrument of great power to be wielded by the politicians. Although the theoretical foundations of bureaucracy and political control were firmly established and essentially unchanged, there were public sector adaptations of management theory. All that was needed for a complete theory was a way of working, of organizing, to be added to the bureaucratic model of

Weber, the political control of Wilson and the merit appointments and political neutrality of Northcote–Trevelyan. This was found in the scientific management principles put forward for the private sector by Frederick Winslow Taylor (1911). As Dunsire argues, the addition of scientific management ideas led to a complete model of administration and 'the twin ideas of the politics/administration dichotomy and Scientific Management, gave a form and purpose, a self-confidence to both the practice and the study of administration in the 1920s and 1930s' (1973, p. 94).

Scientific management

Frederick Taylor (1911) is usually credited with formulating scientific management. There were two main points to Taylor's theory: standardizing work, which meant finding the 'one best way of working' and 'controlling so extensively and intensively as to provide for the maintenance of all these standards' (Kakar, 1970, p. 3). Scientific management involved (i) time-and-motion studies to decide a standard for working; (ii) a wage-incentive system that was a modification of the piecework method already in existence; and (iii) changing the functional organization. Taylor did not invent time-and-motion studies, but did carry them out more thoroughly than predecessors. There was a series of famous experiments with shovel size, bringing the work closer to the worker, reducing the number of movements, all carried out with the ever-present stopwatch. Taylor advocated paying workers by a modified piecework method, so that someone who produced above the measured standard for a day's work would be paid more for the entire output, while performance below the standard would attract the normal rate (Kanigel, 1997, pp. 210–11).

Scientific management became an evangelical force in the early years of the century (Copley, 1923). What Taylor sought was a fundamental change as efficiency and science replaced ad hoc decision-making, even a societal change as, through scientific management, the interests of employees and employers could be shown to be the same.

The factory assembly line was the main area influenced by Taylor's ideas, but it was not long before scientific management was applied to governments. Enthusiasts thought the ideas could be applied to the public sector. Taylor himself thought that scientific management could be applied to government since, 'in his judgment, the average public employee did little more than one-third to one-half of a good day's work' (Fry, 1989, p. 47). It is easy to see why the bureaucracy adopted scientific management. It offered a way of operationalizing the bureaucratic form of organization within government and it was Taylor and his followers 'who were major carriers of the bureaucratic model' (Golembiewski, 1990, p. 133).

Scientific management fits very well with the theory of bureaucracy: the skills of the administrator, the compilation of manuals to cover every contingency, the advance of rationality, and impersonality are aspects of both. As Behn argues (2001, pp. 40–1):

> Wilson, Taylor and Weber all strove to improve efficiency. And, although efficiency is a value in itself, it has another advantage. This efficiency is impersonal. By separating administration from politics, by applying science to the design of its administrative processes, and by employing bureaucratic organizations to implement these processes, government would ensure not only that its policies were fair but also that their implementation was fair.

The ideas of 'one best way' and systematic control were a perfect fit with rigid hierarchy, process and precedent. Weber mentioned the work of Taylor favourably. He argued (Gerth and Mills, 1970, p. 261):

> With the help of appropriate methods of measurement, the optimum profitability of the individual worker is calculated like that of any material means of production. On the basis of this calculation, the American system of 'scientific management' enjoys the greatest triumphs in the rational conditioning and training of work performances.

Standardization of tasks and fitting workers to them was perfect for the traditional model of administration. Even the measurement of performance by stopwatch was common in the organization and methods branch of large public bureaucracies. As Bozeman argues (1979, pp. 33–4):

> Scientific management did not waste away in textbooks; it was highly influential in the practice of public administration and in government research .... The influence of public administration and public administrationists reached its zenith as the faith in scientific management and the scientific principles spread and established itself as the prevailing orthodoxy.

Taylor remains important for public administration, as his theory of scientific management became a key influence on what followed in the management of public and private sectors. Although particular points could be disputed – the crude theory of personal motivation, time-and-motion studies – the idea that management could be systematic remained important in the public sector and clearly fitted very well with the theory of bureaucracy. As Stillman argues (1991, p. 110), 'it all fits neatly together: a strong, effective administrative system could flourish if politics was restricted to its proper sphere, if scientific methods were applied, and if economy and efficiency were societal goals'.

Human relations

Another theory, 'human relations', is often contrasted with scientific management. The focus of human relations is more on the social context at work rather than regarding the worker as an automaton responsive only to financial incentives. The human relations school had its roots in social psychology, and although quite different in some respects, became as much of a continuing tradition in public administration as did scientific management.

Although the human relations idea has many theorists, the real founder was Elton Mayo. In a series of experiments during the 1930s, Mayo found that the social context of the work group was the most important factor in management. Conflict was pathological and to be avoided, and there was no necessary antagonism between management and workers. In what became known as the 'Hawthorne experiments', referring to the Hawthorne plant of Western Electric, Mayo found that productivity increased most by taking an interest in the workers, and other factors, including financial incentives, were much less important.

Mayo and his followers had substantial impact on the management of the public sector, even if more recent work has cast doubt on the value of interpretations of the original data, showing most particularly that financial incentives were important after all (Schachter, 1989, pp. 16–17; Gillespie, 1991). Consideration of the psychological context of the organization was responsible for a major school of thought in theories of organizational behaviour. The idea that individuals responded to other than financial motives led to an improvement in working conditions.

Mayo influenced those who thought management should be kinder to their workers and provide some kind of social interaction, including in government. Human relations theory has been important in the public context and its influence continues in the debate over managerialism. As Pollitt argues (1993, p. 17):

> The significance of this work for managerialist ideologies today is that it established the idea that informal relations within and without the organisation are of considerable importance. It is not only the formal organisation chart, distribution of functions and systems of work measurement which are important, but also the feelings, values, informal group norms and family and social backgrounds of workers which help determine organisational performance . . . . Subsequently this general message has been developed in many and various detailed applications – modern techniques of job enrichment, participative management styles and self-actualisation are part of the intellectual heritage of the human relations school.

It could be argued that human relations theory was applied to a greater extent in the public sector. Public organizations had fewer competitive constraints than the private sector and, arguably, went further in introducing human relations, particularly in the 1960s and 1970s. One of the less-informed, though widely-held, outside criticisms of the public bureaucracy has been that workers are treated too well and had to do so little compared to the private sector.

A continuing debate

The debate between scientific management and human relations is a continuing one. It may be tempting to regard the theories of Taylor and Mayo as mutually exclusive – at one time one theory is pre-eminent while at other times the other is – but this would be misleading. As Bozeman points out, it would 'be a mistake to see classical theory and human relations as antithetical' (1979, p. 96). The Hawthorne studies 'left the old goals of hierarchy, cost efficiency, and managerial supremacy intact, changing only the means of achieving the goals' (1979, p. 100). Like Taylor, Mayo did not favour unions or industrial democracy (Fry, 1989, p. 131). Like Mayo, Taylor suggested the importance of cooperation in the workplace (Fry, 1989, p. 68). The goal of both – increased productivity – was the same. Both continue to influence management in the public sector.

Some of the more recent arguments about management in the public sector are continuations of a longer debate over scientific management and its alleged counterpart (Pollitt, 1993). According to Schachter (1989, p. 1):

> Taylor's ghost hovers over the modern study of public administration. Although he has been dead for over seventy years, discussion of his work quickly degenerates into polemics. Much of the modern literature depicts him as authoritarian, equating motivation with pay incentives. This denigration, however, focuses on a narrow range of quotations or confuses his own ideas with their purported application by people he specifically repudiated.

Schachter traces the influence of Taylor in public administration texts over the century and argues that the dichotomy between scientific management on the one hand and human relations on the other is a false one. A thorough reading of Taylor shows anticipation of many points the human relations theorists claimed as their own.

Some reinterpretation is needed, although the tradition of two opposing theories is likely to continue, instead of one being generally regarded as supplanting the other. It was stated earlier that for most of the century Taylorism was a major influence on the public sector as it was on the private sector. Taylor undoubtedly influenced job design. His model was rigid, bureaucratic and hierarchical and obviously suited the public sector in the heyday of the traditional model of administration. Much could be gained by treating workers humanely, but Taylor favoured that as well, and at least was prepared to pay workers who achieved more. Similarly, both the public and private sectors used the human relations school to some extent; if it helped productivity to see the workers as social beings, there was something to be gained by counselling, improving working conditions, funding the social club, or anything that could increase the attachment of the worker to the organization.

The Golden Age of public administration

Early practitioners were confident, assured of their theories and, above all, believed that the improvement of government and its administration offered the promise of a better life for all. Public administration in its Golden Age, from around 1920 to the early 1970s, was a worthy and satisfying enterprise, with government and public service offering the hope of improving society. Public administration was responsible for some major achievements in this time, ranging from administering the New Deal, to building dams and running the nascent welfare systems of developed countries as well as entire economies during World War II.

It seemed that all that was needed was to establish a set of nostrums, follow them exactly and the outcome would be all that could be desired. One variation was the 'POSDCORB' set of functions set out by Gulick and Urwick (1937). This acronym (Gulick and Urwick, 1937; Stillman, 1987, p. 175) stood for:

- *Planning:* goal setting techniques/methods applied by executives as a means of preparing future courses of organizational action;
- *Organizing:* arranging the organizational structure and processes in an appropriate manner essential to achieving these ends;
- *Staffing:* recruiting and hiring personnel to carry out the essential agency work;
- *Directing:* supervising the actual processes of doing the assignments;
- *Coordinating:* integrating the various detailed elements of these tasks in cooperation with other units and people in government;
- *Reporting:* tracking and communicating the progress of the work within the organization;
- *Budgeting:* fiscal and financial activities necessary to economically support the completion of these programmes, services, or activities.

As early as the 1940s, POSDCORB was attacked as being counter to the human relations movement. POSDCORB and other classical approaches 'were viewed as attempts to exploit, control, and manipulate workers' (Graham and Hays, 1991, p. 22).

A strict administrative system has some advantages and, for most of its history, nobody questioned its principles and effectiveness or considered alternative means of public organization. The hierarchical system meant that everyone knew his or her place and extent of authority. Someone was always technically accountable for all actions, from the lowest level to the highest. For the career public servant there was a steady, stable, secure if unspectacular, progress through the hierarchy. The system was also reasonably efficient and effective in a narrow sense and meant instructions were carried out, especially when given clearly. It was also reasonably free from the temptations of diverting public funds for the personal use of the bureaucrat. When tasks were administrative and relatively simple, when the environment was stable, the system worked well.

However, the traditional model was rigid and bureaucratic, narrowly focused and preoccupied with structure and process, although it was better than what existed before. Merit-based appointment, formal bureaucracy and the notion that politics and administration could and should be separated were adequate principles for an administrative system, particularly one operating in a time of stability. However, there are major criticisms of the traditional model; although it was a good model for a long time, its time has passed.

Problems with the traditional model

The inadequacies of this kind of government management became apparent in the 1970s and 1980s. Hierarchical structures are not necessarily the most efficient of organizations if comparing outputs with inputs. Bureaucracy may be ideal for control but not necessarily for management; it allows for certainty but is usually slow in moving; work may be standardized, but at the cost of innovation. Also, the model of political control was always problematic in assuring genuine accountability.

From the 1970s, the public services encountered increasing criticism in most developed countries. There were four main problems. First, the model of political control was inadequate and illogical. Secondly, one-best-way thinking was problematic. Thirdly, the theory of bureaucracy is no longer universally seen as providing the technical efficiency Weber thought it provided, and also tends to be undemocratic. Fourthly, there was criticism from the Right (here termed the ‘public choice critique’) of the whole idea of bureaucracy as something that took away freedom and was inefficient compared to the market.

The problem of political control

The separation between policy and administration advocated by Wilson in the 1880s was designed to counter the spoils system, then still rife in the United States. However, a strict separation between politicians and administrators, between policy and administration, was never realistic in its original home. The reform movement in the United States was not able to separate policy from administration, or politicians from administrators. It was only able to clarify the point where political appointments to the public service were to be separated from career appointments. In Westminster systems the precept was actually followed to a greater extent, but was more a justifying myth than a formal way of ordering the roles of either ministers or officials.

In reality the relationship between government and administration is not as simple as the Wilson model suggests and probably never was. Relationships between the political leadership and bureaucrats are complex and fluid: they do not reflect the formal, linear logic of the Wilson model. Politics cannot be separated from administration, as Peters argues (1989, p. 4):

> Administration and policy, instead of being discrete phenomena, are actually interrelated. In both an objective and subjective manner, the nature of the administrative system can influence the policy outputs of the political system. Administration does make policy, although these policies are not always written and promulgated in the same manner as the rules made by legislatures and executives. Moreover, the operational rules developed by

> administrators can be more telling for the actual outcomes for individuals than are the formally promulgated rules.

The traditional form simply does not reflect the extensive, managerial and policy-making role performed by the modern public service. It imposes a negative form of control, which seeks to avoid embarrassing mistakes rather than provide any positive incentive to improve efficiency. The attempt to be 'non-political' meant a reluctance to recognize the policy and political significance of public service work. Public servants also have an important managerial role, something more important than merely administering or following instructions.

The model of political control was unrealistic in that politics and administration are necessarily intertwined. The work of public servants needs to be regarded as fundamentally political, although not necessarily party political. Some practitioners may still argue that they are only implementing policy and not making it, but this is a matter of 'ideological advocacy' (Peters, 1996, p. 5) rather than recognition of empirical reality. Though this theory was long considered unrealistic, it did form a major underpinning of the traditional model of administration. However, relying on a theory that does not work, and which has been widely regarded as not working for a long time, suggests something is wrong with the whole model.

The problem of one best way

The traditional model assumed there was 'one best way' of administering; implicit in that, through the theories of bureaucracy and scientific management, was the idea that one best way of dealing with a given problem could be found. Gulick's POSDCORB and Taylor's scientific management were 'popular manifestations of this one best way theorising' (Stillman, 1991, p. 9), that is, a methodology by which a few simple nostrums were followed in all circumstances.

Following from Taylor, the one best way was determined by examining all the steps involved in a task, measuring the most efficient and, most importantly, setting out this method as a set of procedures. In the public services, the procedure manuals became ever larger with the method for dealing with every conceivable contingency spelt out in great detail. Once this was done the task of the public official was purely administrative, merely involving consultation of the manual and following the procedures laid down. There was little thought involved and no creativity other than that of finding the right page of the manual. Administrators by definition have no responsibility for results; one best way thinking allowed them to evade responsibility altogether.

It was only later, as managers became responsible for results, that there was any real thought that different methods could lead to different results and that methods and actions should be tailored to circumstances. In reality there *is* no one best way, only many possible answers (Behn, 1998, p. 140). As will be argued (Chapter 3), public management does not assume that there is any one best way of achieving results. In the abstract, responsibility is given to a manager without a prescription as to how results are achieved. One of the manager's roles is to decide a way of working, and he or she is then personally responsible if results are, or are not, forthcoming.

The problem of bureaucracy

A further problem with the traditional model focuses on the Weberian model of bureaucracy. Critics argued that the structure and management of the traditional model were obsolete and in need of drastic reform, because of problems with the concepts of bureaucracy and bureaucratic organization. Formal bureaucracy may have its advantages, but, it is argued, it also breeds time-servers rather than innovators. It encourages administrators to be risk-averse rather than risk-taking, and to waste scarce resources instead of using them efficiently. Weber regarded bureaucracy as the highest form of organization, but it is also criticized for producing inertia, lack of enterprise, red tape, mediocrity and inefficiency, all diseases thought to be endemic in public sector bodies. Indeed, the word 'bureaucracy' is today more usually regarded as a synonym for inefficiency (Behn, 1998, p. 140). There are two particular problems with the theory of bureaucracy. These are, first, the problematic relationship between bureaucracy and democracy and, secondly, formal bureaucracy could no longer be considered as a particularly efficient form of organization.

With its formal rationality, secrecy, rigidity and hierarchy, it seems inevitable that there would be some conflict between bureaucracy and democracy. Weber was ambivalent about bureaucracy. He saw it as inevitable that bureaucracy would become universal as it 'inevitably accompanies modern mass democracy' (Gerth and Mills, 1970, p. 224), but equally, democracy 'inevitably comes into conflict with bureaucratic tendencies' (p. 226). The ruled, for their part, cannot dispense with or replace the bureaucratic apparatus of authority once it exists (p. 229).

Weber described bureaucracy rather than advocating it, and, although he saw it as inevitable with the modernization of society, there were clearly aspects that worried him. There was and is some conflict between bureaucracy and democracy; it did not make sense for a democracy to have a distinct elite acting secretively. The individual bureaucrat, to Weber, hardly had an ideal life (Gerth and Mills, 1970, p. 228):

> The professional bureaucrat is chained to his activity by his entire material and ideal existence … In the great majority of cases, he is only a single cog in an ever-moving mechanism, which prescribes to him an essentially fixed route of march. The official is entrusted with specialised tasks and normally the mechanism cannot be put into motion or arrested by him, but only from the very top. The individual bureaucrat is thus forged to the community of all the functionaries who are integrated into the mechanism. They have a common interest in seeing that the mechanism continues its functions and that societally exercised authority carries on.

Weber noted: 'every bureaucracy seeks to increase the superiority of the professionally informed by keeping their knowledge and intentions secret', adding that 'the concept of the official secret is the specific invention of bureaucracy' (p. 233). This concern still exists today. Bureaucracy is regarded by some as abrogating the power of the citizen or the politician and thereby making political accountability problematic. To some in society this poses a problem as they see unelected officials having wide powers over their lives.

The early 1990s saw the fall of regimes in the former Eastern bloc, regimes where bureaucracy was carried out to a far greater extent than in the West. Detailed bureaucratic control over markets and individuals did not seem to provide the goods and services wanted by citizens in the former Eastern bloc and it is likely that this apparent failure may be a failure of the theory of bureaucracy itself. According to Jacoby (1973, p. 156):

> Wherever bureaucratic control becomes all-encompassing it also creates an obsession with power which overshadows rational tendencies as has been shown by the Russian example. But what developed to its fullest extent under special historical conditions is everywhere inherent in the bureaucratic mind.

Although writing many years before the fall of communist regimes, Jacoby points to a general problem with bureaucracies unconstrained by a suitable system of accountability. Also, the existence and apparent failure of the most extreme of bureaucratic governments – such as the Soviet Union and East Germany – is used as an argument by opponents to reduce the size and influence of bureaucracies in general.

The second problem of bureaucracy was one Weber did not foresee. This is the supposed technical superiority of the bureaucratic model that Weber saw as greater than any other conceivable process. Such confidence in the technical superiority of bureaucracy is no longer generally accepted.

There are two reasons for bureaucracy no longer being considered to be particularly efficient. First, there were always some extreme interpretations of Weberian principles, particularly in the personnel system, which was made more rigid, more formal and less elitist than Weber imagined, and this tended to reduce its efficiency. The principle of hierarchy was implemented to a ridiculous extent with dozens of levels, each with several sub-levels and with barriers established to restrict progress beyond certain points. The principle of employment for life came to mean it was practically impossible to dismiss anyone, despite manifest incompetence. Even the idea of a separate pension scheme for old age had deleterious side effects. Generous government pension schemes attracted complaints from private sector managers who felt governments were more generous than they could afford for their own employees. They also led to the problem of the 'timeserver', the person who did not work effectively, who was impossible to dismiss, and merely waited for retirement day. The seniority principle was commonplace, where promotions were decided purely by length of service. This, too, survives in some areas but it could hardly be said to conform to Weber's aim for technical efficiency. If promotion to higher positions results purely from length of service, then leadership will often tend to be incompetent and talented workers will leave early in frustration. The idea that recruitment should always be at the base grade, where recruits came direct from school, was sometimes perverted to mean that all recruitment should be at that level with active discrimination against those with higher qualifications.

The laudable principle of political neutrality led in some instances to the idea of 'service to the nation', above and beyond that of advising and carrying out the wishes of the elected government. This produced problems of accountability; unelected officials acted as a kind of Mandarin class, doing what they wanted instead of what the politicians wanted them to do. Weber expected the bureaucracy to be a distinct elite within society, but, as the century progressed, more societies began to reject this model. Except for a few countries where elite training for public service continued – for example, Japan and France – the best and brightest no longer considered being a public servant as an occupation attracting high status. The general low esteem in which public service was held meant that it became an easy target for budget cuts.

Secondly, new theories of organizational behaviour argue that formal bureaucratic models are no longer particularly efficient or effective in any sense, when compared to more flexible forms of management. Rigid, hierarchical structures are now more often regarded as imposing costs as well as benefits and may stifle creativity and innovation. Informal networks spring up alongside the formal ones; 'there is a complex set of informal behaviours in every organization, and these may or may not be consistent with what is depicted in the organization chart' (Bozeman and Straussman, 1990, p. 139). Political behaviour by individuals aiming to advance in the organization reduces overall efficiency, as frequently more time and effort is spent in seeking advancement than in doing the assigned task. When officials offer greater loyalty to their office than the elected government; when they actively compete with other branches or agencies, management is likely to fall well short of the optimum. Intrigue and empire-building are rife in bureaucracy and probably always were. Individual bureaucrats are not the automatons impersonally following rules assumed by Weber's model. A more realistic theory of bureaucracy than Weber's, with its emphasis on precision and reliability in administration, on its rule-bound character, needs 'to be supplemented by a recognition that human attitudes and relationships are involved' (Kamenka, 1989, p. 161).

Behavioural theories of organizations illustrate that what really happens in bureaucracies is considerably different from what the rational/legal authority model predicts. The bureaucratic organization adopts fixed operating procedures but, in consequence, the achievement of results may become less important than maintaining the processes and rules. Robert Merton argued

(1968, p. 260) that rigid adherence to rules could have unanticipated consequences, including a reduction in efficiency:

> Adherence to rules, originally conceived as a means, becomes transformed into an end-in-itself, there occurs the familiar process of **displacement of goals** whereby 'an instrumental value becomes a terminal value'. Discipline, readily interpreted as conformance with regulations, whatever the situation, is seen not as a measure designed for specific purposes but becomes an immediate value in the life-organization of the bureaucrat.

In other words, the rules themselves become what organizational effort is directed at achieving, instead of fulfilling the organization's purpose. Michel Crozier goes further. He argues that bureaucratic organizations are axiomatically inefficient, even that 'a bureaucratic organization is an organization that cannot correct its behaviour by learning from its errors' (Crozier, 1964, p. 187). Instead of bureaucracy being axiomatically efficient as Weber argued, it is more often now regarded as axiomatically inefficient. Caiden, too, claims the price to be paid for bureaucratic 'efficiency' is (1981, p. 181):

> A narrow sameness, restrictions on individual enterprise and creativity, an intolerant conformity, competent but not excellent performance and an indifferent complacency. Providing one accepts things as they are, then all is well and the future looks after itself.... When bureaucratism is overdone, its vices may replace its virtues. Instead of careful planning, there may be hasty improvisation, and panicky manipulation, neither well thought out, and both turning order into chaos. Instead of high productivity, there may be low productivity as work may become a boring ritual and the rewards for good performance may not be much different from those for poor performance.

Even when formal bureaucracies work well, they tend to do so in times of stasis and find it difficult to cope with changed circumstances. Fixed procedures and orderly working patterns do not work when the environment is constantly changing. Perhaps in the Golden Age of public administration, change was slow enough to allow the luxury of operating in a fixed environment, but this is a societal situation that rarely exists now.

Traditional bureaucracy has an input-dominated structure, with output being only incidental. It was thought, as far as results were considered at all, that results would follow naturally from organization. Of course, the organization had some function, but once set up it was assumed that establishing the hierarchy, the personnel system and the like, would lead to satisfactory outputs by themselves. Administration meant carrying out defined tasks; how well, how timely, or how effectively, was the concern of someone else. If administration means carrying out instructions, it is the responsibility of the person issuing the instruction to monitor performance. In the public bureaucracy, politicians may not have been capable or willing to do this, but neither did the information exist in a form to allow judgements to be made. Measuring performance in a comprehensive way was considered too difficult in the public sector, which is why there was resort to such unsatisfactory devices as the seniority system for promotion.

A major problem for the public sector is that it persisted with the habits and practice of administration, which were being modified elsewhere. Newer theories of organizational behaviour recognize that formal bureaucracy has its strengths but that alternative structures are possible (Vecchio, 1991, pp. 499–524). Bureaucracy is not appropriate for non-routine activities that involve creativity and innovation. The private sector is moving away from formal bureaucratic structures and rigid hierarchical structures towards decentralization and devolution of real authority to lower levels as profit centres, as well as to greater flexibility in structure and staffing and an increased emphasis on performance and speedy response. However, to change the existing public system into one that is speedy, risk-taking, output-oriented, innovative and efficient requires a total change in organizational culture. The focus of subsequent reforms in the public service has been to move away from the idea of a rigid and bureaucratized career service, towards a more fluid structure. While there may be a need for order and precision in management, there is now a greater need for speed, flexibility and results. In short, the formal bureaucratic model is really more suited to administration, or carrying out instructions, than management, or achieving results.

It remains an open question in organizational behaviour whether the changes to Weber's model are evolutionary or revolutionary: whether there are so many alterations that bureaucracy is no longer really Weberian. Bozeman and Straussman (1990, p. 142) argue that organization theorists are constantly 'grappling with alternatives to the hierarchical image of bureaucracy, but the Weberian closed bureaucracy has staying power'.

Blau and Meyer argue that changes have modified the bureaucratic model as outlined by Weber, but 'his model has not been abandoned' (1987, p. 162). They make three conclusions: first, that bureaucratic principles do achieve coordination and control in administration, but (p. 186):

> Whether bureaucratic principles always affect efficiency remains open to question. Compared to traditional forms of administration, bureaucracy is undoubtedly superior. Compared to the new organizing principles that substitute financial controls for command hierarchies in large corporations, bureaucracy may be at a disadvantage. But the applicability of these new organizing principles is restricted to business settings, and even in business their superior efficiency has not been demonstrated conclusively. A second conclusion, therefore, is that bureaucratic principles may achieve efficiency in administration, but even where they do not, alternative forms of administration may prove even less desirable.

Their third conclusion is that 'bureaucratic organizing principles can effectively serve many purposes, which may be in opposition to one another' (p. 187). While their main point is that these make the relationship between bureaucracy and democracy problematic, it is hard to escape the conclusion that the bureaucratic model has so many contradictions that it is understandable why governments now look to other forms of organization, derived from business.

It is sometimes argued that even if business or private administration is moving away from formal bureaucracy, public administration should remain Weberian. Blau and Meyer's conclusions suggest this. In this way, the important values in Weber – impersonality, consistency – would remain, as would the important social and ethical questions lacking in private sector management. On the other hand, at least some parts of the public sector are analogous to business. They produce products, goods and services, which are amenable to better management and have quite similar production functions as the private sector. It would seem unnecessarily restrictive to say that all public service functions need to be organized in a strict bureaucratic way, purely because they are in the public sector. A focus on results will lead to quite significant departures from Weber's model in several ways and these may vary between and even within organizations.

All of the public sector does not need to be organized bureaucratically, at least in a strict hierarchical sense. For some tasks, a model of authority without hierarchy may be more efficient, as may personal relations rather than the impersonality outlined by Weber. Newer forms of management focus on achievement of results as the prime goal with organizational form of secondary importance. However, despite its problems of efficiency the system of power within the public sector remains that of bureaucracy. Bureaucracy can be seen as first, a system of power, and secondly, as a set of prescriptions set out by Weber. Instead of a new form of rational/legal authority needing to be found for public management (Lynn, 1997), different aspects of Weber need to be considered anew.

Where the bureaucratic state maintains its strength is in its legal framework. The legal specification of the state as set out by Weber is not altered by adopting public management, although the detailed points he set out for the personnel system are no longer necessary. Perhaps all that the public management reforms argue for is a new way of organizing government without altering the legal structure of a bureaucratic state. It remains a bureaucracy in the power sense, it still operates according to Weberian rational/legal principles, and it still operates in a democratic polity, but many of the detailed principles of the traditional model can be discarded.

The public choice critique

As argued later (Chapter 4), the last two decades of the twentieth century saw the adoption of policies expressly aimed at reducing the size of government influenced by the theoretical arguments of conservative market economists (Hayek, 1944; Friedman and Friedman, 1980). A key rationale was to reduce government bureaucracy as a goal in its own right. They made two main claims: first, that government bureaucracy greatly restricted the freedom of the individual and its power needed to be reduced in the name of 'choice'.

This argument by itself led to demands to reduce the scope of government bureaucracy. Freedom was better than serfdom and consumer choice better than bureaucratic command. Secondly, but allied to the first view, market economists argued that the traditional bureaucratic model did not provide an equivalent structure of incentives and rewards to those of the market. It was, therefore, axiomatically less efficient than market processes. These views led to the development of public choice theory, which argues for the maximization of choice by individuals for reasons of individual freedom and efficiency.

The theory of public choice is, in essence, the application of microeconomic principles to political and social areas. Dunleavy (1986, p. 3) argues that the 'rational actor' model at the heart of all public choice accounts assumes that:

- people have sets of well-formed preferences which they can perceive, rank and compare easily;
- their preference orderings are transitive or logically consistent;
- people are 'maximizers' who always seek the biggest possible benefits and the least costs in their decisions. They act rationally when they pursue their preferences in an efficient manner and maximize benefits net of costs. On this formal definition, someone behaves 'rationally' if they optimize their preferences in a consistent fashion, however substantively ill-advised we may judge their preferences to be; and
- people are basically egoistic, self-regarding and instrumental in their behaviour, choosing how to act on the basis of the consequences for their personal welfare (or that of their personal family).

These assumptions can be applied to a variety of societal settings. Rational choice assumptions were applied to political parties (Downs, 1957) committees (Black, 1958) constitutions (Buchanan and Tullock, 1962) and bureaucracies (Downs, 1967; Niskanen, 1971, 1973, 1994).

Following standard principles of rational behaviour (Chapter 1), the assumption is that bureaucrats will attempt to maximize their own utility, that is, they aim to increase their own power, prestige, security and income by using the hierarchical structure for their own ends instead of advancing the goals of the organization. Weber's model relies on bureaucrats being essentially disinterested and motivated by higher ideals, such as service to the state. From a public choice assumption of behaviour this kind of motive is illogical. Public choice theorists argue that individual ambition can lead to outcomes not necessarily in the best interest of the organization.

Niskanen (1973, p. 23) argued that individual ambition leads to budget maximization by the agency; bureaucrats will benefit personally if they obtain a larger budget, as this means they will have more staff and, conceivably, more power and a higher personal classification in the organization:

> Among the several variables that may enter the bureaucrat's motives are: salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease

> of making changes, and ease of managing the bureau. All except the last two are a positive function of the total budget of the bureau during the bureaucrat's tenure … It is impossible for a single bureaucrat to act in 'the public interest', because of the limits on his information and the conflicting interests of others, regardless of his personal motivation. This leads even the most selfless bureaucrats to choose some feasible, lower-level goal, and this usually leads to developing expertise in some narrow field … A bureaucrat who may not be personally motivated to maximise the budget of his bureau is usually driven by internal and external conditions to do just that.

This does help to explain the pervasive feature of 'office politics' found in any bureaucracy and the argument that individual bureaucrats work for themselves, instead of the public interest, cannot be totally discounted. Individuals do seek personal advancement, and bureaucrats in a position to do so tend to press for more resources for their agencies. An education department would have impeccable reasons for spending more each year; the navy wants more ships. This may not always be due to personal motives, but personal and organizational motives may coincide. A successful bureaucrat is often the one who can defend or increase the agency's budget. The traditional model of administration has no satisfactory explanation of office politics of this kind.

Ostrom, too, argued that the work of contemporary political economists – public choice theorists – based upon a paradigm derived from economic theory, 'challenges many of the basic assumptions in the traditional theory of public administration' (1974, p. 73). He also argues bureaucracies are inefficient (1974, p. 64):

> The very large bureaucracy will (i) become increasingly indiscriminating in its response to diverse demands; (ii) impose increasingly high social costs upon those who are presumed to be the beneficiaries; (iii) fail to proportion supply to demand; (iv) allow public goods to erode by failing to take actions to prevent one use from impairing other uses; (v) become increasingly error prone and uncontrollable to the point where public actions deviate radically from rhetoric about public purposes and objectives; and (vi) eventually lead to a circumstance where remedial actions exacerbate rather than ameliorate problems.

Bureaucratic organization and markets are, therefore, opposing types of organization and Ostrom sees the former as less efficient or effective than allowing choice through markets. Markets generally provide a more efficient form of allocation in that they allow for individual ambitions to lead to optimal outcomes following the insights of Adam Smith (1976). Competition, consumer sovereignty and choice provide incentives to lower costs, which are arguably absent in the bureaucratic model of administration.

Public choice arguments are overwhelmingly directed towards reducing government and reducing bureaucracy. The alternative usually put forward, regardless of the specifics of a given case, is to rely more on market structures. One result of public choice work has been to push back the barriers between public sector and private sector, trying to define those circumstances where public provision is justified. Ostrom advocates following the theory of public goods (Chapter 4), which leads to a much-reduced role for the public sector, as does other public-choice-inspired work. As Niskanen argues, 'if the structure and incentives in a bureaucracy have to be changed so much to improve its performance, why not rely more on private markets, where this structure and incentive system now exist' and 'a wide range of services financed by government are also marketed, or are potentially marketable in the private sector' (1973, p. 54). From this perspective, public service should be reduced to the bare minimum with many current functions returned to the private sector or simply abolished.

Public choice arguments about bureaucracy, while plausible, are hardly proven and have been challenged, even from within their own framework (Dunleavy, 1991). The question about bureaucrats maximizing budgets to achieve their personal ends suffers from a marked lack of evidence or empirical examination (Lane, 1995, pp. 64–5). Since there are central agencies or senior officers who gain personal benefits by restricting the money going to others, there can hardly be an overall conspiracy to increase the agency's budget (Dunleavy, 1986, pp. 13–34). Also, bureaucrats are in no position to spend on themselves any extra funds they may get for their agency. As Wilson argues: 'One wonders why Niskanen thinks bureaucrats are so desirous of maximizing their budgets if they can enjoy so few of the fruits' (1989, p. 118). Niskanen later argued that his initial formulation was inadequate and that bureaucrats aim to maximize their discretionary budget rather than the total budget (1994, p. 281). It is also possible the theory may be more applicable to the United States, where agencies build separate political relationships with Congress and where fiscal responsibility is hard to locate. In parliamentary countries, funding is more directly controlled by the executive and central agencies and there are particular bureaucrats whose career paths are advanced by their ability to cut the budgets of their own or other agencies.

The public choice approach is valuable because it enables generalizations from quite simple assumptions. However, there is an increasing recognition even among economists that their notion of 'rational economic man' (or woman) is too often 'introduced furtively and left under-specified' (Dunleavy, 1991, p. 4; see also Monroe, 1991). Even if there is only a need for these assumptions to apply in the average or aggregate, there are greater problems when the area of application is further away from strict market behaviour.

Another point is that, in this kind of criticism, bureaucracy is seen as somewhat sinister, as an all-purpose societal villain, as a 'traditional bête noire' or 'some kind of alien force' (Goodsell, 1983, p. 149). This view exaggerates the power of bureaucracy and disregards its public purpose. The case against bureaucracy at some points is extrapolated into a case against all government or all non-market entities, in all circumstances, instead of pointing to more realistic problems in one kind of organization, or places where it might or might not work.

However, public choice arguments have had an impact on parties and governments, despite ideological persuasion (Walsh, 1995). Even if the greatest attack on public bureaucracy occurred in those countries with a strong ideological motivation – the United Kingdom in the Thatcher era, the United States in the Reagan era – there have been effects in other countries as well. Whether this is due to the influence of the Right, or of public choice economic theory, is an open question. Perhaps more important has been the realization that the traditional theories of public administration no longer worked and were, accordingly, no longer relevant to the governing of society.

Conclusion

The traditional model of administration was an outstanding success and widely emulated by governments all round the world. As both theory and practice, it had its good points. Compared to earlier forms that were rife with corruption, it was more efficient and the idea of a professional service was a great improvement on a personal or amateur one. It is argued here, however, that the problems of the model are now such that it can be regarded as obsolescent if not obsolete.

Traditional bureaucracy developed at a particular point of industrial development; its systems and technology were suited to an earlier age. If public servants are considered to be automatons responding to simple stimuli, who cannot be trusted with the scope or responsibility to make decisions and for whom every conceivable contingency must be set out in operating manuals, then the traditional model of administration may be appropriate. However, formal systems of hierarchy are no longer regarded as working very well in the private or public sectors. The traditional model was a great reform in its day, but the world has moved on.

The theoretical pillars of public administration are no longer seen as adequate to analyse the reality of government. The theory of political control was always problematic. Administration means following the instructions of others and, therefore, necessitates an orderly method of giving and receiving instructions. The theory of public administration required a clear separation between those who give instructions and those who carry them out. This was never realistic and became less so with the increase in scale and scope of public services. The other main pillar – the theory of bureaucracy – is no longer considered a particularly efficient or effective form of organization. Bureaucratic organization is no longer seen as the last word in organizational theory or practice. It is not the single best way of organizing and its undesirable aspects – concentration of power, reduction of freedom, usurpation of political will – may be thought worse than its desirable features. The traditional model of public administration has increasingly been superseded. While a new model is not fully in place, clearly there is now a greater focus on results rather than process, on responsibility rather than its evasion, and on management rather than administration.

3

Public Management

Introduction

The 1980s and 1990s saw the emergence of a new managerial approach in the public sector, in response to what many regarded as the inadequacies of the traditional model of administration. This approach may alleviate some of the problems of the earlier model, but does mean quite dramatic changes in how the public sector operates. As Kamarck argues 'the end of the twentieth century has seen a revolution in public administration that is every bit as profound as that which occurred at the turn of the nineteenth century, when Weberian bureaucratic principles began to influence many governments around the world' (2000, p. 251).

It was noted earlier that the managerial approach has had many names, although the literature has now more or less settled on 'public management' or 'new public management'. There is also general agreement as to the actual changes that are involved in moving away from the traditional administrative model. First, whatever the model is called, it represents a major shift from traditional public administration with far greater attention now being paid to the achievement of results and the personal responsibility of managers. Secondly, there is an expressed intention to move away from classic bureaucracy to make organizations, personnel, and employment terms and conditions more flexible. Thirdly, organizational and personal objectives are to be set clearly and this enables measurement of their achievement through performance indicators. Similarly, there is more systematic evaluation of programmes, in more rigorous attempts than before, to find out whether or not government programmes are achieving their goals. Fourthly, senior staff are more likely to be politically committed to the government of the day rather than being non-partisan or neutral. Fifthly, government functions are more likely to face market tests; in separating the purchaser of government services from the provider, in other words separation of 'steering from rowing' (Savas, 1987). Government involvement need not always mean government provision through bureaucratic means. Sixthly, there is also a trend towards reducing government functions through privatization and other forms of market testing and contracting, in some cases quite radically. All these points are linked in that, once the focus changes from process to results, each successive step seems necessary.

However, the managerial model is still controversial. Advocates view public management as offering a new way of looking at and carrying out management functions within the public sector. As an alternative to traditional administration, public management may offer a more realistic approach given the manifest problems of the earlier model. Critics, however, regard it as simply an unquestioning adoption of the worst features of private management which pays no regard to the fundamental differences in the public sector environment. Managerialism is seen by them as somehow against the traditions of public service, inimical to service delivery and undemocratic, even with dubious theoretical backing. Some writers, particularly from a public administration tradition, argue that the good parts of the old model – high ethical standards, service to the state – are being cast aside in the headlong rush to adopt the new theory.

The argument here is that public management is sufficiently different from public administration to be regarded as a new paradigm. A new model of public management has effectively supplanted the traditional model of public administration, and the public sector in the future will inevitably be managerial, in both theory and practice. It is important to identify potential problems in the new approach and propose solutions to them, although it seems most unlikely that there will be a return to the traditional model of administration. While this new model may cause some problems and pose some dangers, the benefits are likely to be far greater than the costs. Public management need not mean the widespread and uncritical adoption of practices from the private sector. What it should mean is that a distinctive public management needs to be developed. This should take account of the differences between the sectors, but still recognizes that the work being done by public servants is now managerial rather than administrative.

The meaning of management

It was argued earlier (Chapter 1) that management is different from administration in meaning. Essentially, administration means following instructions and management means the achievement of results and taking personal responsibility for doing so. As Rainey argues, public management 'has semantic origins that imply taking things in hand' and this 'suggests a firmness and efficiency of the sort attributed in stereotype to business management' (1990, p. 158). How management is different from administration can be considered by looking at what Allison (1982) refers to as 'functions of general management'.

Functions of general management

STRATEGY

1. **Establishing objectives and priorities** for the organization (on the basis of forecasts of the external environment and the organization's capacities).
2. **Devising operational plans** to achieve these objectives.

MANAGING INTERNAL COMPONENTS

3. **Organizing and staffing**: in organizing, the manager establishes structure (units and positions with assigned authority and responsibilities) and procedures for coordinating activity and taking action). In staffing, he tries to fit the right persons in the key jobs.
4. **Directing personnel and the personnel management system**: the capacity of the organization is embodied primarily in its members and their skills and knowledge. The personnel management system recruits, selects, socializes, trains, rewards, punishes, and exits the organization's human capital, which constitutes the organization's capacity to act to achieve its goals and to respond to specific directions from management.
5. **Controlling performance**: various management information systems – including operating and capital budgets, accounts, reports, and statistical systems, performance appraisals, and product evaluation – assist management in making decisions and in measuring progress towards objectives.

MANAGING EXTERNAL CONSTITUENCIES

6. **Dealing with 'external' units** of the organization subject to some common authority: most general managers must deal with general managers of other units within the larger organization above, laterally and below to achieve their unit's objectives.
7. **Dealing with independent organizations**: agencies from other branches or levels of government, interest groups, and private enterprises that can affect the organization's ability to achieve its objectives.
8. **Dealing with the press and public** whose action or approval or acquiescence is required.

Source: Allison (1982), p. 17.

Allison's model does capture the main points about management. In addition, although not his purpose in the original article, Allison's framework can be used to compare a model of management with a model of administration in the public sector.

The first main function of general management is that of strategy. This involves the very future of the organization, establishing objectives and priorities and making plans to achieve these. Bozeman and Straussman (1990, p. 214) argue that successful public management 'inevitably requires a feel for strategy'; it is broader, more integrative, and less defined by functional expertise than is public administration. Where public management 'is, to a large extent, management of the external environment of the organization', public administration is 'within the context of the organization' (Bozeman and Straussman, 1990, p. 214). Public administration once required little conception of strategy, as it was presumed to be 'given'. Public servants 'administered' in the dictionary sense, simply carrying out the instructions of the politicians who were presumed to develop and be responsible for policy and strategy, However, if organizations focus on the day-to-day tasks they face, there are dangers of losing sight of longer-term goals. Traditional public administration tended to consider short-term goals within the organization. Public management aims at the longer term and at the relationship between the organization and the external environment.

Agencies themselves develop objectives and priorities rather than assuming that policy derives from politicians. Politicians now demand that agencies and public servants under their nominal control involve themselves in matters of strategy.

The second main function is managing internal components. This involves staffing, setting up structures and systems to help achieve the objectives identified by strategy. Traditional public administration did require the expenditure of effort on the 'managing internal components' function of general management, although there are some significant ways in which this was not carried out to its fullest. Certainly public administrators had to organize the bureau, hire staff, train and promote them and all the other aspects of the personnel system, but the controlling of performance was always rather weak. This has also changed substantially with various attempts made to measure performance of agencies and individuals (see Chapter 8). In addition, the financial systems available in traditional administration were unable to provide information in a form to enable the monitoring of performance; this too has changed as part of the public management reforms (see Chapter 9).

The third function considers the organization in its external context and the task of managing external constituencies. Under the traditional model, the concepts of public service anonymity and neutrality meant that this function was also assumed to be carried out by politicians and not by managers. Any dealings with the press, the public, or other organizations were not matters involving the public service. There are now marked changes in the external environment functions with the greater external focus of new public management, through both strategy and the managing of external constituencies, than was ever the case with the traditional model of public administration. Public service anonymity has certainly declined, and in a generally welcome way. Public servants are now much more free to speak out in public, to appear at professional forums, to write articles for journals and generally to be visible and public figures.

Since the implementation of various reforms that began in the 1980s, all three of Allison's functions of general management are now routinely carried out by public servants, which is itself suggestive that the actual work done is now more managerial than administrative. In other words, the functions which are carried out by public servants now include all those set out in Allison's general management function.

Outlining the functions of general management does not necessarily mean management is generic – a criticism often made of public management – or that there is no difference between public and private management. It is rather that there are certain functions which characterize a *general* management function. Whether the public management task is different from the private management task remains a moot point. Perhaps there is only one form of management that takes place in different environments and within the constraints of those environments. The public sector is a different environment, but it is possible that the methods need differ only to the extent that the environment itself differs. Perhaps the public sector is so different that it needs its own theories and methods, distinct from private management or Allison's general management function. But, in any case, Allison's list does fit the managerial model in the sense that all the points in it are things public managers now do routinely in the course of their work, many of which they did not do as public administrators.

The beginnings of a management approach

For much of the twentieth century there was little difference in management structures or styles between private and public sectors. Large companies were as hierarchical and Weberian as any government department. It was only from the 1950s or 1960s that the problems of bureaucratic rigidity became evident in the private sector. The rise of the manager coincides with the realization that the division of tasks and the writing of manuals to cover every contingency had limitations. Someone needed to take charge and to take personal responsibility for results.

It is hard to delineate exactly when management as a word began to take over from administration in the public sector. The apparent success of managers in the private sector led to concerns being expressed that the public sector had fallen behind. According to Pross (1986, p. 73):

> Since the 1950s, there has been a steady deterioration in the potency of … sources of legitimacy and thus in the status of the bureaucracy … Flaws in the merit system were the first to cause concern. It was accepted that the public service was scrupulously non-partisan and highly competent, but in the eyes of many these advantages were offset by a system of management that undermined efficiency and effectiveness.

Even if the decline in legitimacy since the 1950s is true, that decade is too early for a change of management style. By the 1980s governments were unconvinced that the traditional system of administration provided an effective form of management of their public services, when compared to the private sector, and began making changes as a result. Somewhere between these times is when a managerial approach began.

One starting point is the 1968 Fulton Report in the United Kingdom. This report noted concerns with the management capability of the public service. It recommended that the system be opened up, that outsiders be employed at all levels and that the rigid hierarchical structure in which barriers were placed at several points be removed. According to Keeling (1972), it was not overly certain what Fulton actually meant by management. In one place, the report described management in a business sense as Keeling notes (1972, p. 22):

> Management, as we understand it, consists of the formulation and operation of the policy of the enterprise. This can be seen as a continuum ranging from first line supervision through

> a hierarchy of the managers to the board of directors. At each level assets – whether human, financial or material – have to be deployed in the manner best calculated to achieve particular objectives which contribute to the overall policy objectives formulated by the Board.

As Keeling describes it, here the Fulton Report expresses a modern, results-based, view of management similar to the dictionary meanings discussed earlier. However, later in the report it is argued 'four aspects … make up the total management task of the Civil Service: (a) formulation of policy under political direction; (b) creating the "machinery" for implementation of policy; (c) operation of the administrative machine; (d) accountability to Parliament and the Public'. As Keeling pointed out (1972, p. 23), this is really saying that management is what the public service does, which is not particularly helpful. Fulton could be described as a start, rather than as a thorough attempt to infuse management principles into an administrative system. Moreover, Fulton's recommendations were not implemented at the time; they were deferred until a more conducive time. As Flynn argues, 'no government had much enthusiasm for the task until the Thatcher administration' (1997, p. 31). However, it is interesting that even in 1972 Keeling saw management – defined as 'the search for the best use of resources in pursuit of objectives subject to change' – as the coming thing (Keeling, 1972; Pollitt, 1993).

In the United States there was also a demand for improved management in the public sector, at least from the Carter administration onwards. The Civil Service Reform Act of 1978 aimed at giving managers greater responsibility for results. It included merit pay for middle management and the establishment of a Senior Executive Service to form an elite group at the top. Although focused on personnel, it was an attempt to improve management in the public sector, which seemed to lag behind the private sector.

On setting up the Reid Inquiry into the Australian public service in 1982, then Prime Minister Malcolm Fraser noted: 'the government believes there is a question whether the public service, as presently organized, has the management tools, the flexibility and the capacities to meet the challenges that presently exist and that lie ahead' (Australia, 1983, p. 131). A number of recommendations were made by the inquiry with many of them implemented by the incoming Hawke Labor government. Despite being from the other side of the political spectrum, its views on the managerial capacities of the public service were the same as its predecessor.

There were several reasons for this seeming disenchantment with the skills and capabilities of public services. First, following the first oil shock of the 1970s, governments experienced severe resource constraints as tax revenues declined in a relative sense. Practical politics dictated that no cuts be made in actual service delivery to the public. That in turn meant a squeeze on the public service in an attempt to manage the same, or even increased functions, with less money and fewer staff. Secondly, the 1980s saw new governments in Britain (1979), Canada (1984), New Zealand (1984), Australia (1983), to name but a few, which brought with them quite detailed ideas on how to change the management of the public service. One of the most significant features of the drive towards managerialism is that the impetus has largely come from the political leadership, rather than the public service itself. Thirdly, there is an explicit link between improving public sector management and re-structuring the national economy. In difficult economic times governments exhort the business community to improve its competitive position and improve its management. For consistency, they could hardly leave their own apparatus unchanged. Finally, some of the arguments about the growth of government had their effect, so that there was an intellectual climate conducive to reducing the public sector or, at the very least, making it work harder (see Chapter 4).

The reforms have been almost universal. There are major changes in most countries, but, more significantly, the direction of change has been the same wherever reforms have been implemented, as have a surprising amount of the details. This view is disputed (Hood, 1995; Pollitt and Bouckaert, 2000) as discussed later (Chapter 14). The primary focus of reforms, for both organizations and the individuals within them, has been to achieve results and to take responsibility for them, in other words, to be managers instead of administrators.

The public management reforms

The advent of public management marks a shift from earlier reforms. It is clearer both in theory and in programme details than earlier reforms which aimed at tinkering to cut costs. Instead of being a technical specialization within public administration, as was 'old' public management, public management now aims at the replacement of the traditional model altogether. Instead of there being *reforms* to the public sector, new public management represents a *transformation* of the public sector and its relationship with government and society.

There are various explanations concerning why the new theory appeared when it did. Hood – a well-known critic of the public management reforms – argues 'there is no single accepted explanation or interpretation of why NPM coalesced and why it "caught on" ' (1991, pp. 6–8). He does mention four possibilities: first, as a 'whim of fashion'; secondly, as a 'cargo cult' – the endless rebirth, in spite of repeated failures, of the idea that substantive success ('cargo') can be gained by the practice of particular kinds of (managerial) ritual; thirdly, as 'an attraction of opposites' and fourth, as 'a response to a set of special social conditions' which itself includes 'changes in income and distribution, post-industrialism, post-Fordism, new machine politics and a shift to a more white-collar population'. Although none of these is argued by him as working very well as an explanation, except the last, which he regarded as only suggestive, Hood neglects a far simpler explanation.

The main reason for the eclipse of the old traditional model of administration is simply that it did not work any more, and was widely perceived as not working. Governments realized this first and began to challenge some of the most basic beliefs of the traditional model. They began to hire economists or people trained in management instead of generalist administrators, borrowed management techniques from the private sector, pushed back the dividing line between public and private sector activity with the aim of cutting costs, and set out to change working conditions inside the system which were no longer required. Governments were faced with declining real revenue, but with political demands to maintain services at the same levels. In these circumstances, the only avenue was to improve productivity. When theories suggest that bureaucratic provision is inherently inefficient, when economic studies show the same thing, it is little wonder that politicians began to ask awkward questions. Why should public servants have permanent, lifetime employment when no one else does; why should they not be hired by contracts? If someone is employed to do a job, what is so wrong in seeing if it is being carried out? The public services had lost public support to such an extent that governments found little resistance to changes that would have once been regarded as destroying the very notion of a public service. And, once change began, the various aspects of the traditional model of administration were taken apart.

The managerial programme

There are various ideas of what is involved in the public management reforms. However, as the process has continued there has been convergence as to what is involved in the reforms. This can be seen by looking at several views of them.

The first of these was formulated by the OECD, which claimed in 1991, that most countries are following 'two broad avenues' to improve production and delivery of publicly provided goods and services (OECD, 1991, p. 11). The first was:

> *Raise the production performance of public organizations* [to] improve the management of human resources including staff, development, recruitment of qualified talent and pay-for-performance; involve staff more in decision-making and management; relax administrative controls while imposing strict performance targets; use information technology; improve feedback from clients and stress service quality; bring supply and demand decisions together (e.g. through charging users).

This 'avenue' is aimed mainly inside the organization to improve incentives for individuals, measure performance and the like, as well as improve the relationship with clients. It is concerned with *how* the public organization is managed. The second 'avenue' is:

> *Make greater use of the private sector* [to] promote a dependable, efficient, competitive and open public procurement system for contracting out production of publicly provided goods and services and contracting in intermediate goods and services; and, end monopoly or other protection for suppliers.

The second perspective, in another early view, is that of Hood who considers the managerial programme, or what he calls 'new public management' as comprising seven main points (1991, pp. 4–5):

- *Hands-on professional management* in the public sector. This means letting the managers manage, or as Hood puts it 'active, visible, discretionary control of organizations from named persons at the top'. The typical justification for this is that 'accountability requires clear assignment of responsibility for action'.
- *Explicit standards and measures of performance*. This requires goals to be defined and performance targets to be set, and is justified by proponents as 'accountability requires [a] clear statement of goals; efficiency requires a "hard look" at objectives'.
- Greater emphasis on *output controls*. Resources are directed to areas according to measured performance, because of the 'need to stress *results* rather than *procedures*'.
- A shift to *disaggregation* of units in the public sector. This involves the breaking up of large entities into 'corporatized units around products', funded separately and 'dealing with one another on an "arm's-length" basis'. This is justified by the need to create manageable units and 'to gain the efficiency advantages of franchise arrangements *inside* as well as outside the public sector'.
- A shift to greater *competition* in [the] public sector. This involves 'the move to term contracts and public tendering procedures' and is justified as using 'rivalry as the key to lower costs and better standards'.
- *A stress on private sector styles of management practice*. This involves a 'move away from military-style "public service ethic"' and 'flexibility in hiring and rewards', and is justified by the 'need to use "proven" private sector management tools in the public sector'.
- A stress on greater *discipline* and *parsimony* in resource use. Hood sees this as 'cutting direct costs, raising labour discipline, resisting union demands, limiting "compliance costs" to business' and is typically justified by the 'need to check resource demands of public sector and "do more with less"'.

Hood may differ from the OECD in his opinion as to the desirability of the managerial changes, but there is substantial agreement between them as to the kinds of change involved, especially in the early stages of the reform process.

A third formulation, in some ways the most useful, is that of Holmes and Shand (1995, p. 555), who write from the perspective of two self-described practitioners, from the World Bank and OECD respectively, international institutions where the managerial reforms were in some ways led. They regard the new public management paradigm – what they regard as a 'good managerial approach' – as:

- a more strategic or results-oriented (efficiency, effectiveness and service quality) approach to decision-making;
- the replacement of highly centralized hierarchical organizational structures with decentralized management environments where decisions on resource allocation and service delivery are taken closer to the point of delivery, where greater relevant information is available and which provide scope for feedback from clients and other interest groups;
- flexibility to explore alternatives to direct public provision which might provide more cost-effective policy outcomes;
- focusing attention on the matching of authority and responsibility as a key to improving performance, including through such mechanisms as explicit performance contracting;
- the creation of competitive environments within and between public sector organizations;
- the strengthening of strategic capacities at the centre to 'steer' government to respond to external changes and diverse interests quickly, flexibly and at least cost;
- greater accountability and transparency through requirements to report on results and their full costs; and
- service-wide budgeting and management systems to support and encourage these changes.

These are rather more precise than some of the early views.

Finally, putting together various perspectives, Pollitt argued there were a number of general elements of the new model accepted by most commentators (2001, pp. 473–4):

- A shift in the focus of management systems and management effort from inputs and processes to outputs and outcomes.
- A shift towards more measurement, manifesting itself in the appearance of batteries of performance indicators and standards.
- A preference for more specialized, 'lean', 'flat' and autonomous organizational forms rather than large, multi-purpose, hierarchical bureaucracies.
- A widespread substitution of contract or contract-like relationships for hierarchical relationships.
- A much wider than hitherto use of market or market-like mechanisms for the delivery of public services (including privatization, contracting out, the development of internal markets, and so forth).
- A broadening and blurring of the 'frontier' between the public and private sectors (characterized by the growth of public/private partnerships of various kinds and the apparent proliferation of 'hybrid' organizations).
- A shift in value priorities away from universalism, equity, security and resilience and towards efficiency and individualism.

There is substantial overlap in these views of public management. It can no longer be claimed that the reforms are not clearly specified. They are. The following looks at the main points involved in the public management reforms including those emerging from the various formulations.

A strategic approach

Governments have aimed to develop better methods for long-term planning and strategic management. This means deciding the organization's mission, looking ahead to achievement of goals and objectives, including how the organization fits its environment, and the strengths, weaknesses, opportunities and threats in that environment. These techniques offer better utilization of resources, by tying outcomes to resources, especially when combined with programme budgeting. Only by knowing what government organizations do, what they aim to do in the future and how they have progressed towards declared objectives, can the political leadership decide which programmes or even agencies or departments are worth retaining.

Management not administration

It was argued earlier that management is different from administration. Public management now requires professional management where administration did not. Public organizations do things: governments now want to know what they do; how well they do it; who is in charge and taking responsibility for results. Managers are now involved in matters of policy; they are also involved in matters of strict politics; they are more often personally responsible for matters and will pay by losing their jobs if something goes wrong. They are, in other words, responsible for achieving results.

Political leaders increasingly choose managers with good records who are sympathetic to their goals. High-profile managers are often appointed to head departments or agencies. These are often appointed on short-term contracts, have management backgrounds and are employed to get results. They are also public figures in a way not previously considered normal for a public servant. Frequently they seem to prefer working for one political party. Another change in senior management is the move away from specialist heads, such as engineers or scientists in technical areas, or doctors in health departments, to managerial heads of agencies. Management is seen more as a function requiring its own skills rather than something which specialists can simply 'pick up'.

A focus on results

The organization must focus on outcomes or outputs, instead of inputs. Managerial reforms have stressed performance by individuals and by agencies.

Agencies are expected to develop performance indicators as a way of measuring the progress made towards achieving declared objectives. The performance appraisal system aims to measure the performance of individual staff, even to the extent of defining the key contributions expected over the year, which are then compared with actual achievement at the end of the year. This can extend to rewarding or sanctioning staff according to progress towards objectives. Informal methods of appraisal are considered to be ineffective and lead to inferior organizational outcomes. There is a general aim to monitor and improve the progress of staff and agencies towards achieving objectives.

Performance involves more than indicators. Holmes and Shand argue that 'a performance orientation is only marginally influenced by the existence of performance information' rather 'the need is for much greater attention to be given to changing the incentives in the institutional framework – the budget and personnel systems, the approach to control and risk management, etc. so that performance is encouraged, rewarded and required' (1995, p. 563).

Improved financial management

Financial management has been one of the more successful of the public management reforms. The most important change in this area has been performance and programme budgeting systems to replace the older line-item budget and accounting systems. The focus was formerly on inputs rather than outputs, or on what the agency actually does. A programme budget allocates money according to specific programmes of the agency with all costs listed at programme, subprogramme and even lower levels. Instead of staffing being determined by a separate, independent central agency for personnel, it becomes part of the programme budget. The line-item system of budgeting was precise in a control sense but, in practice, governments had little information on actual programme delivery. To take account of changes in the value of assets and to be more like private sector practice, accrual accounting has replaced cash accounting in some countries. This is hard to implement but potentially much more accurate than traditional budgeting practices. It is more common for responsibility for a budget to be devolved to lower levels, where it is part of the management task.

Public management requires increased attention on the best use of resources. This includes cutting costs but also involves directing resources to emphasize those programmes which most assist the attainment of strategic objectives. Governments have been able to control spending far more by having better information.

Flexibility in staffing

At the next level of senior management, there has been a consistent trend away from position classification towards flexibility in arrangements for filling senior positions. The device of a Senior Executive Service (SES) has become a commonplace since the late 1970s in the US. The SES concept aimed at developing a pool of senior managers who can be transferred readily between positions and departments, who are trained for senior management, and who can develop an SES identity rather than a departmental one. Greater emphasis is now placed on policy advising, general management and professional skills rather than experience gained from specific duties. The aim is to improve overall efficiency by improving the service's management capability. At all levels, personnel changes have improved flexibility. It is now easier to re-deploy or even sack staff. Inefficient staff can now be dismissed quite quickly, with protection against arbitrary or politically motivated dismissal.

Flexibility in organization

One aspect of organizational flexibility is disaggregation, which means splitting large departments into different parts by setting up agencies to deliver services for a small policy department. This really starts in the UK, with the *Next Steps* initiative of the Thatcher government in 1988. The basic model specified in the report was to set up a separate agency responsible for the delivery of services which it does on a quasi-contractual basis with the relevant policy department. To some extent this is not new; the practice of dividing large departments into smaller segments was accepted in a number of countries such as the United Kingdom, New Zealand and the Netherlands and has been established in the Scandinavian countries for decades (Peters, 1996, p. 31). Once such delivery agencies are operating under explicit contracts there is no particular reason why they should be in the public sector at all or for its staff to be public servants.

However, despite appearing in Hood's list, disaggregation is not required by the public management reform process. In other countries, as Holmes and Shand argue, 'such organizations have been established on a case-by-case basis reflecting some focus on disentangling service provision, funding and regulation' (1995, p. 569). Given the overall policy goal of flexibility and allowing managers to design their own organization, within limits, the requirement for *Next Steps* agencies in the UK goes against this. Holmes and Shand are critical of the UK structural reforms, arguing there needs to be a system-wide assessment of the policies themselves and whether they are achieving their goals. Structural changes, 'such as imposing service-delivery agencies separate from policy departments, or even the compulsory tendering of local government services, do not do this by themselves' (1995, p. 566).

A shift to greater competition

Introducing competition is a feature of public management. It is argued by proponents that if services are 'contestable' they should be put out to tender. The

OECD refers to 'provision for client choice through the creation of competitive environments within and between public sector organizations and non-government competitors' (1998, p. 13). Widespread privatization is part of this, but is not the only means of reducing governmental scope. Competition for provision through contracting, sometimes within government, is seen as reducing costs compared to bureaucratic provision. While part of this is to simply cut costs, another motivation is the need to clearly specify the service or good which is to be the subject of competition.

The new contractualism

Under what has been called 'contractualism', any conceivable government service can be provided by contract, either externally through private or voluntary sector providers or internally with other parts of government. This follows from competition and is related to it, but competition could occur without a contract. Compulsory competitive tendering was adopted in local government in the UK in the early 1980s and in other parts of the government later (Flynn, 1997, pp. 114–15; Walsh, 1995, pp. 110–37).

As part of this move to contracting there can be individual performance contracts for staff, contracts with the minister and the government as a whole and contracts in the form of 'charters' with clients and the public. These changes have moved at a rapid rate, as Davis argues (1997, p. 226):

> In many countries contracting is moving beyond provision of limited goods or services within governments to embrace the overall design and approach of public services. Governments increasingly appear a transparent universe of subcontractors, organised around statements of goals and strategic plans, concerned not with some nebulous public good but with meeting performance indicators set out in an agency agreement. Contracting can replace traditional bureaucratic hierarchy and command with networks of providers loosely clustered around government funding agencies, delivering services once the exclusive domain of the state.

A public service operating under explicit contracts with the private sector, or explicit contracts between policy departments and service delivery agencies, would be a very different public service. There can be no thought of service to the public or even service to the government. If everyone is a contractor, no one has a longer time horizon than the end of their contract; if everyone is a contractor, there can be no such thing as the public interest, only what appears in the terms of a contract.

A stress on private sector styles of management practice

This includes staffing changes designed to better fit staff for their positions, to appraise their performance and to reward them accordingly with merit pay. The emphasis on performance also leads to short-term appointments by contract and being able to terminate staff who are not performing. It is by no means unusual for staff to be hired on contracts or to be appointed to the highest levels from outside. These changes derive from the private sector where staffing and budgeting flexibility has long been a source of some envy. They are buttressed by theoretical considerations from economics that organizations and individuals will not perform to their fullest unless an appropriate system of incentives is in place. This should not be seen as something 'necessarily derived from the private sector' (Holmes and Shand, 1995, p. 560). It is, rather, good practice in any kind of management.

Relationships with politicians

If one of the main characteristics of the managerial model is that managers take responsibility for the achievement of results, the relationship between managers and politicians and managers and the public must alter. In the traditional model the relationship with the political leadership was narrow and technical, of master and servant, of those giving the orders and those carrying them out. Under the public management model the relationship between politician and manager is more fluid and is closer than before. It is not a narrow and technocratic form of management, as political authority still exists. Public managers are now involved in matters of policy, they are also involved in matters of strict politics, they are more often personally responsible for matters and will pay by losing their jobs if something goes wrong. Public management has become a form of political management and the relationship with political leaders has changed. In other words, there is not an unrealistic *formula* for the relationship between politician and manager, there is *interaction* and the skills required are somewhat intangible.

The major skill needed of a public manager is how to be a bureaucratic *politician*, to be able to interact with politicians and with the outside in a way that is beneficial both to oneself and the organization. This may be open to criticism as being politicization, but to achieve political goals is the main function of any public service worthy of the name. The traditional model tried to de-politicize what was essentially political. Public management recognizes the essential political character of government; public servants work with politicians in an interactive process called management. Of course, politicians have the final say, but the unrealistic separation of policy-making from administration has been finally discarded.

Relationships with the public

There is recognition of the need for direct accountability between managers and the public, as the result of demands for a 'client focus' and for greater responsiveness to outside groups and individuals. This is another big difference from the traditional model.

Separation of purchaser and provider

Even if government is involved in an activity it does not need to be the final provider. It is possible to separate the purchaser from the provider; the purchaser being the party who decides what will be produced and the provider the party who delivers the agreed outputs and outcomes. Separating the two is seen as advantageous, as the OECD argues (1998, p. 40):

> In effect, governments are distinguishing between the role of the state as a purchaser and as a provider. Increasingly, it is becoming recognised that as a purchaser, the state could at least potentially continue to fulfil its present responsibilities without necessarily directly providing all the services for which it is presently responsible. Indeed, the state's principal responsibilities are typically better defined by decisions about what assistance should be made available, for whom and how much.

It is even possible to separate the purchaser from provider within government, even within the same agency.

Re-examining what government does

A key aspect of the reform process has been to look in great detail at what government does, its role in the economy and society, and what is left to the private sector to do. An aspect of this is contracting-out or privatization, but it is broader than that. Advocates of the new public management, armed with theoretical insights from economics, have argued that there are some things government should not do.

One important part of the public management reform process has been to examine and reexamine government programmes to ascertain if they are meeting their goals. Many countries have adopted quite rigorous processes for review of functions. For example, in Canada in the mid-1990s a review was undertaken of the rationale for state intervention. As Borins argues, the rationale for every federal government programme in Canada was considered in terms of the following six tests (1997, p. 63):

1. Public interest test: is the activity still useful for society?
2. Role of government test: should any government be involved in this activity?
3. Federalism test: is the federal government the appropriate level for this activity or could another level of government do it better?
4. Partnership test: could this activity be done in whole or in part by another group in society?
5. Efficiency test: could this activity be carried out at less cost?
6. Affordability test: even if the other tests are met, is society able to pay for the program?

Whole programmes were cut as a result of these tests including such politically sensitive ones as transportation and agricultural subsidies. Other countries have had similar requirements. In Australia there is almost constant review of the worth of every programme. It appears that once government is involved in an area, it does not necessarily stay there as it once did. Constant review and constant justification of the worth of everything that government does has been one of the results of financial stringency.

These thirteen points cover most of the changes involved in the transformation of public sector management. They do not cover all of them and there are many more second-order changes discussed in the chapters that follow. However, the most important change is a change in the underlying theory.

Theoretical bases of management

The theoretical bases of new public management need to be considered in some detail, particularly as the theories behind the traditional model of administration were criticized in the previous chapter. It was argued that traditional public administration was based on two theories, the theory of bureaucracy and the theory of separation between politicians and administrators. There are also two main theoretical bases to new public management. These are economics and private management.

That economics and private management are the two main theoretical bases for new public management is not really a matter of controversy. Pollitt, for example, argues that management is 'clearly an activity which is intimately concerned with directing flows of resources so as to achieve defined objectives' and these objectives 'are defined predominantly in the language of economics – "output" and "value for money"' (1993, p. 5). The OECD argues the old paradigm of public sector management 'is replaced by a new paradigm which attempts to combine modern management practices with the logic of economics, while still retaining core public service values' (OECD, 1998, p. 5). The two theoretical influences are important, although it could be argued that private management is itself based on economics.

The economic basis to managerialism allows it to draw on what can be argued to be the most powerful of social science theories. There are two key assumptions in economics. First, there is the assumption of individual rationality, that individuals can be assumed to prefer more of something rather than less. Secondly, the individual rationality assumption allows the elaboration of models that can extend to high levels of abstraction. Such models can be predictive, providing people can be assumed, in aggregate, to act as if they were rational. Economics in these senses has been relatively settled in methodology, at least since the application of empirical models in the late nineteenth century by Alfred Marshall and others. Economics aims to be *deductive*, something that sets it apart from other social science theories that usually draw their scientific basis from inductive work. Economics is, or can be, as mathematical as formal methods of policy analysis (Chapter 6), but is more *directed* in that it has assumptions of rational behaviour that can be operationalized. Theory comes first in deductive work. Events are predicted to occur following the assumption for which data are then sought.

Economists and economic thinking became more influential in government from the 1960s and 1970s (Carter, Klein and Day, 1992). In the 1980s, a more rigorous kind of economics began to be used, one deriving from neoclassical economics and public choice theory in particular (Chapters 1 and 2). This gave theoretical backing to the attack on bureaucracy, reducing government in general, and gave a methodology for designing market-based public policies. Economists and economic thinking became dominant in government and bureaucracy in both theory and practice. It is easy to see why. Compared with the rather vague public interest theories of public administration, economics offered precision, prediction and empiricism, backed by a motivational theory of how people acted. Economics also had direct relevance to governing. The public sector does things: it provides goods and services and should do so in the most efficient way possible. The focus of management models on results, efficiency and measurement owes much to economics.

The key theorist with regard to public administration was Ostrom. In the early 1970s, he argued that there were two opposing forms of organization: bureaucracy and markets, and that bureaucracy had major problems compared to markets. Bureaucratic organization was to Ostrom less efficient or effective than allowing choice through markets; competition, consumer sovereignty and choice provide incentives to lower costs, which are argued to be absent in the bureaucratic model of administration. He argued that 'alternative forms of organization may be available for the performance of those functions apart from an extension and perfection of bureaucratic structures' (Ostrom, 1989, p. 16) and also that the work of contemporary political economists, based upon a paradigm derived from economic theory, 'challenges many of the basic assumptions in the traditional theory of public administration' (1989, p. 64).

The way that new public management has developed bears out much of what Ostrom advocated, even if the ideas took some time to be adopted. There are two main principles of new public management, both of which can be seen in the work of Ostrom. First, it is market-based – derived from economics – using such theories as public choice, principal–agent theory and transaction cost theory (Walsh, 1995; Boston *et al.*, 1996; Kaboolian, 1998, p. 190) and, secondly, it aims to move away from bureaucracy as an organizing principle.

The second theoretical basis for public management can be found in private management. There are several managerial changes with antecedents in the private sector. In the private setting, there is greater flexibility in tailoring the organization to circumstance, instead of necessarily following a rigid Weberian model. Though the private sector was once as bureaucratic as any government, it moved earlier towards more flexible forms of management and the managerial changes in the public sector follow these. The focus on results could be said to derive from economics, but is also present in private management, as without results a company would be out of business. The greater attention now paid to strategic planning and management in the public sector also derives from the private sector (Chapter 7). Private sector personnel practices have been adopted to some degree, including the greater use of incentives and disincentives throughout the organization, such as paying more for good performance, or less for poor performance, or terminating staff relatively easily. To a lesser extent, the adoption of more formal means of evaluation has private sector roots, as does the improvement in information systems to provide accounting or other data. These could all be said to derive from the private sector, but none could be seen as exclusively being a private sector technique.

Where private management is particularly helpful for managerialism is in deconstructing parts of the public system once considered to be fundamental. Of course, the public sector must be fair and impartial in dealing with clients, but this does not mean that public servants need be neutral or have a job for life. It may be difficult to measure performance in the public sector, but this should not mean that no attempt should be made. The political nature of the public sector does make it different from the private sector, but this does not mean that *all* acts are political, or that *all* policy actions need be undertaken by politicians. This is particularly the case with the input factors identified before, such as the generous staffing conditions once thought necessary for public servants. It is hard to see how service delivery is necessarily damaged by employment by contract or on a part-time basis, or if staff are initially hired at higher levels than the base-grade. However, all these are against what was once thought necessary for all public employment. If much work in the public sector is the same as the private sector, other than at the highest levels, it is hard to justify unusual employment practices.

Perhaps the most important point imported from the private sector is the focus on objectives. Making results the primary aim, with everything else secondary, is a major change of mind-set. Also, bureaucratic organizations are not axiomatically efficient, as discussed earlier. The private sector has experimented with other organizational frameworks – profit centres, decentralization, staff flexibility – all of which have public sector parallels. The movement in the private sector towards flexibility is now being emulated by the public sector as well.

Economics and private management are the main theoretical supports for new public management. Whether these are satisfactory supports or as good as those of the traditional model will be discussed later.

Criticisms of managerialism

It is argued here that following the implementation of the comprehensive reform programme, the work now done by public servants deserves the name 'management'. The focus is definitely on the achievement of results and taking individual responsibility for their achievement. However, from the beginnings of the reform process in the late 1980s there have been sustained criticisms. Managerialism or new public management have become derogatory terms in some quarters, particularly in Britain, with overt hostility between those in favour of managerialist reform, and those opposing it. The various criticisms need to be discussed at some length. Some particular points will be examined briefly here, while some key criticisms of the entire programme will be considered later (Chapter 14).

The economic basis of managerialism

The foundation in economics is the basis for one of the criticisms of managerialist thinking. Other social scientists are often troubled by economics as a social science, criticizing its assumptions and supposed ideological basis. Of course, no theory is immune from criticism, and economics is often attacked for its unrealistic assumptions. In the real world, all individuals do not behave rationally and not all governmental problems will be amenable to economic techniques. It could be argued that there are limitations to the use of economic methods in the essentially political environment of the public sector.

There are two main criticisms of the economic basis of managerialism. The first is that economics is a flawed social science and its application to government is similarly flawed. This is not a new criticism and has been made ever since economics and the capitalist system matured. Such a view of economics in government is in reality a much bigger criticism of economics and economists in general and need not be dealt with here. More to the point in a general criticism of economics is that neoclassical economics is only one strand and, if dominant at the present time, there are other economic theories that allow a greater role for government.

The second, and more common, criticism is that, while economics has some validity as the basis for the economic system and the private sector, its application to government is ill-conceived. Pollitt argues that public services are more distinctive than any generic model of the consumer would allow, for two reasons. First, the 'provider/consumer transactions in the public services tend to be notably more complex' than those faced by the consumer in a normal market, and second, public service consumers 'are never merely "consumers", they are always citizens too, and this has a set of unique implications for the transaction' (Pollitt, 1993, pp. 125–6). Both points have some validity. Public service transactions are indeed more complex and the consumer being a citizen does make for some complications. It has always been paradoxical that particular citizens could, on the one hand, demand more government services and, on the other, complain about taxation levels.

However, it is then necessary to explain why the supply and demand of governmental goods or services do *not* behave in the same way as firms or consumers.

In most circumstances supply and demand work in the same way as in the private sector. If governments wish to reduce the consumption of oil, the easiest way is to increase its price through increasing its level of taxation. Increasing farm subsidies will increase farm production as the European Union's agricultural policy demonstrates. For most of these goods and services functions, governmental consumers behave in the same way as in the ordinary market. Where there may be difficulties is at the edges of market behaviour. Does increasing the monetary support for sole parents increase their number as some conservatives might claim? Along with other policy issues this would have to be studied, but where economics, even public choice economics, can be helpful is in giving a framework for that study. It should be seen as a tool rather than a programme.

Pollitt's argument rests on the uniqueness of the public sector in that consumer behaviour laws do not apply there. This is only the case for some limited, if important, parts of what governments do.

The basis in private management

The derivation of managerialism from a private business model is a source of criticism. The public sector might be so different that generic or private sector models of management become irrelevant to its operations. For example, altering the focus of organizations from inputs to outputs has several, linked steps – determining strategy and setting objectives, devising programmes to meet objectives, setting structure and funding by programme, measuring performance and evaluating achievements. The steps all follow each other in logical progression, in that, once objectives and results can be specified, the other points also become necessary. However, this means that if objectives are difficult to set in practice, the other points become irrelevant as they rely on the existence of clear objectives. In the government environment, it is difficult to specify objectives and even if they are set out there are frequent changes. Does this by itself mean that changing to an outcome or output focus is doomed to fail?

It is more difficult to determine objectives or to measure results in the public sector and this may be one of the key differences between the public and private sectors. It is also difficult in much of the private sector as well, with profit not being the only objective or measure of performance. Nevertheless, surely some attempt needs to be made to set objectives, as without objectives why have a particular agency or government function at all?

The fact that management techniques derive from the private sector is the cause of some criticism. It is possible there are some inherent differences between the sectors that may impose limitations as to what is adopted and its eventual success. The public sector has always borrowed from the private sector. Many of public administration's organizing principles over the century derived from the private sector, notably from nineteenth-century railroad companies (Blau and Meyer, 1987). The traditional model of administration drew on Taylor's scientific management theories (Taylor, 1911) even though there is little consideration in such work of the public sector. Of course, uncritical acceptance of private sector theories would be bound to fail in the public sector, but that does not mean the public sector should be managed by traditional, time-honoured means. Any technique needs to be modified to fit its new environment. For example, it is doubtful whether strategic management will be an unqualified success in all parts of the public sector. But the comparison needs to be made with what went before, instead of simply arguing that because it came from the private sector it will not work. The point is that there are benefits in identifying, sometimes for the first time, what the activities and objectives of agencies are, as this provides a chance to assess the achievement of goals.

'Neo-Taylorism'

A particular theoretical criticism put forward by Pollitt is that managerialism represents a revival of the scientific management ideas of Frederick Taylor discussed earlier (Chapter 2). It is argued that going back to this theory ignores or bypasses the development of organizational behaviour since Taylor's time. With its emphasis on the control of government spending and decentralizing management responsibilities with targets and performance measurement systems, Pollitt sees a management philosophy in the new model that he describes as 'neo-Taylorian' (1993, p. 56):

> The central thrust, endlessly reiterated in official documents, is to set clear targets, to develop performance indicators to measure the achievement of those targets, and to single out, by means of merit awards, promotion or other rewards, those individuals who get 'results'. The strengthening and incentivising of line management is a constant theme. There is far less (if any) official acknowledgment of the complexities of workplace norms, beliefs and aspirations … or of the equally complex issues of cognitive and motivational biases in decision making … and inter-institutional interdependencies.

In this comment Pollitt sees managerialism as the direct descendant of Taylor's scientific management, which, in his view, is contrary to the wisdoms of the human relations school.

Managerialists do propose to measure performance and may have imitated the private sector in taking a more hard-nosed approach to the social–psychological side of organizational behaviour. There are 'neo-Taylorian' incentive structures in the managerial programme to reward those who perform and provide disincentives for those who do not, including easier avenues for dismissal. But, to refer to the managerial programme as completely Taylorian, and the structure being replaced as following the theory of human relations, is misleading.

As discussed earlier (Chapter 2), Taylor (1911) did believe in picking people for particular jobs, rewarding them according to performance and measuring what they did. Some parts of managerialism do all these things. According to Pollitt, the chief features of Taylorism and managerialism were that 'they were, above all, concerned with *control* and that this control was to be achieved through an essentially *administrative* approach – the fixing of effort levels that were to be expressed in quantitative terms' (Pollitt, 1993, p. 188). In fact, there is far greater similarity with the traditional model of administration, which enthusiastically adopted Taylor's scientific management in the 1920s, than with public management. Measurement is emphasized in public management but is now to provide information on *results*, not to establish procedures to be followed in every case.

Taylor's system was perfectly attuned to a formalized bureaucracy and this was why it was adopted so enthusiastically by public services in the early part of the century. Taylor thought there was 'one best way' to carry out any task and this could be determined by measurement of the tasks involved. In its expressed aim to be more flexible, public management will be rather *less* Taylorian than traditional public administration was before. Pollitt's argument would have more force if it was established that Taylorism is a stronger influence under managerialism than it ever was under the traditional model of administration.

Politicization

Changes to the public service are said to involve 'politicizing' it; involving it directly in matters of party politics. It is true that political leaders are now more likely to select their agency head, and to require some sympathy with their political goals. This does cut across the traditional model's emphasis on a neutrality and non-partisan administration; to the extent these are valued, management does mean a derogation of time-honoured precepts. What is not clear is how much difference it makes in practice. There are two sides to the question of politicization.

On the one hand, it could be said that those making arguments about 'politicization' ignore the fact that the public service is fundamentally a political instrument. There is no public interest above and beyond that of the government of the day. What is happening now is that a problematical feature of the traditional model of administration – that public servants were not supposed to be 'political' – is being viewed in a more realistic way. As in the American system, even overtly political appointments may be of general benefit, providing they are recognized as such and do not go too far down the hierarchy.

On the other hand, politicization could lead to problems of the kind that Woodrow Wilson and the reform movement in the 1880s tried to repair. Wilson argued that separation between politics and administration would reform the spoils system and reduce the corruption that system engendered. If managers are to be made responsible for their own results, and the system becomes more political and personal, the same kinds of problems could recur. If this happened because public servants were too political, there might be demands to reinstate the notion of neutrality.

However, politicization may not be that big a problem. One of the supposed strengths of the traditional model of administration was its refusal to acknowledge or be involved in politics. This was always naive and unrealistic, given that the administration of government is inevitably a political process in its own right. Public managers do involve themselves in politics, although not necessarily party politics, and this fact should be in the open. Instead of hiding behind a false neutrality, public managers should be clearer about the political costs and benefits of alternative courses of action. This might end up being 'politicization' of the worst kind, but could also be far more realistic and useful than was the case under the old system.

Reduced accountability

There is some concern as to whether the new managerial concepts and procedures fit in with the system of accountability (see Chapter 13). Conflicts may occur between the concepts of public management and public accountability. If the public servant is to be managerially accountable, this could be seen as detracting from the accountability of a responsible politician. And how can a citizen call a public servant to account? Accountability may become a real problem, although the old system was unrealistic and a very poor guarantor of accountability in any case. In addition, the managerial changes promise greater transparency, so that the achievements of particular programmes can be seen. This may actually improve accountability in that the public has a better idea of what governments are doing, while the greater external focus means its interests are more highly considered.

Difficulties with contracting-out

While it is easy to argue private markets are superior and efficiencies will result from privatizing government activities, implementation is not simple. To make contracting-out actually work is different from thinking it is a good idea; there are awkward details to be worked through. It is all very well to call for 'entrepreneurial government' (Osborne and Gaebler, 1992), but this should be tempered with the realization that market solutions do not necessarily work well under all circumstances (Donahue, 1989, p. 223). It is one thing to pass activities from the public to the private sector, but quite another for them to work well.

Simple ideological nostrums should be replaced by careful consideration of all the costs and benefits. Contracting out should be seen as another tool for public managers which may or may not be more efficient depending on the case. It is an alternative that the public manager may be able to adopt in a specific case but 'using it blindly and ideologically invites unnecessary controversy, while ignoring it reduces alternatives for improving services' (Rehfuss, 1989, p. 228).

Ethical issues

According to Hood, the new public management 'assumes a culture of public service honesty as given' and 'its recipes to some degree removed devices instituted to ensure honesty and neutrality in the public service in the past (fixed salaries, rules of procedure, permanence of tenure, restraints on the power of line management, clear lines of division between public and private sectors)' and the extent to which the change 'is likely to induce corrosion in terms of such traditional values remains to be tested' (1991, p. 16). This possible erosion of ethical standards may be a real problem, especially as the reason for adopting many of the principles of the traditional model of administration was precisely to counter the corruption and inefficiency rife in early administration.

Are there ways of improving or maintaining ethical standards while gaining the benefits of a managerial approach? It is hard to find a way that is convincing. Perhaps the new managerialism offers greater transparency so that unethical or corrupt behaviour can be detected more easily; the greater stress on measurable performance may impose its own kind of behavioural standard. Perhaps managers can be inculcated with the ethical standards common in the old model. Further, as there is supposed to be no change to political accountability, politicians will be responsible for ethical lapses in agencies under their control. The fact that ethical problems are unsolved in the private sector should be a caution to public managers.

Corruption can be endemic and has serious consequences for the political system (deLeon, 1993). There are certainly opportunities for the unscrupulous in the managerial system, notably with contracting. Yet, as developing countries have shown, these also existed in the traditional model of administration in such areas as allocation of licences and permits, as well as government purchasing. Contracts are supposed to offer improvements in accountability, but contracts with government are often kept secret for commercial reasons so the transparency is not there in practice. As a result, ethical problems can be hidden. Whether greater ethical problems do occur as the result of managerialism will not be known for some time. However, if the benefit of the old system was its high standards of behaviour, its weakness was that results were only incidental. In current circumstances, governments will probably opt for the achievement of results and hope that greater transparency and freer availability of information will provide sufficient incentive devices for the maintenance of high ethical behaviour by managers.

Implementation and morale problems

Managerial changes have been instigated from the top, with insufficient attention paid to implementation. This has been a real problem, although in some countries where time and resources have been devoted to the reform process, it has been carried out well. Better training should occur as part of the overall package, particularly management training for senior staff, but, when resources are cut, such activities are seen as expensive luxuries. In fact, following through with the details may make the eventual difference between the success or failure of reform.

Perhaps the reform process was carried out at such a pace that people in the system did not know where they stood. Morale suffered particularly in the early stages. Even where change is widely seen as necessary, questions arise as to whether it might be handled better.

The critique in sum

In the final analysis, the critique of the managerialist model has some valid points but is unconvincing, or at least unproven. Further criticisms of it will be addressed in subsequent chapters. It is possible to perceive some kind of threat in the adoption of results-based management, strategic management, programme budgeting, performance measures, and the like, as well as the supposed theoretical inadequacy. However, the real test is the performance of the new model as *compared* with the old model.

Instead of criticizing the theoretical basis of the new programme, it would seem necessary to compare the *relative* theoretical backing of the two. The theoretical basis of traditional public administration was discussed earlier as being Weberian bureaucracy, now widely regarded as old-fashioned within the field of organizational behaviour, and Wilson's separation of politics from administration. Despite criticisms of a lack of theory, the managerial programme, which is based on economics and private management, has a theoretical pedigree at least as good as the traditional theory of administration.

The managerialist agenda is, in essence, quite simple. Governments provide scarce resources to public programmes and would like to know that public ends are being served in an efficient and effective manner. Corporate planning techniques can specify what departments are to do; programme budgeting and accrual accounting mean that scarce funds can be better targeted; performance indicators allow some measure of how well targets are being achieved; personnel changes increase flexibility so that the most able are rewarded and the inadequate can be removed. While no theory can be expected to apply perfectly, the important point is that the old system performed poorly on all these points.

Conclusion

The public services of developed countries should now be regarded as following the precepts of public management. They do, however, contain elements of the traditional model of administration and public management in an uneasy coexistence; the formal power structure of bureaucracy remains, but conditions of employment and delivery of services are increasingly in accordance with the newer models of public management. The logic has been established, and managerialism is closer to what present governments actually want, which is the maximum of service delivery at the lowest administrative cost, without worrying inordinately about the means used.

The debate over public management and managerialism raises larger questions about the role of the public service, and even the role of government in society. The public service is there, in the final analysis, to manage public purposes as decided by the citizens expressing their wishes through the political process. How well it is managed has implications for the scale of public activity. Public management does not mean usurpation of government by technocrats, a reduction in accountability or a diminution of democracy. All the managerial changes do is allow for public purposes to be carried out in a more efficient, cost-effective way, by providing more and better information to those making decisions. In the final analysis, these decision-makers are politicians working with the public service in an interactive process justifiably called management.

What we are witnessing may be a new theory of management, but, thus far, it is a theory of public management and not generic management. The very nature of cost-effectiveness as a performance criterion makes 'the adoption of a managerial approach *necessary* but the kind of management must be *specific* to the conditions of the public sector' (OECD, 1991a, p. 10). Public management will not be derived merely by transferring private management techniques to the public sector, but rather by: consideration of what the general management function entails; understanding what the peculiar features of management in the public sector are; and derivation of a new system of management to suit that sector.

Despite criticisms, changes of government, misgivings from parts of the public, the model of public management has become established. The direction of future change is easy to see. Public servants will be responsible for the achievement of results; they will have to develop innovative ways of supplying goods and services; they will manage risk instead of avoiding it, as was a characteristic of administration. There will be further reduction of government provision through the bureaucracy, and more services will be provided through other means involving the private sector. This could be more creative, it will certainly be more dynamic, but it will mean a further transformation of the public sector in its turn. Once change is accepted, it is hard to stop. What remains to be seen is if the best parts of the old model – professionalism, impartiality, high ethical standards, the absence of corruption – can be maintained, along with the improved performance a managerial model promises.

4

The Role of Government

Introduction

What government should or should not do needs to be of fundamental concern to public managers. In mixed economies there must be some demarcation between those activities that fall in either the public sector or the private sector. The dividing line varies between different nations at different times, but, in the last two decades of the twentieth century, it definitely moved away from the public sector and towards the private sector. This transfer of resources and functions to the private sector obviously affects those who work in the public sector or rely on it in some way. If a public activity is less valued by the community, if activities historically provided by governments are being marketized, the rationales for doing these things are of obvious interest to public managers.

All government activities require organization and staff – the public or civil service. But the operations of the bureaucracy, its theories and principles, are not well understood and there is a curious ambivalence towards it by the citizenry. At the same time as there are demands for governments to do more, and to do so more effectively and efficiently, the public services are often seen as parasitic on the private sector. Rather than being seen as an instrument of the people, the public service is regarded with suspicion both for its power and for red tape, delay and inefficiency. At the end of the twentieth century, there seemed to be great uncertainty as to the role of the public sector.

Since the mid-1970s, most OECD nations have undertaken a reassessment of the role of their public sectors. Those who believe in the model of the free market as the basis for a more dynamic economy argue that governments are currently involved in activities which are inappropriate and that the size and role of government must be cut back drastically. The current debate on the role of government mainly concerns its economic aspects: should it provide the goods and services it does, or should some be handed to the private sector? Should it subsidize or regulate to the extent it does? Such questions also raise the very political matter of how various members of the community perceive and value the things government does.

Governments have a variety of roles and their full scope is not easily measured. It is no exaggeration to say the public sector affects the entire economy and society. Without a legal framework to enforce contracts, private business activity would not work. Regulations, taxes, permits, infrastructure, standards, conditions of employment all affect decisions made in private markets. The public sector is a large purchaser of goods and services from the private sector. Government redistributes income from better-off members of the society to those who are not. The public sector has a crucial role to play in determining real living standards which depend for most people on government services – the quality of schools, hospitals, community care, the environment, public transport, law and order, town planning, and welfare services – at least as much as the quality of consumer goods and services.

It is increasingly realized that good government is needed for economic development. As Stiglitz argues (2001, pp. 346–7):

> There is a 'special responsibility' for government to create the institutional infrastructure that markets require in order to work effectively. At a minimum, this institutional infrastructure includes effective laws and the legal institutions to implement them. If markets are to work effectively, there must be well-established and clearly defined property rights; there must be effective competition, which requires antitrust enforcement; and there must be confidence in the markets, which means that contracts must be enforced and that antifraud laws must be effective, reflecting widely accepted codes of behavior.

The debate is now not whether governments should have no role, but what that role should be.

There is a broader ideological subtext behind particular arguments about the public sector. The 1980s saw an extensive debate about privatizing public enterprises, starting in the United Kingdom. This might be regarded as a narrow debate about government business activities, but the positions of the participants were fundamentally determined by how they viewed the public sector in a general ideological sense. The same broad debate may be behind attempts to reform public sector management and to control spending better. The trend towards a market-based public sector may reflect concerns about the role of government, as much as worries about the efficiency and effectiveness of the bureaucratic model (Chapter 2).

The 1980s debate over the public sector became, at times, an intense ideological struggle in some countries, one in which the last vestiges of socialism were to be rooted out by new Right governments (Isaac-Henry, Painter and Barnes, 1997). Opposition to change was no less intense as public sector workers, unions and supporters tried to maintain government activities at their previous levels. The Reagan and Thatcher governments of the 1980s led the way, but were only part of sustained theoretical and practical attacks on the *command* or bureaucratic part of society in favour of the *market* principle. However, as the reforms continued through changes of government it became clear that party-political considerations were only a minor part of the public management reforms. It is noteworthy that successive governments did not lead a return to traditional bureaucratic administration. As Farnham argues in relation to the Blair government in the UK, 'New Labour thus appears to be building on the New Right legacy and has no wish to return to former systems of traditional public administration or high public spending' (1999, p. 252). Once reform started, in most countries it continued even when new governments were elected from either Right or Left.

The attacks on the scale, scope and methods of the public sector gave credence to measures to reduce government and change its management. Governments wishing to cut the public sector have found a responsive chord from a community seemingly disillusioned with bureaucracy, even if it wanted no cuts in services. Responses in polls to questions as to why the US federal government is distrusted stress poor performance rather than that governments are doing too much; more than 80 per cent say government is wasteful and inefficient (Nye, 1997, p. 6). To be fair, this feeling of anti-governmentalism should be extended to parties and political processes more generally than the public services alone (Nye, Zelikow and King, 1997). However, the lack of support for bureaucracies and public servants meant that these were useful scapegoats for governmental problems; any moves to reduce the size of government or the power of the bureaucracy face little effective opposition.

As will be seen, there are various theories for deciding which functions should be provided by government. Some argue that only goods or services that cannot be provided by markets should be provided by governments. Others argue, however, that as government is the embodiment of the will of the people as expressed through the political process, there should be no limits to its scope.

The need for a public sector

By convention, the economy is divided between the private and public sectors. The public sector is defined by one author as 'engaged in providing services (and in some cases goods) whose scope and variety are determined not by the direct wishes of the consumers, but by the decision of government bodies, that is, in a democracy, by the representatives of the citizens' (Hicks, 1958, p. 1). This definition does not capture the full scope of public sector activity, but it does contain the key point that the public sector is the result of public, political decision-making, rather than involving market processes. Governments are command-based – they can force people to comply – whereas markets are voluntary.

Stiglitz (1989, p. 21) argues there are two distinguishing features of government, or the State:

> The State is the one organization membership of which is universal, and the State has powers of compulsion not given to other economic organizations. Individuals choose to be members of clubs, they choose to buy stock in a corporation, they choose to work for

> one firm or another.… But by and large, individuals do not view the country in which they live to be a matter of choice, and, having chosen to live in a particular country, they become subject to the State. The fact that membership is compulsory gives the State a power of compulsion which other organizations do not have.… More generally, all transactions between parties other than the State (other than theft and 'accidents') are voluntary.

Stiglitz goes on to argue (p. 22) that while governments have this power of coercion, in democratic societies 'government relies for the most part on voluntary compliance'. Despite this, it is universal membership and compulsion that makes government fundamentally different from the private sector. The private sector does have ways of forcing compliance, with contracts, for example, but in legal activities the allowable force is through the legal system provided by government. Even privately provided mediation or arbitration relies, in the end, on the government legal system.

However, the question must be asked if there is any need for a public sector at all. If the normal mechanism of exchange is through the market, what are the possible functions of government? According to Musgrave and Musgrave (1989, pp. 5–6), the prevalence of government 'may reflect the presence of political and social ideologies which depart from the premisses of consumer choice and decentralised decision making'. Also, 'the market mechanism alone cannot perform all economic functions' and, without government, markets will not work for the following reasons:

> (i) There must be no obstacles to free entry [to markets] and consumers and producers must have full market knowledge. Government regulation or other measures may be needed to secure these conditions. (ii) They may also be needed where competition is inefficient due to decreasing cost. (iii) More generally, the contractual arrangements and exchanges needed for market operation cannot exist without the protection and enforcement of a governmentally provided legal structure. (iv)… Problems of 'externalities'. arise which lead to 'market failure' and require solution through the public sector.… (v) Social values may require adjustments in the distribution of income and wealth which results from the market system and from the transmission of property rights through inheritance. (vi) The market system… does not necessarily bring high employment, price stability, and the socially-desired rate of economic growth. Public policy is needed to secure these objectives. (vii) Public and private points of view on the rate of discount used in the valuation of future (relative to present) consumption may differ.

These points provide some rationale for government intervention, particularly the notion that markets do not work well under all circumstances. Markets are undoubtedly powerful and can provide a system of allocation and distribution for many goods and services, without the intervention of governments. But markets cannot do everything.

Although the private and public sectors are usually seen as quite separate, the division of the economy into two mutually exclusive sectors may be artificial (McCraw, 1986). There is so much interaction between the two that setting up a strict dichotomy is rather misleading. It could be argued that the modern capitalist economy is a 'thoroughly mixed system in which public and private sector forces interact in an integral fashion' and the economic system is 'neither public nor private, but involves a mix of both sectors' (Musgrave and Musgrave, 1989, p. 4). The private sector relies on government for infrastructure and the system of laws, without which markets could not operate. Government relies on the private sector for the production and supply of goods and services, and for tax revenue. The interaction between sectors is more subtle than simply seeing them as separate and necessarily antagonistic.

Private and public management

The argument for a specialized form of management in the public sector rests on there being sufficient differences from the private sector and its management. At a time in which theories, techniques and working conditions in government clearly derive from the private sector, the question of difference becomes particularly important. There are several reasons why the two sectors are not the same, and cannot be the same.

First, in a way not characteristic of the private sector, public sector decisions may be *coercive*. Citizens can be forced to comply with decisions, pay taxes, have their property compulsorily acquired, and are subject to sanctions deriving in the end from the coercive powers of the state. Not all public activities are coercive, but those that are need to be carried out more carefully than in the private sector. Private enterprises have more freedom to be *arbitrary*. They can charge different customers different prices, they can refuse to deal with them, they can ignore normal procedures.

Secondly, the public sector has different forms of *accountability* from the private sector. While company management is theoretically accountable to shareholders, the public employee is accountable to the political leadership, parliaments, the public, and to various parts of the judicial system. Accountability is also a problem in the private sector (Chapter 13). It is, however, likely to be less certain and more uneven in its application in the public sector.

Thirdly, the public service manager must cope with an *outside agenda* largely set by the political leadership. This is different from an organization where the shared motivation at all levels of the organization is to make money. The presence of political authority 'is more than simply an influence on public strategic management; it is a defining characteristic' (Bozeman and Straussman, 1990, p. 214). Politicians may require action that detracts from good management practice, can change their minds frequently and require administrative actions to be taken for quite blatant political reasons. Having to follow a political agenda and a sometimes unresponsive or even hostile administration can lead to conflict between the bureaucracy and the politicians. This is not to say that working to a political agenda is any less rational than is a money-making one. It is that the political agenda makes management in the public sector *different*. Having a large part of the agenda imposed by politicians reduces the scope of action of a manager.

Fourthly, the public sector has inherent *difficulties in measuring output* or efficiency in production. It lacks 'bottom-line' criteria analogous to profit in the private sector. In government there is rarely agreement on goals or measures of them, nor can it be assumed that everyone in the organization will abide by either. The difficulty of measuring performance in the public sector, whether of individuals, groups or whole organizations, permeates management as a whole. Measurement and evaluation are possible in the public sector, but are more difficult and perhaps less meaningful. The lack of suitable measurement may enable parts of the public service to perform no useful function and to evade scrutiny. This might occur in the private sector too, but is much less likely.

Finally, the public sector's sheer *size and diversity* make any control or coordination difficult. Somehow governments and their advisers try to coordinate the activities of the largest and most complex part of society's activities. Coordination must be political and is never easy.

There are major differences between the sectors. The question is whether these differences between them are, first, enough to require a specific form of management and, second, to require a traditional administrative model and not a managerial model. On the first point, it must be concluded that the public sector is sufficiently different and needs its own form of management, not just that borrowed from the private sector. Flynn, for example, argues that managing public services is different from managing services in the private sector (1997, p. 12). Allison, too, argues 'public and private management are at least as different as they are similar, and … the differences are more important than the similarities'; further, 'the notion that there is any sufficient body of private management practices and skills that can be transferred directly to public management tasks in a way that produces significant improvements is wrong' (1982, p. 29). There may be advantages in adapting and using some practices pioneered in the private sector, but the basic task is different in each sector.

However, the second point does not necessarily follow. Even if it is argued that the sectors are different, this does not mean that the traditional administrative model is the only valid way of managing in the public sector (see Ranson and Stewart, 1994, pp. 270–1). The development of public management is a recognition that the task of public servants is now managerial and not administrative, that a form of management can be developed bearing in mind the differences between the sectors.

'Government' and 'governance'

There is an important distinction to be made between 'government' and 'governance'. Government is the institution itself, where governance is a broader concept describing forms of governing which are not necessarily in the hands of the formal government. Corporate governance, for example, refers to how the private sector structures its internal mechanisms to provide for accountability to its stakeholders; while government may be involved in this through the company law, there are aspects which it does not control. As Keohane and Nye argue (2000, p. 12):

> By governance, we mean the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group. Government is the subset that acts with authority and creates formal obligations. Governance need not necessarily be conducted exclusively by governments. Private firms, associations of firms, nongovernmental organizations (NGOs), and associations of NGOs all engage in it, often in association with governmental bodies, to create governance; sometimes without governmental authority.

They also argue that, with globalization, governance is becoming more diffuse and that instead of governments having a monopoly over issues of governance there are many players. As they argue (2000, p. 37):

> Rulemaking and rule interpretation in global governance have become pluralised. Rules are no longer a matter simply for states or intergovernmental organizations. Private firms, NGOs, subunits of governments, and the transnational and transgovernmental networks that result, all play a role, typically with central state authorities and intergovernmental organizations. As a result, any emerging pattern of governance will have to be networked rather than hierarchical and must have minimal rather than highly ambitious objectives.

The concept of governance is appropriate for public management as opposed to the narrower concept of government. Good governance tries to do more than 'mere efficient management of economic and financial resources, or particular public services; it is also a broad reform strategy to strengthen the institutions of civil society, and make government more open, responsive, accountable and democratic' (Minogue, Polidano and Hulme, 1998, p. 6). The best way of managing a particular policy issue may be to work with in partnership with the private sector, or privatize a function or by use of regulation. Direct provision by government and the bureaucracy is not precluded, it rather depends on the circumstances where the best form of governance might be found.

Market failure as the basis for public policy

Although the sale of goods and services is the basis of a capitalist society, there are some circumstances where markets may not provide all the goods and services that are desired, or may do so in ways which adversely affect the society as a whole. The market mechanism alone cannot perform all economic functions; public policy is needed 'to guide, correct, and supplement it in certain respects' (Musgrave and Musgrave, 1989, p. 5). Market failure is one way in which government action can be justified (Walsh, 1995, pp. 6–12). Theories and models can be developed which state that government action should only occur where markets fail, providing governments would do a better job in those particular circumstances. Some of those goods or services which markets may not provide optimally include: education, law and order, environmental values, national defence, roads and bridges, hospitals and health care, welfare services, public transport and the like. The key kinds of market failure are outlined as follows.

Public goods

Private goods are enjoyed by whoever paid for them. Once someone pays the asking price, the property becomes theirs by the process of exchange and no one else can use it unless the owner gives permission. Public goods are quite different as they benefit all users whether or not they have paid the price. They are 'non-excludable', that is, if provided to one, they are available to all. For example, a lighthouse cannot be reserved for the use of only those ships which pay for the service. There are roads and bridges that benefit a particular community, but for which tolls or some other way of charging individual users are not feasible or too costly. It is not possible for citizens to decide what level of national defence they individually want and then pay precisely that amount in their taxes. There seems to be no way except for government to provide such public goods, although the dividing line between public and private goods is often rather blurred. There are now fewer undisputed public goods than once was thought to be the case. Some roads or bridges may be directly charged for by means of tolls. There may be other payment methods such as an annual fee for freeway use. Defence remains the classic public good, one which, practically, can only be paid for by taxation of the whole society, not merely by those who value being defended by the armed forces. In Chile, a large proportion of the nation's defence spending comes from royalties on copper production, but this kind of funding is most unusual.

The literature also points to *merit goods*. These are services, such as education and health care, that are socially desirable, but which markets may not provide optimally. The market may provide them in a technical sense – they are excludable – but there are benefits to the whole society by some government involvement. An educated workforce is economically desirable as an educated worker is able to perform more complex tasks; government provision or assistance may improve overall educational outcomes for the benefit of society as a whole. But how education is funded is a general problem. If education is regarded as a private good there are equity problems between individuals as well as efficiency ones if those with innate ability are not educated. On the other hand if parents wish to spend extra money on education, there is no way of preventing this.

Health care is another difficult merit good issue. While the delivery of health services by doctors and hospitals is broadly consistent across developed countries, there are varying mechanisms of financing with some countries seeing health care essentially as a private good (US), others as a public good (UK), and others as a mix of both (Canada). Private health insurance markets may not provide adequate cover when individuals assess their risk as being lower than it actually is. As a result, there tends to be chronic under-insurance and eventual demands for government involvement. Most countries have an uneasy mix of private and public provision of these merit goods, without there being any definitive answer as to the most desirable point on the public–private continuum.

Externalities

Market transactions often have effects on third parties, or on the environment, that only government action can alleviate. For example, it is possible to buy a car and its fuel through the market, but the externality or 'spill-over' effects on air quality or vehicle accidents are not captured by the price paid for the items causing the problem. Environmental effects are usually seen as requiring some kind of government action, as there is no market way of coping with these effects. There are market approaches to government action, such as tradeable pollution permits, but these still take place firmly within a framework of government regulation.

Natural monopoly

There are some goods which are characterized by declining marginal cost, that is, when supplied to one customer it becomes cheaper to provide to the next. The installation of water supply or electricity to one household makes the cost to the next household cheaper once the distribution network is in place. It is in utilities with networks – telephone, electricity, gas and water – that the problem of natural monopoly is most prevalent. The beneficial effects of competition are not likely to occur when there is a tendency towards a monopoly supplier. The existence of natural monopoly has been used as a rationale for some form of government involvement or even ownership, although there are fewer industries or parts of industries now universally regarded as natural monopolies. More recently, any natural monopoly in telecommunications and electricity supply is seen as only applying to local distribution. In any case, there are examples, particularly in the United States, where such utilities are privately owned but government regulated. In other words, government involvement need not mean direct government provision, and there is now a worldwide trend to privatization of such services but with some form of government regulation attached.

Imperfect information

There is a case for poor information, or 'asymmetric information' (Kay and Vickers, 1990), being considered an example of market failure. Market theory does assume perfect information for buyers and sellers. To the extent that information is not gained, especially by the buyer, markets can be less than optimal. Consumer protection or packaging information might be examples where, through government action, information can be provided so that markets function better. Regulations imposed on blatantly unsafe products may be seen as providing information to those unable or unwilling to gather it for themselves.

Other kinds of imperfect information may arise with respect to 'adverse selection', where for example, the unhealthy are more likely to be buyers of health insurance and 'moral hazard' where information can persistently be ignored in, for example, that the self-assessment of risk by cigarette smokers or motorcycle riders is far less than their actual risk. Both these can cause market failures due to failures of information.

Limitations of market failure

The theory of market failure can provide some signposts to government action, but particular aspects may be problematic if used as a complete guide to what governments should or should not do. On the one hand, some market economists, notably Stigler (1975) and Friedman and Friedman (1980), disagree with the notion that market failures provide a justification for government action, as they result in too much government. Stigler (1975) argues that governmental action for consumer protection is unnecessary and inferior to the 'doctrine of *caveat emptor*' – let the buyer beware – and 'the great engine of competition'. Stigler claims that 'public regulation weakens the defences the consumer has in the market and often imposes new burdens upon him, without conferring corresponding protections'. But even though competition and 'buyer beware' are undoubtedly strong, it is unlikely that the public finds the relatively small cost of consumer protection to be burdensome, when compared to the cost involved in the sale of unsafe children's toys or clothing, or unlicensed drugs, or of trying to gain any redress through the legal system.

On the other hand, the concept of market failure could be argued to artificially reduce the scope of government action. The theory de-politicizes economic problems by treating them as technicalities when strong political conflicts may be present. It assumes that efficiency is the only value that should guide government intervention. Other important values – equity, equality of opportunity, democratic accountability, freedom – are neglected. Also, the theory does little to explain why the present set of government policies was adopted. Many market failures will exist, but the precise point at which government intervention is justified is unclear. Markets may fail but government actions to alleviate a problem may also fail. The concept of market failure provides some signposts to those things governments may involve themselves in, but it does not establish a complete answer to the 'allowable' activities of government (see also Walsh, 1995, pp. 4–12).

Instruments of government

An instrument of government is the method it uses to intervene, the mechanism used when government action is justified in some way. Most government intervention can occur through four available instruments: (i) *provision*, where the government provides goods or services through the government budget; (ii) *subsidy*, which is really a sub-category of provision and is where the government assists someone in the private economy to provide government-desired goods or services; (iii) *production*, where governments produce goods and services for sale in the market, and (iv) *regulation*, which involves using the coercive powers of the state to allow or prohibit certain activities in the private economy. The use of these has varied over time and according to the particular government function.

Government provision

Direct provision by government through the budget forms the major part of its operations. The budget sector includes those areas of government which are funded by taxation rather than user charges: that is, which provide non-market goods and services – roads, defence, education, health and some social welfare schemes. The budget sector includes transfer payments where the government does not finally spend money, but redistributes it from one class of taxpayer to another. Most government activities occur through direct provision and are set out in the budget (Chapter 9). While there have been attempts to reduce government provision, it has proved difficult to do. There is obvious and understandable resistance to cuts in programmes that benefit individuals or groups, particularly those of political importance.

Subsidy

Subsidies vary widely but could include subsidies to farmers or industry, or to private bus companies or private schools. The private sector provides a particular good or service, but with some assistance from government. Although part of the funding is public, the detailed administration takes place in the private sector with governments mainly involved in monitoring to ensure their money is being spent in approved ways. In practice, it is hard to separate the category of government subsidy from that of government provision. The amount of subsidy appears in the budget just like provision.

Production

According to Musgrave and Musgrave (1989, p. 9), a clear distinction must be made between public provision for social goods and public production. Unlike provision, production takes place away from the government budget, and users are charged in the same way as if the items were provided by the private sector. For example, electricity supply or rail services are government-owned in some countries. These services are sold to consumers and use is precluded if consumers are unwilling to pay. Some European countries maintain large public enterprise sectors so the amount of government production is quite high; the United States has always had very little. Public enterprises may receive loans or advances from their respective governments but their receipts and expenditures are not included in that government's own budget. As might be expected, there is rather more controversy over the role of the public enterprise part of the public sector and there has been a worldwide trend away from public enterprise by the process of privatization (see Chapter 5).

Regulation

Regulation essentially involves allowing or prohibiting activities in the economy through the legal system, for example, setting tariffs, granting licences or permits and regulating the labour market. A government has coercive power, and this is the fundamental difference between it and the private sector. The power of law, reinforced in the final analysis by the police and the army, can be used for many purposes, including intervention in the economy. Regulation can vary from the minor and non-intrusive – the collection of statistics, for example – to blanket prohibition with very high penalties such as for smuggling illegal drugs.

Regulations can be either economic or social with the former aimed at encouraging business and other economic actors to undertake certain activities and to avoid others. Social regulation is usually seen as attempting to protect the interests of citizens and consumers, especially in regard to quality standards, safety levels and pollution controls. Regulation of the business sector is widespread: there is financial regulation which can include interest rates, exchange rates, foreign investment as well as broader corporate regulation, including rules for company registration. There is often price regulation, quantity regulation, quality regulation and various product or packaging standards. Particular professions are often licensed and businesses must comply with occupational health, safety and environmental standards. Finally, there is usually some kind of competition policy or antitrust legislation to enforce competition within private markets and to restrain any tendency to collusion and monopoly.

There is some controversy over the role of regulation in the economy. With all the government rules applying to the private sector, it is little wonder that part of the reforms to the public sector in recent years has been to improve regulatory arrangements. There is a widespread feeling that there is too much regulation and that regulations have become too intrusive, there as stifling business and indirectly affecting competitiveness. Changes to regulation and the regulatory system are part of the managerial agenda. Much economic regulation, that is, regulation explicitly intended to affect entry, supply or pricing decisions in the private sector, has already been eliminated or revised in a number of countries.

Which function to use?

There is no simple answer as to which instrument of government policy is preferable. Different instruments have been invoked by particular theories and at different times. Countries without a history of government provision, notably the United States, do have a long history of government regulation. Depending on how tight regulation is in practice, a government could be almost as intrusive as if it was providing the good or service itself. Also, the instruments of public policy need not be mutually exclusive. Combinations are possible, with the precise mix varying between various nations.

However, there is reason to suggest a major change is currently taking place in the preferred instrument of government. In recent years, there has been a shift away from government provision with budget cutbacks being quite general. There is an expectation that further cuts will ensue and there is unlikely to be any serious expansion of government provision. There is also a difference in the way that government services are provided, with this occurring less often through the public service and more often through the private or voluntary sector, through contracts. The shift to contracts should not be seen as a reduction in provision. Rather it is a change from delivery by the public service to delivery by the private sector of a government service.

There is also a major shift away from public production of goods and services through privatization (Chapter 5). As an instrument of government policy the idea of production certainly lost favour in the 1980s and widespread privatization followed. Yet there has been an increase in public regulation, with a shift in its character from the restrictive role of regulation, which was often anti-competitive, towards pro-competitive regulation to force the private sector to be more efficient through competition.

Phases of government intervention

'What should governments do?' forms perhaps the oldest continuous debate in political philosophy, even if the debate over the economic role of government is more recent. The extent of government involvement is, in many ways, the most fundamental of ideological divisions. A continuum can be visualized between those on the far Right, who, other things being equal, favour the absolute minimum of government involvement; and the far Left, who favour total government involvement in the economy (Downs, 1957). The Right argues that individuals should be left to make economic decisions for themselves, while the Left believes that only collective action and ownership or intervention by the state can solve the social problems and inequalities thought to be inherent in capitalism. It is generally the case that leftist regimes have favoured greater government involvement in production while rightist regimes have favoured less.

Political debate usually takes place some distance from each end of the continuum; however, at different times in Western societies over the past two centuries, the pendulum of state involvement has oscillated between different points on it. During that time period there have been several main phases of government involvement in society.

The laissez-faire *society*

For present purposes, the late eighteenth century is a reasonable starting point for discussing the role of government in mixed economies. This was the final stage of mercantilism, a time in which governments were intimately involved in the minutiae of the economy. Regulations were especially directed at developing the wealth and power of the nation by restricting external trade, but they also entailed internal regulations addressed to national purposes. The general aim was to use government to further the economic ends of the nation, but by a set of *ad hoc* decisions rather than a clear, consistent programme. The mercantilist's role for government was large and intrusive; in other words, the political part of society was to dominate the economic.

As a reaction against this kind of society, Adam Smith wrote *The Wealth of Nations* in 1776, in which he argued, in addition to advocating free trade among nations, for a greatly reduced role for government. According to Smith (1976, pp. 208–9), the 'duties of the sovereign' – in other words, the role of government – were as follows:

> First, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.

There are several key ideas here about the role of the public sector, including the beginnings of the theory of public goods.

Smith certainly envisaged a smaller role for government than that in place at the time. The first duty – that of defence – has always been a government role, even the main reason why governments exist at all. The second duty – to provide a system of laws – has two main aspects. It is an extension of the defence role within the country; a society needs to protect itself from those unwilling to abide by its rules. It also has a market role. The free market system Smith advocated needs a system of laws to enforce contracts and to safeguard property. The third duty is rather more complex. There are certain goods government can provide for the benefit of society as a whole, but for which it is difficult to devise any way of making the direct beneficiaries pay, such as roads or bridges. These goods, later called 'public goods', are best provided by government. It is not easy to specify exactly which activities fall within the third point, but much of what we would now call 'infrastructure' was clearly meant to be included, in Smith's view, as was education of at least a basic kind.

Other than these rather minimal functions, the desirable role for government in Smith's view was to simply stay out of economic life as far as possible. Market processes would, by themselves, lead to better overall outcomes than those which could be achieved by government. The basis for this theory is the reverse of mercantilism. Politics and government institutions were simply less important than the drive to self-betterment through the economic system. Government should be simply the facilitator for the market and should step in reluctantly and only as a last resort. The importance of Smith is that his views have enjoyed substantial continuity to the present day. The neo-classical or libertarian economists of the late twentieth century (Friedman and Friedman, 1980) certainly saw Smith as the key influence on their ideas.

The rise of the welfare state

In the nineteenth century, especially in Britain, there was a serious attempt to establish the kind of minimal state advocated by Smith and his followers. However, although overall living standards greatly increased in Victorian Britain, there were unfortunate side-effects, including the exploitation of child labour, inadequate housing and poor public health. It was in part as a reaction to the excesses of *laissez-faire* capitalism that Marx and others argued in the mid-nineteenth century that there were contradictions within capitalism which led irrevocably to the exploitation of workers. Towards the end of the nineteenth century what later became known as 'the welfare state' arose to alleviate some of the worst excesses of capitalism by re-establishing the state's responsibility for the well-being of its citizens.

The welfare state is usually considered to have begun in Germany in the 1880s when Chancellor Otto von Bismarck, although an arch-conservative, saw some electoral advantage in expanding welfare. The main impetus in Germany was to counter the danger to the political and social order from a socialist workers' movement which was regarded by some contemporaries as a revolutionary threat (Ritter, 1983, p. 131). Bismarck said, 'Whoever has a pension to look forward to in his old age is much more contented and more easily taken care of than the man who has no prospect of any.' On another occasion, he remarked that such pensions would teach ‘even the common man’ to look upon ‘the Empire as a benevolent institution’ (Ritter, 1983, pp. 33–4).

There were undoubted electoral advantages in adopting such programmes, with their adoption perhaps related to the extension of the franchise. The promise and delivery of services to the public became a major part of party competition and, from the 1930s, the economic theories of Keynes appeared to allow a major role for government in stabilizing the economy and ameliorating social ills.

Many European countries had substantial welfare programmes by the turn of the twentieth century. But, due to the greater persistence of *laissez-faire* thought, the first programmes in the United Kingdom were only adopted just prior to World War I, and in the United States not until the Roosevelt years of the 1930s. This period and the immediate post-war period were the high points of what the Friedman and Friedman (1980) call ‘Fabian socialism and New Deal liberalism’. In the United Kingdom and Europe, but not the United States, there was also a related programme of industrial nationalization in order that the commanding heights of the economy should be kept in public hands. In the period after World War II, most European countries adopted ever more elaborate welfare programmes to safeguard their citizens ‘from the cradle to the grave’. They provided generous unemployment benefits, universal health schemes, educational assistance and social aid programmes aimed at the disadvantaged.

Ordinary members of society do gain benefits from welfare programmes. In response to electoral pressure, Western governments have provided greater opportunities in education at all levels, health care, and income support for retirement or for the unemployed, all of which meant a steady increase in the size and scope of governments at least until the 1970s or early 1980s. However, the welfare state was never uncontroversial. It was an attempt to reassert the political over the economic, and was therefore diametrically opposed to the *laissez-faire* system. There were three problems. First, there was an aggregate problem of financing as the welfare state ‘increasingly brought countries face-to-face with the issue of affordability’ (Holmes and Shand, 1995, p. 559). Someone had to find the money to pay for welfare programmes, which, in the end, must derive from taxes on the wealth generated by the economic system. Secondly, and related to the first point, a political programme of this kind relies on broad-based political support, which in the later 1970s and 1980s was no longer given as freely as it once was. The Reagan and Thatcher governments have now gone, but they did tap some resentment in the community about the size and scope of government and concomitant levels of taxation in the welfare state period. Thirdly, the economic and political theories behind the welfare state became less fashionable. Within the economics profession, the neoclassical school came to enjoy a new ascendancy and provoked a reaction against the welfare state. Neoclassicists advocated a return to a more dynamic economic society based once again on the ideas of Adam Smith.

Neoclassicism

Since the mid-1970s there has been a movement away from the larger, implicitly collectivist role of government which had been present for most of the century. Although the extent of change does vary between countries, there certainly was a 'turning of the tide' (Friedman and Friedman, 1980). Within the ranks of governments, among policy advisers, and in key parts of the bureaucracy, there is now a dominance of neoclassical economics and what is sometimes called economic rationalism. There are four aspects to this theory:

- *The assumption of individual rationality* Individuals can be assumed to prefer more of something rather than less and will act rationally in pursuit of goals, at least in the aggregate. Individuals are assumed to be the best judges of their own (economic) interests. They should be given as much freedom as possible to develop their own strategies for achieving them. They are capable of deciding how much of any particular good or service they want, and how much they are prepared to pay for it.
- *The elaboration of models from this assumption* From the first assumption, quite elaborate empirical models can be constructed, especially by using techniques developed in rational choice and/or game theory. The application to politics is also called public choice theory.
- *A maximum role for market forces* Economic rationalism includes the view, derived from models, that private markets are both efficient and self-regulating. Services or goods able to be provided by markets, should be.
- *A minimum role for government* Government interference with the self-regulating mechanism of the market will be inherently inefficient. It should, therefore, be minimized. This is the obvious corollary to providing for a maximum role for market forces.

Such views captured the economics profession from the mid-1970s and, soon afterwards, governments and the bureaucracy as well. The election of the Thatcher government in Britain in 1979 and the Reagan government in the United States in 1980 saw attempts to introduce many 'small government' policies. This was followed by other countries.

Government makes a comeback?

It could be argued that the election of the Clinton administration in the United States in 1992 signalled a return to governmentalism after twelve years of anti-governmentalism, or that Major or Blair in Britain were less extremist and confrontationist than was Thatcher. However, the general attitude to reducing government and curbing the power of the bureaucracy seems more entrenched than political changes would suggest. It is also notable that Leftist parties in government in France, New Zealand and Australia have been just as eager to reduce government as were Reagan and Thatcher. It seems most probable that neo-classicism is so well established in the economics profession, and in what remains of the bureaucracy, that it is unlikely that large-scale welfarism will return in the short term.

However, there are some indications of a return to government. Following the terrorist attack on the World Trade Centre in New York in 2001, approval of government institutions rose to high levels. Shortly after that the collapse of large businesses in the United States, notably the energy company Enron, led to calls for more government involvement to keep the private sector honest. There may be some turning towards government or at least some re-establishment of the very worth of government in the eyes of citizens.

Within the public sector, however, such changes in sentiment are most unlikely to see a return to large-scale bureaucratic solutions to problems, even as government itself makes a comeback. Following some experimentation with a minimalist state, it did appear by the late 1990s that a new age of pragmatism about the role of government was emerging. Rather than the best government being one that was reduced to the barest minimum, government was seen as an important and powerful institution which could facilitate the role of the private sector instead of being its axiomatic competitor.

The role of government has waxed and waned over the past 250 years in Western societies. Change in the role of government, really a conflict of theories about government, remains important today. The method of government involvement has also varied. In the mercantilist era, the main instrument used was government regulation, as budgets were very small and there was little government production. The era of the welfare state relied heavily on government provision of goods and services through higher general taxation and redistribution of resources to the poorer sections of society. Government production was relatively high in some countries, such as the post-war United Kingdom, when it was believed that, through nationalization, there would be benefits from government ownership of major industries such as steel, coal and utilities. While there are adherents to the different ideological perspectives that have historical antecedents, one sign of a new pragmatism is that there seems to be less heat generated in the debate over the economic role of government than in recent decades. There is currently little argument in favour of further extending the reach of the public sector, but neither is there now much ideological argument in favour of further widespread cuts.

Basic functions of government

There are some things government should or should not do, some that it does well and some that it does badly. Even during the time of *laissez-faire* economics, there was some role for government. The most fervent market economist today still sees some use for government even beyond Adam Smith's three roles for the sovereign mentioned earlier.

In its 1997 report on development, the World Bank argued that there were five fundamental tasks which 'lie at the core of every government's mission' (1997, p. 42). These were: (i) establishing a foundation of law; (ii) maintaining a non-distortionary policy environment, including macroeconomic stability; (iii) investing in basic social services and infrastructure; (iv) protecting the vulnerable and (v) protecting the environment. These roles are not necessarily those of a minimal state, but rather are necessary for markets to work in what is an appreciation of the positive role of government as opposed to the simplistic idea of the 1970s and 1980s that government needed to be simply minimized.

Another relatively pragmatic set of government roles is set out by Anderson (1989, pp. 19–22), who sees seven basic functions of government, which he claims are general roles. Some of these are examples of market failure, but he sees a wider role for government, as the following shows:

- *Providing economic infrastructure* Governments provide the basic institutions, rules and arrangements necessary for the satisfactory operation of a modern capitalist system. These include the definition and protection of property rights, the enforcement of contracts, the provision of a standard currency, weights and measures, corporate charters, bankruptcy, patents, copyright, the maintenance of law and order and the tariff system. Modern economic societies are political ones as well; it would not be possible for the economic system to operate without the rules of the game and the framework for economic life being provided by the political system. Contracts are legally binding because of the laws established by the state and backed, in the last resort, by state sanctions.
- *Provision of various collective goods and services* There are some public goods which, while valuable to the whole society, are difficult for individuals to pay for according to the amount of good used. Once provided for one, they are available for all. These include such items as national defence, roads and bridges, aids to navigation, flood control, sewage disposal, traffic control systems and other infrastructure. Many are characterized by their broad use, indivisibility and non-excludability and are, therefore, public goods.
- *The resolution and adjustment of group conflicts* A basic reason for the existence of government is the need to resolve or ameliorate conflict in a society in pursuance of justice, order and stability. This may include actions to protect the economically weak against the economically strong. Government may seek to replace exploitation with equity through child labour laws, minimum wage legislation, or workers' compensation programmes.
- *The maintenance of competition* Competition does not always maintain itself in the private sector and government action is often required to ensure that businesses do compete. Without government monitoring, the benefits

of the free enterprise system would not necessarily appear. In the absence of suitable regulation, companies would be able to form cartels, restrict access to their products and fix prices.

- *Protection of natural resources* Competitive forces cannot be relied on to prevent the wasteful use of natural resources, to protect against degradation of the natural environment, or to care for the interests of future generations. Damage to the environment from market activity is the textbook example of externality and market failure. Only government can alleviate environmental damage.
- *Minimum access by individuals to the goods and services of the economy* The operation of the market sometimes produces results that are cruel or socially unacceptable – poverty, unemployment, malnutrition – in their impact on people. Others because of illness, old age, illiteracy, or whatever, may simply exist outside the market economy. There is often disagreement over the level of assistance, the aggregate cost and particular programmes which may have some social costs.
- *Stabilization of the economy* There have always been fluctuations in the business cycle of the economy where boom conditions are followed by recessions. Government action may be able to alleviate these through the budget, or monetary policy or control over wages or prices. Although government action is often imperfect and sometimes wrong, the community regards the government as being responsible for the state of the economy and there is a public expectation that governments should act to try to solve any problem.

Anderson argues the functions outlined here are quite universal (1989, pp. 22–3) and they are, in fact, a fairly standard set of government functions applicable to most countries. Some are market failures – the provision of public goods, environmental damage – but others are not. Rather than reflecting any particular theory, the list reflects how things are. What is missing, however, is exactly how the government is to act in a given case. Even if government is justifiably concerned with for example, water supply for public health reasons this does not necessarily mean it should be the sole producer. It could allow private production with government regulation. The precise instrument to be used and the design of public policy are not trivial matters even where intervention is justified.

The size of government debate

Beginning in the mid-1970s, there was a major debate over the size and growth of government with fears expressed that government would go bankrupt (Rose and Peters, 1978). The proportion of government spending seemed to be on an ever-increasing path. It was not unusual, particularly in Europe, for the government budgets of some countries to exceed 50 per cent of GDP. In such circumstances, there were real fears that the private sector would be marginalized. Size alone was seen as a problem rather than what government actually did. However, as the public management reforms took hold, governments were able to stabilize the level of spending and, in many cases, to reduce it, although demographic effects such as the ageing of the population meant increases in some areas.

Although the size of government does vary, the concern over its scale and efficiency led to some questioning of the effects of governmental size on the economy as a whole. In its most extreme forms, it was argued that countries with high levels of government activity and/or high rates of increase in the levels of government activity would have lower growth rates. Although there are still legitimate arguments about the proper size of government, the stridency of a few years ago has seemingly diminished. There are two reasons for this. First, the size of government in OECD countries has stabilized and, in many instances, reduced. Second, and most important, there is a sense that the debate has moved on to focus on the role of government; on the activities in which government should or should not involve itself. Size, by itself, is far less important than what government does.

There is no optimal level for the size of government or of what governments do. There are only individual perspectives. Some people will feel their freedom threatened even by a relatively small government. Others may be willing to give up more personal freedom if this makes their material circumstances more tolerable. Even when government spending is high, there are those who benefit. The very high government spending in Sweden, for example, is not necessarily wasted. It goes on social services, on assisting the disadvantaged, education, health and child care of very high standard. For generations its citizens were willing to trade-off high taxes for high levels of government-provided services, but even there the levels of spending became economically unsustainable in the 1990s.

The most common measure of government size is to look at the total amount of government outlays as a percentage of the total economy. Contrary to some expectations that government growth would simply continue, OECD countries have generally controlled expenditure in recent years. There was a steady increase in public sector outlays and receipts as a proportion of GDP in the post-war period, but from the mid-1980s the proportion of government outlays has stabilized in most countries and since then has started to decline.

Table 4.1 shows that some control over spending has been regained, with general government total outlays having declined in the more recent years shown. With the exception of Japan, which has tried to improve its recessed economy with government spending, other countries and the OECD as a whole demonstrate lower spending than at the high points. Table 4.1 shows the trend over time is to stability and even reduction.

Using total outlays ignores the fact that actual government consumption is even less than this. When transfer payments are taken out, because they are finally spent by someone other than government, the size of government is

TABLE 4.1 *General government total outlays as percentage of GDP*

	1980	1984	1988	1992	1996	2000
Australia	31.4	35.4	33.4	36.4	34.9	32.6
USA	31.4	33.1	32.9	34.8	32.4	29.9
Germany	47.9	46.1	44.9	45.0	47.3	43.3
UK	43.0	45.1	38.1	43.0	40.7	37.0
Japan	32.0	32.3	29.4	31.0	34.9	36.6
OECD	36.5	38.9	36.7	39.5	39.0	36.6

Source: *OECD Economic Outlook*, 61 (1997), p. A31, and 70 (2001), p. 230.

TABLE 4.2 *Government spending – selected OECD countries*

	Current disbursements		Current receipts		Expenditure on goods and services		Transfers	
	1994	1998	1994	1998	1994	1998	1994	1998
Australia	36.2	32.0	34.2	33.3	17.5	18.2	18.7	13.8
Canada	46.7	42.4	42.4	43.4	20.2	20.0	24.5	22.4
France	50.9	48.6	46.4	47.4	19.6	23.6	31.3	25.3
Germany	46.1	44.8	46.4	43.8	17.7	19.0	28.4	25.8
Italy	51.0	45.7	45.0	44.7	17.1	18.1	33.9	27.6
Japan	27.0	30.0	32.2	31.6	9.8	10.1	17.2	19.9
Sweden	66.4	56.7	57.4	58.1	27.3	26.1	39.1	30.6
United Kingdom	42.3	45.8	37.3	46.5	16.4	18.2	25.9	27.3
United States	35.8	33.9	31.7	32.4	16.4	15.2	19.4	18.7

Source: OECD, *Economic Surveys, Germany* (Paris: OECD, 2001).

much less. Table 4.2 shows there is a marked variation in spending levels between different countries in the OECD.

The first column in Table 4.2 – current disbursements – sets out current budget sector (general government) outlays. Of the countries shown here, the lowest is Japan with 27.0 per cent of GDP in outlays in 1994, compared to Sweden with 66.4 per cent. The column setting out current receipts provides a comparison of taxation levels, ranging from the United States at 31.7 per cent to Sweden with 57.4 per cent of GDP. The third column, expenditure on goods and services, is how much the government consumes, that is, actually spends itself rather than passing money to someone else to finally spend. Except for the extremes of Japan and Sweden, government expenditure on goods and services varies less between countries than the other figures. The main reason for the marked differences in total outlays is the wide variation in the amount of transfers.

In more recent years, the rate of increase in social security payments has declined, as has the worry that welfare spending would increase inexorably beyond a country's ability to pay. Indeed, the same could be said of the size question in general. Looking at government growth trends in the 1970s, it was easy to extrapolate a future in which the size of government would overwhelm the society as a whole. This has not occurred as the public sector reform process has made it easier to control spending. The debate over the role and size of government is now at an interesting stage. Minimal government might still be too much for some people, but it does seem that the moves to reduce government have worked. The seemingly inexorable increase in spending in the 1960s and 1970s was able to be halted and turned back to a degree.

Conclusion

The public sector reform process has seen an array of changes, including quite unprecedented cut-backs in expenditure, the drive for efficiency, and various forms of privatization. Some questioning of the role of the public sector is healthy in a democratic society; however, government has a positive role to play in the community and it is one which has developed over a long period of time in response to the political wishes of the electorate.

The question of size needs to become a question of what government does. There simply is no independent, objective way to establish the ideal size of government, or decide which activities should be located in the public sector. The public sector in a society is a construct of its citizens. As Saunders and Klau point out, 'the public sectors of OECD countries have developed in response to many social, political and historical factors' (1985, p. 21).

What has occurred is a more pragmatic view of the role and size of government. There is fairly general agreement that government is not very good at running companies selling private goods, but that the private sector is not very good at running the welfare sector. An OECD paper argued that 'What *is* changing is the role of government, with the government becoming less of a producer and more of an enabler' and that there is 'a better appreciation of the limits of government power to achieve outcomes without broad-based citizen support and/or in opposition to market forces'(1998, p. 61). This new role for government tries to draw on the strengths of both sectors in the economy.

Public managers need to understand their place in the overall system of government and in relation to theories about the desirable scope of government. Public management now means not only organizing to gain results in a programme area, but responding to attacks from outside over the very existence of the programme, or even the public sector in general. Those working in the public sector need to have, therefore, some sense of their place in the system, some idea of the history of the public sector and some knowledge of the arguments made by those who wish to cut the role of government even further.

5

Public Enterprise

Introduction

Public enterprise was for a long time an important part of the public sector in most developed or developing countries (Farazmand, 1996), but, with privatization, the size and importance of the sector is declining. It now seems in some danger of disappearing altogether as countries have rapidly moved away from government production through public enterprise. There are two reasons for looking at public enterprise as part of public sector management. First, the sector is particularly important for arguments about the scope of government activity and the debate and outcome of privatization of public enterprise has implications for the public sector as a whole. Secondly, public enterprises pose particular management problems even compared to the rest of the public sector, most noticeably the control and accountability of government organizations aiming to make money.

Public enterprises were the first target of those aiming to reduce the size of the public sector in the 1980s. Even though major public enterprises such as the post office still exist in many Western countries, including the United States, there seems little doubt that the idea of government-owned organizations selling goods and services to the public has passed its heyday. Although the public enterprise sector was large in many countries its activities formed only a minor part of political discourse. Starting in the early 1980s it became a focus of political controversy, with its very existence in question. One of the key, and quite unresolvable, political questions concerns the allowable limit of government activity. Matters of ideology about the overall role of government became bound up with the ownership of public enterprise. As public enterprises operated at the boundary of public and private sectors in mixed economies, arguments about them were often about the desirable role of government itself. The answer in the debate was overwhelming, in developed and developing countries alike, that governments should dispose of their public enterprises: and they did. The most significant of the early programmes of privatization was in the United Kingdom. Between 1979 and 1993 nationalized industries in that country fell from 11 per cent of GDP to 2 per cent, and from 1.8 million employees in 1980 it fell to less than 400 000 in 1994 (Kamarck, 2000, p. 240). The privatization movement then spread to other countries, to the extent that, from the early 1980s to 1993, more than 7000 enterprises had been privatized (Farazmand, 1996, p. 18).

Public enterprises always had particular management problems, including accountability, regulation, social and industrial policies, investment policy, and financial controls. Of all these, control and accountability are particular problems for public enterprises, which are deliberately set up to be relatively independent of direct political control. Setting control at a satisfactory level has been a perennial problem both for governments and their enterprises. If control is too tight, there is no advantage in having them set up as entities with a significant degree of independence. If government control is too loose, an enterprise may not be accountable to its owners, the public, raising a question as to why it is in government hands at all. Indeed, one of the arguments for privatization is that public enterprises cannot be effectively controlled and their accountability is inherently inferior to that of private companies.

Public enterprises are a noteworthy part of the public sector. They may shrink so far as to become nothing more than an interesting diversion in the history of governmental institutions. They may, though much less likely, gain a new lease of life. Perhaps all activities that can be carried out by the private sector, should be. Even with widespread privatization, public enterprise is still an important part of the public sector in many countries and many of the arguments about reducing public enterprise also apply to the public sector in general.

Reasons for establishing public enterprise

Governments have established public enterprises for a variety of reasons. These can include: inadequate private supply of goods and services; rescuing private firms if their closure is against the public interest; improving competition; reducing social costs such as environmental externalities; even to protect national sovereignty in some way. Hood notes that the Japanese tobacco and salt monopolies were established to pay for the war with Russia in 1905 and that mail services were set up as government monopolies to facilitate spying on correspondence (Hood, 1994, p. 37). Renault was nationalized by the French government after World War II because of wartime collaboration by its then owners. Some developing countries prefer having public enterprise to having foreign ownership of important services. Farazmand argues recognizable public enterprises existed as long ago as the Persian Empire, in the fourth and fifth centuries BC and these were established partly for national prestige purposes (1996, pp. 2–3). There are many other reasons; indeed, so many, that government ownership is the only point in common.

Rees (1984, p. 2) argues that there are four reasons for the existence of public enterprise:

- To ‘correct’ market failure.
- To alter the structure of pay-offs in an economy.

- To facilitate centralized long-term economic planning.
- To change the nature of the economy, from capitalist to socialist.

The first point refers to services, which are desired, but will not be adequately provided by the market. Market failure can occur for reasons of natural monopoly, restriction of competition in some other way, externalities or spill-over effects on others and where the goods produced are to some degree public goods (Chapter 4). To have these industries in public hands may be 'a way of retaining the cost advantage of a sole seller while preventing the resource misallocation which would result from a profit-seeking monopoly' (Rees, 1984, p. 3).

The second point – the structure of pay-offs – means altering the benefits received by particular individuals or groups. Beneficiaries could include the employees, consumers or government. One way of altering pay-offs is the extensive cross-subsidization prevalent in public enterprise pricing. Rural electricity users may receive services at uneconomical rates, while other consumers are charged more than the cost to provide that service. If rural electricity services were provided privately, consumers would either pay more, or the company might decide that providing the service was simply too expensive. Also, some critics argue that government ownership leads to 'featherbedding', providing terms and conditions for employees above those which could be obtained elsewhere, including the employment of more staff than may be needed. In other words the pay-offs are being directed to the enterprise's own employees.

The third point – centralized long-term planning – is a motivation used in some countries. Government ownership of electricity and rail in France enabled the provision of services ahead of demand as part of the planning process for the nation, especially in regard to the government's attempts to decentralize the economy. Related to this is a general developmental role of public enterprise, in particular the public utility sector. In some sparsely settled countries like Australia and Canada, utilities were established in government hands from the beginning, due to the inability of private providers to make an economic return. This was not market failure because of natural monopoly problems, but for developmental ones: that is, markets were not capable of providing the necessary infrastructure. No one other than the government had the resources to carry out the development of key services (Dwivedi, 1996). The choice was either to have the government provide services or for them not to be provided to consumers at all.

The fourth point – to change the economy from capitalist to socialist – has been a major factor in some countries. In the United Kingdom in the post-war period, railways, steel and coal were nationalized so that the commanding heights of the economy were in government hands. Public enterprise had been regarded as a form of 'soft' socialism, perhaps a transitionary stage on the way to full socialism. If important industries were in government hands as public enterprises, this would facilitate the transition to a socialist state.

In sum, there has been no single consistent governmental aim for using public enterprise. There have been a set of diverse reasons beyond mere profit-making. Public enterprises have always had objectives other than to make money. Of course, a government has the power to involve itself in any part of society, which must include creating its own enterprises.

Kinds of public enterprise

A public enterprise is a particular kind of statutory authority: one that sells goods and services to the public on a large scale, with the financial returns accruing in the first instance to the authority itself. Most public enterprises are in the non-budget sector, and operate with substantial independence. Public enterprises provide many services including, in some countries, utilities such as telecommunications, electricity, gas supplies, water and sewerage; transport, such as rail, airlines, shipping services and urban public transport; financial services, notably banks and insurance companies; and agricultural marketing. Some countries have government-owned oil companies, motor vehicle companies, tobacco and alcohol companies. Indeed, it is hard to imagine a particular product or service that has not been government-owned in at least one country at one time. The only point in common of all these is their government ownership. As they differ widely from each other, and face quite different environments, some kind of taxonomy needs to be developed.

Public utilities

Public utilities provide services – water, sewerage, electricity, gas, and telecommunications – considered essential for the economy as a whole. These are usually provided as services with connections to households from a network. This makes for two unusual features. First, the household connection means there is a real, or at least a tendency towards, 'natural monopoly'. Once a network is established, it becomes continually cheaper to add extra consumers. Competition is constrained, as the cost of providing service to a new customer for a new entrant to the industry, faced with the cost of establishing a network, should be higher than the rate that could be charged by the incumbent. For example, with wire-based technology, competition in the local telephone network or in electricity distribution would mean an extra set of cables being laid in each street and electricity poles on both sides of the road. Since the initial expense would be too great, a new entrant at this level is most unlikely and there is, therefore, a tendency to monopoly provision.

Secondly, the essential nature of public utilities means the services they supply are politically sensitive, with great disruption to the private economy and households resulting if supplies are interrupted. Water and sewerage connections are matters of public health as well as natural monopolies; modern life would seem intolerable without electricity or gas. A telecommunications network is similarly important, especially for business. All utilities are important, however. If the service provided by utilities is inadequate in some way, or priced 'unfairly', it can quickly become a political issue regardless of ownership of the industry.

As a result of political sensitivity and the tendency to natural monopoly, many governments historically have favoured outright ownership of public utilities. As will be seen later, various arguments exist against the concept of natural monopoly, and of governments owning utilities for this reason. Privatization has occurred in areas of natural monopoly and this is likely to continue. However, for political reasons, no government could totally dissociate itself from public utilities, although it could use instruments other than ownership. Even if utilities were sold to private enterprise, governments would be likely to maintain fairly tight control through regulation.

Land transport and postal service

Land transport encompasses the various public transport systems within and between cities and the postal service is still, almost everywhere, provided by government. At first glance these seem unlikely partners in taxonomy, but they do share some characteristics. Both are essential services like public utilities, but, unlike them, they face competition. This is usually competition from related industries, although direct competition can occur. In the United States, for example, the privately owned UPS and Federal Express compete with the US Post Office and have a greater share of the parcel market than does the public enterprise. The letter mail is an essential service, but, while ordinary letter delivery may have tendencies towards natural monopoly, it faces competition from direct mail, courier services, fax and electronic mail. The competition in public transport comes from private transport, such as freight competition from trucks, while public passenger trains and buses compete with private cars, airlines and private buses. Public transport services could be considered as much an essential service as the postal service and governments do find it politically difficult to cut any part of the public transport system.

Both public transport and postal services have a propensity for poor financial returns. This has led to a run-down in systems, as capital spending is delayed and unions fight to retain the working conditions of an earlier age. If prices are raised or services cut, governments face substantial political costs. Even if fewer citizens use public transport, they still seem to want the service continued and if changes are not made, continuing losses impose greater pressure on already tight budgets. Public transport seems unlikely to be particularly profitable, so that while private buyers have been found in such countries as Japan and Australia, there are continuing problems. Rail privatization in the United Kingdom has been controversial and the model of a separate company, Railtrack, running the track and making arrangements with separate operating companies has been fraught with problems.

Enterprises in competitive environments

These are government-owned trading enterprises which compete directly with private companies and in the same market. This category includes banks, insurance companies, airlines, oil companies, to name but a few. Not surprisingly, this form of public enterprise is the one most examined in any discussion of how to scale down the public sector. The list of public enterprises in competitive environments has been considerably reduced by privatization. The question is, if they are profitable and operate no differently from competitors, why should they be government-owned? On the other hand, if they are profitable and well managed, why shouldn't the government keep them and use the profits in some socially productive way? Governments have involved themselves with enterprises in competitive environments for many reasons: when a company failed in the marketplace; to stimulate competition; to maintain control of a strategic industry or for other reasons discussed earlier. However, the 1980s and 1990s saw clear expression around the world that this strategy was no longer in favour.

Regulatory authorities

This group is certainly part of the public enterprise sector according to the definition used. Such bodies are government-owned and controlled, and finance their activities by the sale of commodities. They exist in some countries by use of the government's legal powers, such as to compulsorily acquire commodities, particularly rural commodities for further sale, or to require the purchase of insurance for motor vehicles. The use of compulsory acquisition or compulsory purchase is what distinguishes this group of enterprises, as their main asset is the coercive power of government.

All the above categories show strong linkages between government ownership and government regulation. Regulation is an important characteristic of public enterprise. Public utilities may have a tendency to natural monopoly in most of their operations, but this was most often reinforced by a legislative monopoly as well. Part of the renewed political interest in public enterprise has been a re-assessment of the nature and effects of the regulatory environment.

The privatization debate

The fundamental questions about public enterprise are whether or not governments should be involved in enterprise at all, and the circumstances in which government ownership should be retained or discontinued. After the election of the Thatcher government in the United Kingdom in 1979, there was an intense debate over the question of privatization, and the 1980s saw an extensive and continuing programme of sale of public enterprises. The debate did not stop there and the apparent success of the United Kingdom programme was followed by other countries that saw privatization as a way of concentrating on core activities and a handy means of raising revenue. Privatization of public enterprise has become a worldwide movement with, first, developed countries and, secondly, developing countries selling all kinds of enterprises. International agencies like the World Bank and the International Monetary Fund encouraged privatization as a part of any programme of assistance.

The word 'privatization' can mean many things. As the name suggests, it can mean returning publicly owned assets to the private sector, usually 'where control of an activity is passed from the public sector to the private sector by means of an issue of shares' (Ohashi and Roth, 1980, p. xviii). This view is too narrow. It makes more sense to see privatization as the reduction of government involvement in general: as a reduction in production, but also a reduction in provision, subsidies or regulation, or indeed any combination of the four instruments. Steel and Heald (1984, p. 13) argue that privatization can be carried out through: charging; contracting-out; denationalization and load-shedding; or liberalization. An even broader view is that of Jackson and Price (1994, p. 5) who argue that the menu of activities which make up a definition of privatization includes: the sale of public assets; deregulation; opening up state monopolies to greater competition; contracting out; the private provision of public services; joint capital projects using public and private finance; and reducing subsidies or introducing user charges.

Most of the argument about public enterprise is about selling enterprises – reducing production by de-nationalization – but the other features are also crucial. There is often an interconnection between selling assets and reducing the regulatory environment. Liberalization, by means of reducing regulation, is a critical part of privatization, while contracting out and charging are occurring right across the public sector.

There are any number of reasons advanced for the privatization of public enterprise, ranging from budgetary considerations to management differences, accountability problems and notions of the 'correct' role of government. These reasons are examined below, although the problem of accountability is dealt with later.

The main arguments are: first, economic arguments; secondly, arguments about management and efficiency; and thirdly, ideological conceptions of what the role of government in society should be. These overlap to a great extent. Advocates see privatization of some functions now within government as benefiting the economy as a whole. Opponents argue that the retention of public enterprise will provide economic benefits to the whole society, particularly to the disadvantaged.

Economic arguments for privatization

Economic arguments for privatization include: reducing taxes by using the proceeds from sales; exposing activities to market forces and competition; and reducing both government spending and the government's share of the economic cake. In addition, there could be reductions in the Public Sector Borrowing Requirement (PSBR) locally and overseas. Arguments against include the problem of monopolies, in which new private monopolies could use their power to raise prices, cut services and make consumers worse off.

Stimulating competition is an attractive part of the privatization programme. In theory, competition provides powerful incentives to both produce and price efficiently. When faced with competition, public enterprises that do not operate in accordance with consumer demand, or who overprice their products, will lose custom. Any failure to match the performance of competitors will soon become apparent in the form of loss of market share and deteriorating financial performance. Effective competition in the markets served by public enterprises would also reduce the need for detailed, intrusive and costly government control and monitoring mechanisms.

If competition is seen as desirable, the different instruments of privatization need to be compared. Competition could be introduced by selling or deregulating to allow the entry of competitors. Selling assets only improves competition if an enterprise is already in a competitive environment; selling a monopoly with its regulation intact does nothing for competition. While a government might sell a public enterprise to improve competition, it is financially tempting to effectively sell the monopoly, as was done with a number of the United Kingdom privatizations. British Telecom was privatized in 1984 with its regulatory protection largely intact and without effective competition being established. Only one competitor – Mercury – was licensed and that only with a host of restrictions on its operations. Only much later did the government alter the regulatory environment to improve competition. Specific industry regulators were set up – Oftel for telecommunications, Ofgas for gas, Ofwat for water and so on – a model that was less effective than a single competition regulator would have been. As Wilks argues, the British system of utility regulation grew up in an 'almost unbelievable haphazard manner from 1982' as the Thatcher government prepared to privatize British Telecom and the British government 'stepped almost absent-mindedly through the door from an interventionist mixed economy to a regulated private sector economy' (Wilks, 1999, p. 15).

There is need to sequence reforms so that a public monopoly is not converted to a private monopoly (Kay and Thompson, 1986). And as Stiglitz argues (2001, p. 350):

> A regulatory structure can be created to ensure that some of the efficiency gains from privatization are shared by consumers and other users and that other social objectives, such as universal service, are enhanced. But the proposition that privatization can, in principle,

> increase the efficiency of the economy and achieve other social objectives should never be confused with the proposition that, in the absence of effective regulatory structures, privatization may do neither in practice.

Competition can provide benefits but the best way of introducing competition is to deregulate the industry, rather than necessarily sell assets, unless deregulation occurs at the same time as assets are sold. In this regard, the privatization of Australian Airlines was carried out in a better way than many of the privatizations in Britain. The Australian government would have received a higher price if it had sold the airline with the two-airline agreement restricting competition intact. By selling the airline *after* deregulation the beneficial effects of competition were encouraged, with fares being reduced for consumers and new players entering the market. In Britain there seemed to be little or no benefit to the ordinary consumer from changing public monopolies into private monopolies as was done in the first wave of privatization.

Preventing monopoly exploitation was once regarded as one of the main reasons in favour of public ownership of enterprises but this reason is now less significant. Advances in economic theory, particularly 'contestable market theory', suggest that monopolies are constrained from being predatory by the *potential* entry of competitors (Baumol, Panzar and Willig, 1982). They cannot charge too much above reasonable prices because a competitor might appear. If a monopolist is being constrained in this way, there is no need for government intervention. In addition, even where there are genuine monopoly problems, as in electricity and telecommunications, these may only occur in part of an enterprise's operations. Duplicating local telephone and electricity networks is so expensive that these may be instances of natural monopoly. But electricity generation is not a natural monopoly and neither is long-distance telecommunications, so rather than keeping the entire enterprise in public hands, it is argued that competitors should be allowed entry into those areas that can attract competition. Even where local networks are too expensive to duplicate, it is possible to franchise particular areas to private companies or to regulate so that the network owner must provide access to competitors. The overall result is that public enterprise may not be needed even for natural monopolies and even if a private monopoly is created, its potential for abuse of monopoly power may be no worse than the public monopoly it replaces.

This case is plausible but not incontrovertible. For a start, there are some heroic assumptions in contestable market theory. It only works when there are no 'sunk costs', that is, where a new investor will not lose money on plant and equipment if the investment is unsuccessful. Such occasions will be rare, so the potential for monopoly exploitation is not diminished. Having a private supplier of utilities on the American model – private ownership with strict government control over prices and services – provides no necessary efficiency advantage over public provision. In addition, franchising a local network is more difficult in practice than in theory. The successful bidder has clear advantages when the contract comes up for renewal, and the system would still require substantial government regulation. Political bargaining may become more important in deciding who wins a franchise than genuine 'arm's-length' contracts. Where the advocates of privatization have a point is that, if a genuine natural monopoly exists, it should not also need the protection of regulation. If someone wants to start up a private power station, or sell power as a by-product of industry, there should not be any government prohibition placed in their way.

According to another study of privatization in Britain, the biggest problems there have occurred over the privatization of utilities. Criticisms centred around the degree of regulation required after privatization (Vickers and Yarrow, 1988, p. 428):

> The problems of organization and control in utility industries such as telecommunications, gas, electricity, and water are amongst the most difficult in the field of microeconomic policy. Indeed, our view is that under public ownership there are conditions in which they become so acute that public ownership is to be preferred. When there are massive economies of scale and scope, high entry barriers, or externalities, private ownership performs poorly. The incentive and opportunity to exploit consumers threatens allocative efficiency, and the lack of competitive benchmarks leads to internal inefficiency and slack. The fact that public ownership is also far from perfect in these circumstances reflects the inherent difficulty of economic organization in such industries.

Privatization of utilities need not be ruled out, but there certainly should be far more care taken than would be required in privatizing other parts of the public enterprise sector. In the United Kingdom, privatization occurred throughout the public utility sector with greater problems in that area than in others.

While it is necessary to concede that the United Kingdom was the first country to set up a massive privatization programme, it was not necessarily an exemplar of the process. The main reason to privatize should be to improve economic efficiency, both narrowly within the organization and more widely to improve the functioning of the economy for those industries that rely on enterprise services. If this was the aim in the United Kingdom, the policy failed. If the aim was to maximize returns to the Treasury perhaps it has not been a failure, but consumers do not seem to be better off. Competition has been muted. The former enterprises remain a political problem because of political sensitivity. Gas and electricity companies were attacked for raising prices, increasing executive salaries and making high profits at the same time as large numbers of consumers were applying for assistance in paying their bills. The privatization of British Gas is cited as 'a textbook example of how not to privatize a state monopoly. The creation of a huge, arrogant, inefficient and exploitative private sector monopoly was a serious misjudgment on the part of a government committed to competition' (Wilks, 1999, p. 261).

Even after privatization governments cannot totally remove themselves from the public utility sector for several reasons. First, utilities remain a matter of political importance even when privatized. A utility is just that, something used by everyone: its price and conditions of supply are political matters. Secondly, by not establishing a competitive framework at the beginning, the government made it difficult for one to be set up later. Thirdly, although having a specific office to regulate an industry seems reasonable, the absence of effective competition means there must be conflict over price between the enterprise and the regulator, as well as potential 'capture' by the industry. The regulatory system has led to 'a perpetual system of ordered competition' in which regulation remains permanent and firms rely for their profits on the regulatory environment rather than competition (Burton, 1997, p. 184). For these various reasons, the United Kingdom is not a good example of how to privatize, particularly the privatization of public utilities. At the beginning of the programme, private monopolies replaced public monopolies and consumers did not greatly benefit; neither was there much benefit to industries that use these services as inputs.

As the programme extended there were some benefits, especially as the government became convinced of the need for competition. Bishop, Kay and Mayer argue that there were only modest benefits in a financial sense, but beneficial effects on information through greater transparency, and some weakening of government control, although 'the failure to establish appropriate industrial structures at the outset has been that periodic government intervention to restructure has been and will continue to be necessary' (Bishop, Kay and Mayer, 1994, p. 14).

A further economic argument for privatization has been to reduce cross-subsidies. This is where an enterprise varies its prices so that, within its overall functions, profitable activities subsidize unprofitable but desirable activities. Privatization is seen as a way of charging for services in accordance with their true costs. Cross-subsidies are now argued to be economically undesirable as true costs and inefficiencies can be hidden. They are an unspecific way of assisting those disadvantaged in some way or having particular political strengths. Other mechanisms are preferable, such as direct cash transfers to those to be given assistance, or by direct funding from the Budget. If the government desires the provision of specific services, it should provide the funds for the purpose.

Another economic argument for privatization of enterprises has been to reduce government borrowing. Reduction of the Public Sector Borrowing Requirement (PSBR) was an important element in the Thatcher government programme and is important for other governments as well. Governments and government enterprises must borrow for capital expenditure for long-term assets such as power stations. The economic cost of this borrowing is one rationale for privatization.

Financial markets generally prefer a low PSBR. Reducing the PSBR is supposed to lower interest rates and thus help the economy. While superficially attractive, the idea has certain flaws. To start with, 'crowding-out' of investment, where interest rates rise because government borrowing is high, is based on the assumption that government spending or borrowing is inherently wasteful, and private spending productive. This can be specious: what is more important is the purpose of the borrowing.

There are economic arguments for privatization. The most powerful is the beneficial effect of competition. If privatization does not result in greater competition, there are unlikely to be major benefits.

Managerial efficiency and privatization

The efficiency argument for privatization claims that private management is inherently superior to public management. There are argued to be theoretical or practical influences on public enterprise management that lead to inferior performance. Managements of private and public sector organizations do operate in quite different environments and often have quite different objectives. There are theoretical differences between them in the structure of incentives available to management, and, because public enterprises operate in a political environment, management there may be said to be less straightforward. Perhaps public service conditions are not conducive to excellence. But the managerial argument is more than this: it is that public management is *inherently* inferior. The private sector is assumed to have a time-tested set of incentives and accountabilities in place, and as these are not present in the public sector, there must be inefficiency. The only problem with this view is that evidence is hard to find, and far from persuasive when it is found.

Systematic evidence on the relative efficiency of public and private production is extremely limited and 'universal generalizations are drawn on the basis of a few empirical studies and impressionistic examples' (Heald, 1983, p. 308). For small-scale operations there is some evidence that private provision is more efficient. For example, a comparison of private and public refuse collection shows that private contractors tend to be cheaper than public ones (Savas, 1982). At such a local level, there may be a case for greater use of contracting-out in areas like refuse collection or road construction. In fact, governments of all persuasions are increasingly using contractors, and this trend will continue. It is, however, only a minimal form of privatization. It is still a government service or asset, and the only saving is the difference between contractors and government day labour, which varies according to the activity itself. Often the ease of gaining data at the lower level means that studies about refuse collection are used to substantiate the general case for private provision over public. But it is a far cry from this to the level of large enterprises.

Millward and Parker studied available evidence on public and private enterprise efficiency in numerous countries and industries and concluded that there was no systematic evidence that public enterprises are less cost-effective than private firms (1983, p. 258). Also, according to Vickers and Yarrow (1988, p. 40), for all the *theoretical* benefits of private ownership, evidence is rather mixed, and 'the evidence does not establish the clear-cut superiority of private ownership in respect of cost efficiency'.

The absence of systematic differences is surprising. Perhaps the proponents of privatization make the mistake of comparing actual public sector management practices with an idealized private management world. In this ideal, management is controlled by, and is accountable to, its shareholders; workers feel part of their enterprise; the share price reflects the value of the company; and the final sanction for poor management is the threat of takeover. In some cases, these views may be realistic, but private managers are often averse to taking risks, treat their shareholders with contempt, and takeovers may be concerned with making paper profits rather than improving management. The available evidence seems to suggest no measurable difference between the two sectors. The differences that do exist are more related to the regulatory environment than to ownership and some parts of the public enterprise sector may have greater inefficiencies than others. It seems evident that public firms in competitive industries can be as efficient as private firms. Reviewing the evidence available on Canadian Railways – where there is also a public and private carrier in competition – and Australian airlines, Kay and Thompson argue that because of the regulatory regimes imposed by governments, there is very little difference in their performance. They add 'no simple generalisation about superiority of private sector performance can be sustained' (1986, pp. 24–5). It is most likely that inefficiency in the whole airline industry as the result of regulation – originally imposed to protect the private carrier in Australia – overwhelms any difference in efficiency as the result of ownership.

Against this is the abysmal performance of public enterprise in the former Eastern Bloc nations and the haste with which former public enterprises were privatized. Even if good economic evidence of relative public enterprise inefficiency is hard to find, perhaps in the end ownership does matter. This point will be examined later.

Ideological arguments

Wiltshire (1986, p. 358) mentions the 'ideological fervour which has driven British experience to the point where New Right forces want to produce a fundamental irreversible redistribution of power and voting intention'. Privatization is part of the more general debate about the respective merits of market and non-market systems of resource allocation. Ideological considerations are certainly important for the privatization debate. On one side there are those who argue that privatization affirms the limited role of government and the superiority of private enterprise. On the other side some opponents of privatization are equally ideological. Public enterprise is seen as bringing closer a fairer, even socialist, society. This group, therefore, fervently opposes all privatization.

There is no doubt that in the early Thatcher government privatization was largely driven by ideology, assisted by pro-market think-tanks and changes in economic ideology. The ideological fervour faded somewhat, even before the Conservative government lost office. The Labour Party's return to power in 1997 did not bring an end to the use of privatization as a policy tool, and neither was there any serious suggestion to go back to nationalization. Privatization, in its various forms, was viewed pragmatically, as a set of devices that offered possible solutions to some public management problems.

If there has been an ideological debate over privatization, it has certainly been won by those favouring privatization, judging by the policy outcome. However, it is not so much that the debate was won but that the counter debate was either not made or made weakly. In any case, pragmatic rather than ideological arguments seem to have held sway. Even in Britain, where the ideological debate was supposed to be most fervent, the most cogent reason for the continuing privatization programme was the pragmatic one of raising revenue rather than changing the shape of society.

Looking again at the different kinds of public enterprise, it is clear that economic benefits would only be certain to arise from selling enterprises in competitive environments. For the other kinds, notably utilities, the economic benefits would be greatest by encouraging competition through deregulation with change in ownership being less important. Vickers and Yarrow (1988, p. 3) argue that 'the degree of product market competition and the effectiveness of regulatory policy have rather larger effects on performance than ownership *per se*'. Even there, though, the benefits may not be large. There would seem to be little advantage in privatizing loss-making areas such as railways, although there may be some attraction in simply getting rid of these kinds of enterprises.

The debate has now been won by those in favour of privatization. This has happened even though the economic arguments for privatization are less than overwhelming; there is no incontrovertible evidence supporting the superior efficiency of private sector provision (although there is a similar lack of evidence of any public sector superiority); and the ideological arguments are unconvincing. The arguments and evidence for privatization were not strong. But, in the final analysis, there was no serious and sustainable argument from those in favour of *retaining* public enterprises, other than the rather weak ones of history and the role once seen in them as advancing the cause of socialism. Public enterprises had lost supporters and support. There now seems to be fairly general agreement that running public enterprises is no longer part of the core business of government.

Control and accountability

Once any organization is in government hands, there must be questions about its accountability. In theory (see Chapter 13), all parts of government are accountable to the political leadership and finally to the people. The question of accountability was once the major concern in public administration studies of public enterprises and statutory authorities, with any concern about ownership coming much later. Although the main question now is certainly that of privatization, the concern with accountability remains important.

According to Aharoni, public enterprise inefficiency is not necessarily the result of ownership; their abysmal record 'has been the result of the structure of their control and processes of their management, including their relations with the government' (1986, p. 407). That accountability is a fundamental problem can be seen from the three distinguishing characteristics of public enterprises: 'First … they must be owned by the government. Second … [they] must be engaged in the production of goods and service for sale … Third, sales revenues … should bear some relationship to cost' (Aharoni, 1986, p. 6). These characteristics can lead to confusion in accountability. Public enterprises are organizations designed to be a part of the government sector, but also to operate commercially. They operate commercially but have no shareholders; they are government-owned but are usually not funded by government. They have their own management and boards of directors, but are also responsible to a minister. A public enterprise is often required to meet other objectives, rather than simply trying to maximize profit like a private company.

The theory of principal and agent outlined earlier (Chapter 1) suggests that accountability problems are inherently worse in the public sector and in public enterprise in particular. This means that poor accountability is a justification for privatization in addition to the economic rationale set out earlier. According to Zeckhauser and Horn (1989, p. 35):

> The separation of ownership and control in any enterprise creates an agency problem. In private corporations, the shareholders' ability to sell their stock or vote out management creates incentives for those who control the enterprise to serve the interests of owners. The very diffuse, non-transferable shareholding that characterises government ownership, by contrast, reduces these incentives. Consequently, those who control the public enterprise pay less attention to the interests of their taxpayer shareholders, and groups with more concentrated interests, such as suppliers, consumers and employees, can influence management to favour them over the taxpayers.

Both public enterprise and private enterprise have principal/agent problems but these are likely to be greater in the public sector in general, particularly public enterprise.

Public enterprises are usually set up as statutory authorities with a degree of managerial freedom. On the one hand, there is not the same political accountability as is required of ministerial departments and, on the other, there is not the accountability to shareholders commonly seen as a great advantage in private enterprise. Even if private enterprise accountability is, in practice, far less than the theoretical optimum, public enterprises do have special problems of accountability deriving from their position between the two sectors. A public enterprise is subject to political influence and is often required to further 'the public interest', rather than simply trying to maximize profit like a private company. While statutory authorities generally have accountability problems, these are accentuated in public enterprises.

The problem has been to find a mutually satisfactory accountability system for both government and the enterprise. At present different parts of the accountability system have particular problems. All government operations are under the control of a minister, but the minister has political goals that may not necessarily relate to enterprise performance. And, in a way unlike accountability in a government department, the minister is somehow responsible for commercial performance in the marketplace, as well as political performance. Balancing these two goals is, in practice, very difficult and leads to problems. The minister is directly lobbied by interest groups, voters, unions and workers, other members of the government, the bureaucracy of the minister's own department, bureaucrats in other departments, as well as what could be considered 'normal' links with the board and management of the enterprise. With such complexity, it is unsurprising that problems of accountability occur.

Enterprise management is often regarded as risk-averse, desirous of the quiet life, without adequate rewards or sanctions, and not as competent as in the private sector, in part because the ultimate sanctions of dismissal or company failure are muted. With goals and objectives being vague, it may not be possible to decide just how good public enterprise management actually is. Poor accountability relationships allow the opportunity for evasion of responsibility. Management can blame government directions for any shortcoming; governments can blame management; boards can blame both. Governments have often considered their public enterprises to be beyond control, while at the same time public enterprise managements have been consistently opposed to what they see as unnecessary levels of intrusion into their activities.

The questions of privatization and accountability are linked. One of the arguments for privatization is that public ownership means an absence of real accountability. In this view, the absence of the kind of accountability presumed to exist in the private sector implies that public enterprises have no place in society. Part of the early public sector reform process involved reasserting control over public enterprises, making them pay larger dividends, and devising better means of ensuring accountability. The success of these changes was mixed and inevitably led to further privatization. If accountability is poor and improvements not possible, the case for privatization becomes much stronger.

Government control and managerial freedom

The extent of controls causes conflict between governments and their public enterprises. Politicians and the central agencies of the bureaucracy claim there are insufficient controls, while the management of public enterprises claims there is too much interference in management prerogatives. Enterprises see government controls as being too rigid and time-consuming. Why don't the politicians simply let the managers manage? There is an inevitable conflict between freedom from everyday political control and public accountability.

Public enterprise managers may have more freedom than other parts of the public sector, but they still feel constrained by government.

From the point of view of government, it needs to be emphasized that these are government-owned organizations controlling activities that can all too easily acquire political significance irrespective of the type of organization. Since the public owns public enterprises, their political representatives are quite entitled to a certain amount of control, on the public's behalf. They are in public hands for a reason, so the politicians would be neglecting their duties if such important areas were left alone. However, the relationship is likely to be unstable and sub-optimal.

According to Aharoni (1986, p. 153), the incompatible interests of an institution's members can be dealt with in some combination of four ways; (i) reduce the discretion to pursue conflicting purposes through monitoring; (ii) reduce the incentives to pursue conflicting purposes through rewards and penalties; (iii) reduce conflicting purposes through education and persuasion; (iv) drop the fiction of common purpose, acknowledge and embrace conflict, and legitimize open bargaining under rules that promote efficiency agreements. Some governments have implemented contracts between the enterprise and the government, but the idea that one single method can improve the relationship is probably unrealistic. According to Vernon (1984, p. 50):

> The agreements that operate between managers and ministers usually consist of an eclectic mix – a mix that commingles long-term gains with short-term objectives, that changes frequently in content, and that is rarely tested for its internal consistency. When efforts are made to put such agreements in formal terms, as France has sought to do, they cannot fail to reflect those eclectic characteristics. The idea of a rational set of goals, responding to some coherent concepts of optimality and serving as a feasible measure of command and control, remains remote.

Governments do own their enterprises and bear ultimate responsibility for them. They therefore feel the need to develop control mechanisms beyond the normal channels of ministerial responsibility. The perspective of the enterprises is quite different. Their argument is that they were created to carry out a particular function; all they want to do is to carry out what was specified in the legislation. The organization has a long history with continuity across several governments, and an organizational loyalty that transcends any feeling of being a government body. Government controls are seen as nuisances to slow and limit progress towards far longer-term goals than those of any government. For public enterprises operating in a commercial environment, the problem is even more acute. Excessive controls can mean that commercial opportunities are missed or delayed.

Conclusion: the future of public enterprise

In any discussion about public enterprise, it is necessary to address questions of organization and management as well as ownership. Both have been problematic in practice and have led to governments reducing their reliance on public enterprise as an instrument of policy. There are really two options for the future. The first is to improve the sector, aiming for greater efficiency and better public control, hopefully permitting enterprises some independence, while retaining the benefits of public ownership. Improvements can be made, particularly in accountability, and public enterprise can continue.

The second perspective is that whatever is done, public enterprise is still just that, *public* and *enterprise* and from this inherent conflict between government and market stems inefficiency and the endemic problems of accountability. The option then is to dispose of assets. There were some public enterprises that could be privatized with little adverse effect. There seems little point in hindsight for governments owning banks, insurance companies or airlines. On the other hand, the privatization of public utilities has not reduced demands on government to regulate them. In many countries there were political consequences long after the relevant utilities were taken from the public sector. Indeed, there was little public support or political pressure in favour of privatization, but governments saw the opportunity to raise some discretionary income. This was probably a more important motivation than ideology. The response of most governments to the question of public enterprise has been to privatize in those circumstances where it could be done, so to a great extent, the experiment with government ownership of enterprises is finishing. There may even be benefits for consumers in the long run, although they have been slow in arriving.

The public enterprise sector is interesting for public management as a topic in its own right, and also as the area of government to change the most dramatically over the 1980s and 1990s. Economic theorists carried out studies which purported to show that public enterprises were inherently less efficient than private enterprise. Although the evidence was mixed and far from conclusive, this change in theory led to the adoption of policies by governments to reduce or even eliminate enterprises from the public sector. The full effects of this are not yet apparent, although when privatization has been carried out hastily and with insufficient thought as to the regulatory and competitive environment, outcomes for consumers have not been markedly better. Perhaps there is a lesson in this for public management in general. The privatization of public enterprise may be a general test case for the whole public sector, but it is one which shows that care needs to be taken in developing clear objectives, and implementation is crucial for desirable outcomes.

In the final analysis it seems difficult to see any long-term future for the public enterprise sector in any advanced or developing country, especially for those enterprises supplying goods or services on a large scale. There may be a continued existence for smaller enterprises or ones set up in cooperation with the private sector, but that will be all. The reduction of the public enterprise sector in the 1980s and 1990s says something about the public sector in general. The fact that government entities may have lasted a long time is no guarantee of continued existence. The shrinking of government through privatization occurred through a process of economic theory feeding into policy-making. The same process is occurring in the core public sector, where the results may be even more significant than in the once-important public enterprise sector. Except for small-scale activities, it is likely that public enterprise will eventually disappear as an acceptable way of delivering private goods and services.

6

Public Policy and Policy Analysis

Introduction

By the early 1970s, some involved in the study of public policy consciously and deliberately distanced themselves from the discipline of public administration. Most public policy practitioners at the time saw it as concerned with the application of formal, mathematical methods to solving public sector problems. Public policy is important in its own right and as an influence on public management, but again raises the question as to whether there is still something distinctive about public administration.

Public policy is yet another way of studying and characterizing the interaction between government and its clients, while policy research or policy analysis are other terms for much the same thing. Public policy could be seen as a reaction to and critique of the public administration tradition or as the long-overdue adoption of formal techniques by the public sector. In either case, it needs some discussion. Another usage of the term 'public policy' is that used by economists, by which they mean the application of economic methods and models to government. It is possible that the rise of a public management based on economics will see this usage of the term become predominant.

The argument here is that there are now two public policy approaches, each with its own concerns and emphases. The first is termed 'policy analysis'; the second, 'political public policy'. The policy analysis people are those who have continued to develop the field in the way it started, that is, by the use of sometimes highly abstract statistics and mathematical models, with the focus on decision-making and policy formation. Political public policy theorists are more interested in the results or outcomes of public policy, the political interactions determining a particular event, and in policy areas – health, education, welfare, the environment, for example – rather than in the use of statistical methods.

Together, these point to some dissatisfaction or impatience with the traditional model of administration, where a concern either for numbers or for outcomes was subsumed by the overwhelming concern with process. As a comprehensive survey on the discipline of public policy argues, in the period roughly from the 1950s to the 1970s, 'public policy really began to take off, and public administration began to move into a state of decline which was to accelerate in the 1980s' (Parsons, 1995, p. 7). Public policy could now be considered either as a separate paradigm, competing with public administration and public management or as a set of analytical methods applicable to both. It is argued here that the public policy movement is closely related to the traditional model of public administration, with its implicit acceptance of the bureaucratic model and its 'one best way' thinking. The extent of its critique of the traditional model was to argue for more usage of empirical methodology to assist or even supplant decision-making, rather than more fundamental questioning. The managerialist model may derive its interest in empirical methods from public policy, but its theories are overwhelmingly those of economics – again often empirical – rather than of public policy. To add to the terminological confusion the use of economic analysis in political matters is also called public policy, but economic public policy people are very different from those with a public administration background.

The public policy movement is important to the study of the public sector even though it may have lost some impetus recently. Its methods have been criticized for being too narrow and its conclusions are seen as of dubious relevance to the task of governing. The policy analysis school in particular has certainly passed its peak while political public policy seems indistinguishable from public management. However, public policy and policy analysis remain useful in bringing attention to *what* governments do, as opposed to the public administration concern with *how* they operate, and in using empirical methods to *analyse* policy.

Public policy, administration and management

It is not possible to define public policy in any precise way. Students of government have long struggled over what is meant by 'policy' and 'policy-making'. Definitions of public policy found in the literature range from 'declarations of intent, a programme of goals, and general rules covering future behaviour to important government decisions, a selected line or course of action, the consequences of action or inaction, and even all government action' (Lynn, 1987, p. 28). The word 'policy' could refer to: the intentions declared by parties in an election; a rather more precise programme than an intention; general rules such as 'foreign policy'; government decisions in a policy document; and to even larger things such as everything the government does. One work finds ten separate meanings (Hogwood and Gunn, 1984).

There are differences in definition between the policy analysis and political public policy schools. From a policy analysis perspective, Putt and Springer argue: 'The function of policy research is to facilitate public policy processes through providing accurate and useful decision-related information. The skills required to produce information that is technically sound and useful lie at the heart of the policy research process, regardless of the specific methodology employed' (1989, p. 10). This definition emphasizes methods, as does Quade (1982, p. 5) who defines the area as:

> A form of applied research carried out to acquire a deeper understanding of socio-technical issues and to bring about better solutions. Attempting to bring modern science and technology to bear on society's problems, policy analysis searches for feasible courses of action, generating information and marshalling evidence of the benefits and other consequences that would follow their adoption and implementation, in order to help the policy-maker choose the most advantageous action.

These points set out what the more formal, policy analysis, approach aims to do. Quade draws upon a rich tradition of the application of science and statistics to government (deLeon, 1988). The focus is on methods and science, in using such procedures to find or even make decisions.

The approach taken by Lynn is quite different and emphasizes the political interaction from which policy derives. In his definition:

> Public policy can be characterized as the output of a diffuse process made up of individuals who interact with each other in small groups in a framework dominated by formal organizations. Those organizations function in a system of political institutions, rules and practices, all subject to societal and cultural influences. (1987, p. 239)

Key features of this definition are first, that public policy is the *output* of government. This neatly avoids some of the problems with attempts at more precise meanings or needing to specify the exact kind of output for particular circumstances. While governments provide goods and services, they do so according to express policies announced at some time. Even a term as vague as foreign policy has some meaning as the output of views, statements or actions affecting relations outside the nation. Secondly, the process is described as being diffuse; the formulation of public policy is an elusive process. This is far more realistic than regarding policy-making as either to be carried out by politicians under the traditional model of administration, or through some other idealized process, which can be modelled. No one really knows where policies are derived from, other than through the internal political processes of governments, in which the bureaucracy is as much a political actor as are outside interest groups or politicians. Neither is there any reason to assume that the process will be the same for all policies. Thirdly, Lynn expresses this idea of constraints more precisely. Public policy-making does not occur in a vacuum, there are constraints of organization, institutions, interest groups and even 'societal and cultural influences'. It is easy to find more complex definitions, but public policy is to be regarded here as the *output* of government and policy analysis as the more formal, empirical approach to deriving and explaining policy.

There are problems in delineating a public policy approach from public administration, politics or new public management. All are concerned with the operations of government and the public sector. There are some rather obvious differences with public administration, particularly with the traditional model as used here, which had little interest in policy work. From its beginnings, public policy analysts were a rather different set of people, more concerned with analytical methods and numbers as opposed to what they regarded as the generalist approaches of public administration. Public administration was considered the domain of the gifted amateur, where governing wisely and well had little to do with any kind of method or statistic. Public policy is expressly more 'political' than is public administration and has also emphasized more technical, even mathematical approaches to decision-making. It is more realistic than public administration in that it does allow the bureaucracy to have decision-making and political roles.

It is rather more difficult to separate public policy from political science and sometimes it would be hard to decide whether a particular study is one of public policy or politics. Political science during the behavioural era was little interested in matters of policy (John, 1998, p. 3) as it focussed on political behaviour. Public policy is different from the traditional model of public administration in that it recognizes that there are political processes within the administration leading to policy. It is, therefore, more 'political' than public administration. It is an attempt to apply the methods of political science to policy areas but has concerns with processes inside the bureaucracy, so is more related to public administration. As Henry argues, 'public policy has been an effort to apply political science to public affairs; its inherent sympathies with the practical field of public administration are real, and many scholars who identify with the public policy sub-field find themselves in a twilight zone between political science and public administration, pirouetting in the shadows of both disciplines' (Henry, 1990, p. 6).

The relationship with public management is also difficult to pin down. It is argued here that public management is superseding traditional public administration and is a more realistic description of what actually happens in the public sector. However, the relationship between managerialism and public policy is not as simple as one superseding the other. Public management uses empirical models, but these are usually those of economics. The policy analysis approach may use economics as only one of the many possible methodologies, most of which are inductive, whereas economics is deductive. Both would probably claim their own perspective as a strength, although governments have shown their preference for using economic methodology.

Policy analysis

Public policy began with the systematic analysis of data for governmental purposes. The word 'statistics' derives from 'state', but policy was not greatly informed by numbers though there were some experiments in the use of statistics from the 1930s through to the 1960s. More occurred after 1960 with the implementation of large-scale government programmes by the Kennedy and Johnson administrations (deLeon, 1988). The size and complexity of the 1960s social programmes led to a demand for better analysis. Mathematical techniques deriving from Rand or the United States Defense Department under Robert McNamara could conceivably be applied to the public sector. It was an age of science. It was an age in which any problem was seen as having a possible solution which could be discovered through the proper application of the scientific method. Related to the belief in solutions was the availability of large-scale computers and suitable software for processing statistical data to levels of great sophistication.

The early period of policy analysis is generally regarded as a failure by being oversold, that is, by assuming that numbers alone or techniques alone can solve public policy problems. It is only from 1980 that Putt and Springer see what they term a 'third stage' in which policy analysis is perceived as 'facilitating policy decisions, not displacing them' (1989, p. 16). As they explain:

> Third-stage analysts decreasingly serve as producers of solutions guiding decision makers to the one best way of resolving complex policy concerns. Policy research in the third stage is not expected to produce solutions, but to provide information and analysis at multiple points in a complex web of interconnected decisions which shape public policy. Policy research does not operate separated and aloof from decision makers; it permeates the policy process itself.

Instead of providing an answer by themselves, empirical methods were to be used to aid decision-making. While few of the early policy analysts saw themselves as decision-makers (though it was a charge levelled against them) that was the extent of the analyses used. Third-stage policy analysis is supposed to be a supplement to the political process and not a replacement of it. Analysis assists in the mounting of arguments and is used by the different sides in a particular debate. All participants in the policy process use statistics as ammunition to reinforce their arguments. The collection of data has greatly improved and the ways of processing numbers are better than before. However, whether or not third-stage policy analysis is so different from early policy analysis will be considered later.

Empirical methods

Much has been said in passing of the empirical methods and skills needed by policy analysis and policy analysts. In one view, two sets of skills are needed. First, 'scientific skills' which have three categories: information-structuring skills which 'sharpen the analyst's ability to clarify policy-related ideas and to examine their correspondence to real world events'; information-collection skills which 'provide the analyst with approaches and tools for making accurate observations of persons, objects, or events'; and information-analysis skills which 'guide the analyst in drawing conclusions from empirical evidence'

(Putt and Springer, 1989, p. 24). These scientific skills are not independent but rather interrelated; they are also related to what they call 'facilitative skills' (1989, p. 25) such as policy, planning and managerial skills.

So, while empirical skills are needed, there are other less tangible ones needed as well. Both sets of skills point to the emphasis on training found in policy analysis. If analysts inside the bureaucracy can be trained in scientific skills and facilitative skills, the making of policy and its outcomes should be improved.

Some of the empirical methods used in policy analysis include: (i) benefit–cost analysis (optimum choice among discrete alternatives without probabilities); (ii) decision theory (optimum choice with contingent probabilities); (iii) optimum-level analysis (finding an optimum policy where doing too much or too little is undesirable); (iv) allocation theory (optimum-mix analysis) and (v) time-optimization models (decision-making systems designed to minimize time consumption) (Nagel, 1990). In their section on options analysis – which they regard as the heart of policy models – Hogwood and Gunn point to various operations research and decision analysis techniques including: linear programming; dynamic programming; pay-off matrix; decision trees; risk analysis; queuing theory and inventory models. How to carry these out can be found in a good policy analysis book. They are mentioned here for two reasons: first, to point out that there are a variety of techniques and second, that they share an empirical approach to policy.

As probably the key person involved in developing mathematical approaches to policy issues, Nagel is naturally enthusiastic about their benefits, arguing that policy evaluation based on management science methods 'seems capable of improving decision-making processes' (Nagel, 1990, p. 433):

> Decisions are then more likely to be arrived at that will maximize or at least increase societal benefits minus costs. Those decision-making methods may be even more important than worker motivation or technological innovation in productivity improvement. Hard work means little if the wrong products are being produced in terms of societal benefits and costs. Similarly, the right policies are needed to maximize technological innovation, which is not likely to occur without an appropriate public policy environment.

One can admire the idea that societal improvement can result from empirical decision-making methods. There are undoubtedly some areas in which these techniques can be very useful, and, even in matters of complex policy, information may be able to be acquired which it could not by normal means. For example, monitoring or controlling road traffic is a governmental function everywhere. Traffic studies have always been done at the relatively low level of counting cars. When this is extended through decision analysis, by taking numbers to a higher level, or building scenarios into computer-based models, it is possible to predict traffic patterns in future, to decide where to place traffic signals, or to use cost–benefit analysis to decide between two sites for a traffic interchange. In this kind of example, empirical methods undoubtedly would improve the making of policy. However, there are relatively few such mundane problems. Public policy is usually complex and has no easy answers.

Policy process models

There are almost as many models of the policy process as there are public policy theorists, all deriving to some extent from Lasswell (1971). Anderson's model of the policy process has five stages: problem identification and agenda formation, formulation, adoption, implementation, and evaluation (1984, p. 19). Quade (1982) also sees five elements: problem formulation, searching for alternatives, forecasting the future environment, modelling the impacts of alternatives, and evaluating the alternatives. Stokey and Zeckhauser (1978) also set out a five-step process in which the analyst is to: determine the underlying problem and objectives to be pursued, set out possible alternatives, predict the consequences of each, determine the criteria for measuring the achievement of alternatives, and indicate the preferred choice of action. There are problems in using any model, not the least of which would be the temptation to simply follow a menu, rather than to really *analyse* what is happening. In order to look at this more closely, the next section considers in more detail one of the policy process models – reasonably representative of its ilk – to look at the advantages and shortcomings of models in general.

Patton and Sawicki (1986) put forward a six-step model, and although, as they say, there is no single agreed-upon way of carrying out policy analysis, theirs remains one of the more helpful frameworks for looking at a particular policy problem. The basic aim of their approach is to assist someone who is required to analyse a given situation and to derive a policy to deal with it. They derive a list of headings under which particular parts of the policy process can be formulated.

Step 1: Verify, define and detail the problem

Before starting to look at any policy problem, the first step is, of course, to specify what the problem actually is. This is not necessarily a straightforward point as public policies are often interrelated. It is often hard to define the problem in the public sector, where policy objectives may not be clear or aim to do several things at once. Public agencies often have several missions at once, and need to respond to differing interest groups.

It is particularly difficult to define problems in large areas of policy such as health or welfare. But without being able to define the problem it becomes impossible to design a policy. At this point of the policy process, the analyst should be able to set out the policy problem in a way that separates this particular problem into something discrete which can be tackled. After this the analyst should know 'whether a problem exists which can be solved by the client, should be able to provide the first detailed statement of the problem, and should be able to estimate the time and resources the analysis would require' (Patton and Sawicki, 1986, p. 29).

This point is related to the 'agenda-setting' of some of the other models. It would be a mistake to see the agenda as being set only from the outside, or only by groups. Public servants themselves have policies they keep submitting to the political leadership, until they find a receptive audience.

Step 2: Establish evaluation criteria

One novel part of the Patton and Sawicki model is to establish evaluation criteria at an early stage. This step allows other evaluation criteria to be considered instead of always referring to cost. Other valued criteria could include effectiveness, political acceptability or even votes and equity. The criteria may derive from the statement of the problem, or from whom the analysis is being carried out for. Adding this stage in the policy process may reduce some of the criticisms of the rational policy analysis model. Any value may be maximized, but it does need to be stated at the outset.

Step 3: Identify alternative policies

Once the goals are known and evaluation criteria specified, it should be possible to develop a set of alternative ways of getting to the known goals. These may, perhaps even should, vary enormously, although there is no one way of finding the alternatives. Patton and Sawicki offer as possible ways of finding alternatives: 'thinking hard may be the most profitable way to identify alternatives, especially when time is short'; alternatives may also be identified through 'researched analysis and experiments, through brainstorming techniques, and by writing scenarios'; indeed 'seemingly unconventional alternatives should not be overlooked' (p. 32). For the beginner analyst trying to solve a problem this may not be particularly helpful, and underlines, perhaps, one limitation of any model in a real political world in which art may be more helpful than science.

Step 4: Evaluate alternative policies

In this particular model of the policy process, this step is regarded as the most important. The idea is that once alternative policies are identified, each can be rigorously evaluated, by deciding the particular points in favour or against each of the alternative proposals. The authors do warn against being too rigid in how this evaluation is carried out (Patton and Sawicki, 1986, p. 33):

> The nature of the problem and the types of evaluation criteria will suggest the methods that can be used to evaluate the policies. Avoid the tool-box approach of attacking every evaluation with your favourite method, whether that is decision analysis, linear programming,

> or cost–benefit analysis. It has been said that when the only tool an analyst has is a hammer, then all problems will look like nails. Some problems *will* call for quantitative analysis. Others will require qualitative analysis. Most problems will require both.

The evaluation stage should identify those alternatives that are feasible and those that are not; those that will be expensive, or politically impossible. At this point more data may also have to be collected or the original problem redefined.

Step 5: Display and select among alternative policies

The results of the evaluation may be presented to the client as a list of alternatives, or a preferred alternative rather than only one. No alternative is likely to be perfect, instead, all of the alternatives will have good points and bad points, particularly if the difference between 'a technically superior alternative and a politically viable one' is borne in mind (Patton and Sawicki, 1986, p. 35). Implementation of the programme occurs at this point as well; tasks and responsibilities assigned and how the implemented policy is to be monitored.

Step 6: Monitor policy outcomes

No policy is complete at this point. There are often unintended consequences, possible difficulties in implementation or changes in circumstances. Monitoring or evaluation of progress is, or should be, fundamental to any policy no matter how it is derived. The nature of public policy programmes is such that the results of any one policy analysis will probably be that the original problem evolves into others, so that rather than any one discrete analysis there will be many iterations.

In sum

The use of the Patton and Sawicki (or any similar) model can bring benefits in analysing a matter of public policy. Perhaps there could have been more attention paid to implementation and to policy termination. As with any set of headings, it can guide or suggest things to look at when someone in government is faced with a particular policy problem. It is even possible that the results of the analysis may be better than without any such list. Also, Patton and Sawicki are sufficiently 'third stage' policy people that, at various points, they say there will not be any one, rational answer. They argue of their approach (1986, p. 38):

> We organize the methods according to the steps in the process because we believe that policy analysis is more than methods or techniques. It is a way of thinking about problems, of organizing data, and of presenting findings. Policy analysis involves craft and creativity, and policy analysts develop their own styles and their personalized ways of orchestrating information. However, we believe beginning analysts can develop a set of basic skills and a general approach that will provide a foundation for analytical development.

None of this can be contested and the detail of each section could be helpful, especially for their target audience, the beginning policy analyst.

In general, though, there are some difficulties with the model approach. In some circumstances a model like this could be helpful to making public policy; in other circumstances it would not. As John argues 'Just a casual experience of the messiness of policy-making, the twists and turns of decisions, the reverses, the quixotic failures and the surprises enough to alert the researcher that, even as an ideal type, the sequential model has its problems' (1998, p. 25). At the end of the process, what we have is a *framework* rather than a *method*: a set of headings rather than a concrete approach. The fact is that someone could follow the headings perfectly and derive a disastrous policy, while someone else could follow none of the rules and derive a better one. A fundamental question of policy analysis is whether it is art or science, of whether it is an attempt to quantify the unquantifiable or rationalize the quasi-rational. Models may help but provide no guarantee to making better policy. Policy models do not deal very effectively with policy change or with prediction of future action.

Limitations of the policy analysis approach

The policy analysis approach is, to some extent, an advance on the traditional model of public administration. Large entities like governments collect all kinds of data, much of which should be amenable to mathematical approaches. But the approach falls short in a number of ways.

Quantitative methods

Numbers are useful and provide information to decision-makers but public policy gives them too much emphasis. It is very easy to decry formal mathematical approaches as being unrealistic if applied to the world of policy and politics, and to argue that politics is not necessarily rational in a strict numbers sense. However, the problem is not in the use of numbers, but in levels of abstraction leading far beyond any conceivable policy relevance. There has also been no attempt to delineate the areas in which policy analysis can work very well, such as road traffic studies, from ones in which the political and societal problems are far more contentious, such as welfare. Being sold, or rather oversold, as a set of techniques for all areas has probably actually reduced its use in those areas where it might be more meaningful. There are only some areas of government in which numbers are available for work at the highest level of abstraction.

Separate public policy discipline

As is natural for enthusiasts, the beginning of a public policy discipline tended to occur separately from the discipline of public administration, from whence it came. They developed separate professional journals, separate conferences, and, although they shared antecedents, had very little in common at times. This was unrealistic and unnecessary. No sharp line can be drawn between making policy and implementing it, neither can one be drawn between policy and administration, once the unrealistic separation thesis was discarded. But the disciplinary separation had other effects in that it created distinct professional groups within the bureaucracy that had little in common with the rest of the workplace. In some agencies the people with public policy training emerged ahead, while in others those with public administration training did so. Without this apparent split, public policy and administration might have had more influence.

Overemphasis on decisions

In practice a relatively small proportion of a manager's time or effort is taken up by making decisions amenable to analytical processes. This has meant a limitation to the training provided in public policy programmes, particularly of the more esoteric kind. Successful managers are less analysts than organizers, less technocrats than politicians. Rather than there being one single outcome which is optimal, as is assumed through analysis, there is a range of possible answers, each of which has its own costs and benefits in terms of acceptance. The absence of *personality* is a problem for public policy models. Political and interpersonal factors may be better able to be considered from a public management perspective.

Not used, or used less

Despite numerous books on policy analysis and a variety of approaches, there is little evidence that formal methods like those set out above are actually followed. Or, if they were followed at one time, they are now not followed as much. The fact is that 'many studies of public policy determination are quite general and abstract and distant from the operating reality of government' (Lynn, 1987, p. 13). Day-to-day management activities involve many things other than making decisions and 'a high proportion of the activities in which public managers engage are not amenable to the application of analytic techniques; a small proportion are' (Elmore, 1986). There are no 'correct' answers in practice and trying to find a single answer is akin to embracing the old 'one best way' thinking of public administration.

Within the bureaucracy, as opposed to public policy programmes in the universities, policy analysis does not seem to have passed the test of relevance. Certainly there are positions designated as policy analyst but they may or may not be filled by those with formal policy training. There is a constant demand for more and better information from above, and reports have to be organized and written quickly. The number of these based on formal analysis, or which are markedly better because they were, is both small and declining.

The rational model

In what Putt and Springer (1989) termed the first and second stages of policy research, the rational model was expressly followed, but this was then changed in the third stage of policy research. The rational model was well described by Lindblom (1968, p. 13) as:

1. faced with a given problem
2. a rational man first clarifies his goals, values, or objectives and then ranks or otherwise organizes them in his mind;
3. he then lists all important possible ways of – policies for – achieving his goals
4. and investigates all the important consequences that would follow from each of the alternative policies,
5. at which point he is in a position to compare consequences of each policy with goals
6. and so choose the policy with consequences most closely matching his goals.

This is precisely what policy models aim to do. As is well-known following from the work of Simon (1957), a completely rational decision-making process demands too much of those making the decision. Instead of making an ideal decision individuals will break large complex problems into small, understandable parts; choose the first alternative that is satisfactory; avoid unnecessary uncertainty; and behave in accordance with repertoires of appropriate and useful behaviour. This means that 'although individuals are intendedly rational, their rationality is bounded by limited cognitive and emotional capacities' (Lynn, 1987, p. 84).

Policy analysis in the 'third stage' always warns against placing too much reliance on the rational model. For example, Patton and Sawicki argue (1986, p. 25):

> If the rational model were to be followed, many rational decisions would have to be compromised because they were not politically feasible. A rational, logical, and technically desirable policy may not be adopted because the political system will not accept it. The figures don't always speak for themselves, and good ideas do not always win out. Analysts and decision makers are constantly faced with the conflict between technically superior and politically feasible alternatives.

There are two problems with this. First, the Patton and Sawicki model is quite definitely a rational model of the Lindblom kind, despite their protestations. The steps in their process are quite rational: deciding on the valued good; setting out alternatives and choosing the alternative with the highest utility weight. They do allow for the good to be maximized to be any valued good, but so does the formal rational model. It is the logic of the steps to be followed which determines rationality, rather than the assumptions. Secondly, policy analysis has declined as a framework by being overtaken by an even more rigorous rational model of economics. The key theoretical cornerstones of the public management approach are private management and economics, particularly economics of the microeconomic or public choice kind. This goes a stage further than the rational models of policy analysis, by declaring the good to be maximized by those involved to be economic utility, and deriving policy from there.

It is arguable whether the increased use of economics in public policy-making is part of formal policy analysis or something separate. Given that public policy people came from political science, it may be quite separate and belong to a quite different intellectual history.

A faulty model of science

A more controversial criticism, perhaps, is of the scientific basis used for policy analysis. Of course, any exercise aiming to be scientific must have a conception of the kind of science it aims to follow. There is reason to believe that public policy analysis is based on a faulty, or at least old-fashioned, model of science. It was mentioned earlier that the derivation of empirical methods from those of political science was both a strength and a weakness. The strength was that techniques for gathering data were well recognized, most often by sample survey. Ways of processing data through computer software became readily available, and what was being done under the name of policy analysis was a slight extension of political science methods into areas of policy. However, this also meant a reliance on the same theory of science used in political science during the 1960s and 1970s.

A clue to the problem this engenders can be gained from the third of the scientific skills mentioned earlier from the work of Putt and Springer (1989, p. 24). This was 'information-analysis skills guide the analyst in drawing conclusions from empirical evidence'. This points to a key problem, not only in policy analysis, but in behavioural political science from where its theories derive. A large part of the philosophy of science in the second half of the twentieth century was concerned with showing that data do not lead to conclusions, that such inductive science is inherently flawed (Popper, 1965). Most social science from the very beginnings of collection of data or sample surveys has been expressly inductive, that is, based on the idea that from gathering masses of information, inferences can be made. As Popper and others have argued, this cannot be done in the natural sciences, so it follows that a social science based on inductive processes is also gravely flawed.

Despite criticism (for example, deLeon, 1997) a major part of the success of economic public policy in recent years is that it is expressly deductive, that is, based on theory leading to predictions. If evidence for those predictions can be found, it supports the theory. The theory is never proven, but can stand because it fails to be disproved. As an example of the difference, consider the traffic problem mentioned earlier. An inductive approach to traffic congestion would involve gathering data about traffic conditions, making sense of it and making conclusions from the data. A deductive or public choice approach would assume there was a good being maximized by people; in this case probably time, so predictions could be made about what the behaviour of people might be in trying to minimize the time taken in traffic. Instead of trying to *derive* explanations of behaviour, that is taken as *assumed*.

Undemocratic

Following the rational model by analysis of the facts, and deriving the best possible outcome, could be undemocratic unless the solution happened to agree with what the target audience or the wider political system wanted. This would only occur by chance. Denhardt argues that policy analysts typically apply technical solutions to the solution of immediate problems and 'under such circumstances, technical concerns would displace political and ethical concerns as the basis for public decision making, thereby transforming normative issues into technical problems' (1981, p. 631). Even a small-scale issue such as the location of a road can rarely be decided technically as there are people involved who will not accept a technical solution. Politics, as required by a democracy, may intervene unless a technical answer is imposed, which would often be undemocratic. As deLeon notes (1997, p. 100), 'the analytic priesthood is doing little to discourage the ebbing of … faith in government and, by extension, the democratic system, as it carries out its personal preferences, in procedure if not in specific programs'.

Responses to criticism

Criticisms have been made about policy analysis for some years. In a defence of the approach, Nagel (1990, p. 429) argued that policy analysis can incorporate other values than those for which it is criticized and move away from those things criticized earlier. He refers to the traditional goals under the 'three Es' of effectiveness, efficiency, and equity. According to him, effectiveness refers to the benefits achieved by alternative public policies; efficiency refers to keeping costs down in achieving benefits, as measured by benefits minus costs or a maximum level of costs across persons, groups, or places. He says that these should also be balanced with the 'three Ps' as high-level goals, meaning public participation, predictability, and procedural due process. Public participation refers to decision-making by the target group, the general public or other relevant interest groups; predictability refers to making decisions so that a similar decision would be arrived at by others following the same criteria, while procedural due process, or procedural fairness, means those who have been unfairly treated are entitled to have recourse to other avenues of appeal (Nagel, 1990, p. 429).

If implemented these would go some distance towards countering the criticisms of those who argue that policy analysis, even the whole public policy school, has no interest in the political consequences of its analyses or the fact that there are people involved in their abstract decision-making. In Nagel's response the more mechanistic aspects have been modified, and more traditional public administration virtues like participation are superimposed. But the attempt to do this seems forced and unconvincing. The strength of the policy analysis approach is in its treatment of numbers and its rational approach, even given their limitations. To include all those other features would take away its power by making it all things to all people. The latter, in actuality, seems to be the aim. Nagel says (1990, p. 459) of the field in which he was a pioneer:

> The field of policy studies scores well on a lot of dimensions. It has a long-term philosophical foundation, originality, a theoretical side, a practical side, an important political science that involves all fields of political science, a multidisciplinary component that involves all fields of knowledge, especially the social sciences, a qualitative value-oriented side, a quantitative, reasonably objective way of dealing with analytic problems, an ability to get utilised when deserved in the light of democratic processes, non-utilisation when deserved in the light of those same democratic processes, value to conservative policy makers, and value to liberal policy makers.

Too much is being claimed for the field in which Nagel has probably been the largest contributor. Certainly, the empirical work is useful; certainly it may be more useful than what existed before. But a problem with empirical work in the public sector develops when it goes further than an information role.

If data, no matter how gathered, can be presented to policy-makers, this must be useful in improving the quality of decisions made. But if data or methods are considered to be able to make decisions by themselves, this approach will inevitably fail. The public sector is about politics, and political decisions are, and should be, made for all kinds of reasons of varying kinds of rationality. Policy analysis of the formal kind can provide good information in some circumstances, but that is all. Often the information will be irrelevant, often it will have to confront conflicting information from other sources and often it will be rejected. If policy analysts could accept a role in which they may provide useful information for policy-makers, that role could be valuable; the trouble is, they tend to claim a far grander role.

Political public policy

A far less rigid approach to looking at policy is put forward by other writers, such as Lynn (1987) and deLeon (1997). Policy-making is viewed in this approach as a political process rather than a narrowly technical one. As noted earlier, Lynn sees public policy as the output of individuals in organizations.

These people operate under a variety of influences and 'to understand policy-making it is necessary to understand the behaviour of and interactions among these structures: individuals holding particular positions, groups, organizations, the political system, and the wider society of which they are all a part' (1987, p. 17). Therefore, instead of involving particular methodologies, policy-making is a matter of adapting to and learning to influence political and organizational environments.

The focus is understanding how particular policies were formed, developed and work in practice; these are concerns broader than a focus on decision-making or mathematical models. Lynn argues that policy-making 'encompasses not only goal setting, decision making, and formulation of political strategies, but also supervision of policy planning, resource allocation, operations management, programme evaluation, and efforts at communication, argument, and persuasion' (1987, p. 45).

Public policy in this perspective is a process, but one which is a political one above all other considerations; one in which those Lynn calls 'managers of public policy' – an interesting amalgam of terms – use any means to achieve their goals. Instead of being a formal process, they are strictly limited, as 'public executives pursue their goals within three kinds of limits: those imposed by their external political environments; those imposed by their organizations; and those imposed by their own personalities and cognitive styles' (p. 42). Rather than being technical experts, effective managers of public policy (Lynn, 1987, p. 271):

- establish understandable premisses for their organization's activities;
- attain an intellectual grasp of strategically important issues; identify and focus attention on those activities that give meaning to the organization's employees;
- remain alert to and exploit all opportunities, whether deliberately created or fortuitous, to further their purposes;
- consciously employ the strong features of their personalities as instruments of leadership and influence;
- manage within the framework of an economy of personal resources to govern how much they attempt to accomplish and how they go about it.

Managers work in this way because their own positions are on the line; they must achieve results or they will be in trouble, so any means of doing so must be considered.

Public policy-making viewed from this perspective becomes much more a political process. Hogwood and Gunn, who cross the two public policy perspectives, argue that analysis is seen as 'supplementing the more overtly political aspects of the policy process rather than replacing them' and 'to treat politics as a residual is to doom analysis, not politics, to irrelevance' (1984, p. 267). They put forward a nine-step approach to the policy process, which they say is 'mixed', that is, can be used for both description and prescription. Their model is: (i) deciding to decide (issue search or agenda-setting); (ii) deciding how to decide; (iii) issue definition; (iv) forecasting; (v) setting objectives and priorities; (vi) options analysis; (vii) policy implementation, monitoring and control; (viii) evaluation and review; and, (ix) policy maintenance, succession, or termination.

This model is atypical. While its roots may be in the rational model, it does, to some extent, cross between the two kinds of policy set out earlier. Indeed Hogwood and Gunn argue that their approach is concerned 'both with the application of techniques and with political process' (1984, p. 6). They argue for a 'process-focused rather than a technique-oriented approach to policy analysis'. Analysis is primarily about 'determining the characteristics of the issue being analysed and the organisational and political setting of the issue, with the actual mechanics of particular techniques being secondary and consequential' (p. 263). It is seen as 'supplementing the more overtly political aspects of the policy process rather than replacing them' (p. 267). Their model may be more realistic and useful as a result.

The main difference between the two public policy perspectives is the role given to the political process. Policy analysis looks for one best answer from a set of alternatives and has a battery of statistical weapons at its disposal to do so. Political public policy sees information in an *advocacy* role; that is, it realizes that cogent cases will be made from many perspectives which then feed into the political process. Simon goes somewhat further (Simon, 1983, p. 97; Hogwood and Gunn, 1984, p. 266):

> When an issue becomes highly controversial – when it is surrounded by uncertainties and conflicting values – then expertness is very hard to come by, and it is no longer easy to legitimate the experts. In the circumstances, we find that there are experts for the affirmative and experts for the negative. We cannot settle such issues by turning them over to particular groups of experts. At best we may convert the controversy into an adversary proceeding in which we, the laymen, listen to the experts but have to judge between them.

There is no single *best* answer, there is only an answer that *survives* the political process in what is often a contest between policy experts on all sides of a public policy issue.

More recent analysis of the policy process takes the political aspect somewhat further. John argues there is a 'new policy analysis' (1998, p. 157):

> Moving from the modest claims of ideas-based empiricism, the new policy analysis makes claims about the primacy of ideas and the indeterminacy of knowledge. Rather than rational actors following their interests, it is the interplay of values and norms and different forms of knowledge which characterise the policy process.

This is less rigid than the sequential view of policy and more open to political interplay and including a much wider set of influences than earlier policy analysis. It offers an interesting view for future policy work.

Governments or the bureaucracy may try to persuade participants in the policy process of the advantages of maximizing benefits, by including those from the outside they are raising the possibility of compromise and political action. Public policy-making, as distinct from its study, now seems to be an interesting amalgam of several perspectives, and managerialism may be able to combine them. Net benefit maximization is now the express aim of governments, but the methodology of managerialism is that of economics rather than of old-style policy analysis. At the same time, groups have been brought into policy-making to a greater extent than before. But rather than *mediating* between groups, public managers, or managers of public policy to use Lynn's phrase, try to persuade groups that there are advantages for them in net benefit maximization. All parties in the process realize what the nature of the game is: politics. The only problem with this rather sensible approach is how to classify it. It could be viewed as political public policy, managing public policy, or as public management.

Conclusion

Public policy and policy analysis form an approach to the management of the public sector, one that caused a fundamental rethinking of public administration in the 1970s and early 1980s. Adding more sophisticated forms of empirical analysis meant that public administration went some distance away from amateurism and towards professionalism. According to one admirer, policy analysis, as a field and movement, has gone 'a long way in reshaping the discipline' of public administration (Goodsell, 1990, p. 500). This may have once been true and the introduction of empirical techniques must count as an advance on the traditional model. But public policy and policy analysis have to a great extent been bypassed in the debate over managerialism. The influence of policy analysis has waned somewhat since its heyday in the 1970s, while public management *incorporates* analytical techniques, instead of them having a separate existence and a separate discipline.

The public policy literature has been 'too concerned with policy decisions and the broad process of policy formulation and implementation with too little attention to the roles and practices of managers of organizational entities within those processes' (Rainey, 1990, p. 159). Confronted by a decision to build a dam, any government or government agency would gain by commissioning empirical studies, even at the highest level of abstraction. These could be benefit–cost studies, path-analyses, demographic or other social studies, but what these studies could not do is to make the actual decision. In the end the political and managerial leadership make the decision. Regardless of the quality of information, politicians and other policy-makers must make such a decision based on the shifting sands of political opinion. Even if the decision made goes against the most rigid and empirically rigorous analyses that is not to deny its rationality. Too much is often claimed of the public policy approach. If its advocates could accept that its role was simply to provide information rather than something more grandiose, it would be far more useful than it has been.

One way in which public policy and policy analysis have been enduring successes is that they paved the way for other empirical kinds of analysis, particularly those of economics. But the difference between them is marked. Public policy in the policy analysis sense belongs to the value-free and inductive social science of the 1960s and 1970s. Economics has come to have greater influence and be used more because it can promise things more like those that governments want, such as more output for less money. Public policy analysis was always concerned with decisions rather than results, with procedure rather than outcomes in a management sense. So in the end, a part of policy analysis – that analysis could be valuable – was absorbed into public management. Public policy did represent a substantial advance on the traditional model of public administration, but its intellectual home was still there with its methods those of its close relative: political science. As such it has become less relevant as governments and their bureaucracies found another approach. To an increasing extent public policy and policy analysis are being replaced by economics, allied with modern management, as applied to the public sector. In other words, they are being replaced by public management.

7

Strategic Management

Introduction

The traditional model of administration was criticized earlier for its inward focus and short-term perspective. Both of these shortcomings have altered with the advent of public management, and the public sector now shows more concern with longer-term strategy than ever before. The strategic perspective considers the organization in its external environment; it aims to specify clear goals and objectives; it attempts to move away from routine management tasks to consider, in a systematic way, longer-term considerations of the very future of the organization. Strategy addresses ‘a crucial concern: positioning the organization to face an increasingly uncertain future’ (Nutt and Backoff, 1992, p. 58).

The traditional model of public administration required little conception of strategy; serious forward planning was either not carried out or carried out in rather limited ways. Indeed, strategy of any kind would have been considered ‘political’, if thought of at all. Public servants ‘administered’ in the dictionary sense set out earlier, simply carrying out instructions of the politicians. It is and was possible to *administer* without a sense of strategy, without any idea of optimizing resources to gain objectives, and to follow instructions without any external focus. The traditional model missed out on the longer-term perspective and, by being preoccupied with process, often forgot there was a larger purpose, an overall goal, for any public organization.

Using strategic concepts in the public sector is one way to address these shortcomings. It was realized that those presumed responsible for strategy – the politicians – may not always be in a position to provide long-term strategic leadership for the public organization. If public managers are to be responsible for results there needs to be thought given to how they can aggregate into the overall purpose or mission of the organization. Therefore, a key part of the managerial programme is to determine overall strategy and set objectives, not just by governments, but by the agency and its various parts. Politicians now demand that agencies and public servants consider the longer-term implications of programmes and policies even if this involves them in ‘political’ matters. As Joyce argues, ‘the recent rise of strategic management and its specific character within the public sector is a sign that public sector management has been placed under pressure by the political system to adopt a more proactive relationship to change' (Joyce, 2000, p. 214). Political leaders favour this and it is really part of a general realization that the old separation of policy from administration is untenable. It is now common for agencies themselves to develop objectives and priorities rather than assuming policy only derives from politicians.

Without strategy an organization lacks direction. Day-to-day activities do not add up to any coherent goal. Ideally, all activities undertaken help to further specified objectives and beyond them the overall purpose of the agency. As Nutt and Backoff (1992, p. 55) argue: 'Strategy is used to create focus, consistency, and purpose for an organization by producing plans, ploys, patterns, positions, and perspectives that guide strategic action.' As will be seen, there are some problems in applying strategic concepts to the public sector and criticisms of their use. However, in the final analysis, this was a problem area under the traditional model of administration and there is at least the promise of improvement as the result of adopting some form of strategic perspective.

Strategy in the private sector

'Strategy' is a term deriving from the military; it refers to the objective of winning the war, as opposed to 'tactics' – the lower-level objective of winning a particular battle. An analogy between warfare and business was made as long ago as Socrates who compared the duties of a general and a businessman 'and showed that both utilise plans to use resources to meet objectives' (Montanari, Daneke and Bracker, 1989, p. 303). More recent usage derives from Chandler (1962) 'the first to offer an explanation of the evolution of the enterprises in terms of strategy' (Forster and Browne, 1996, p. 22). Applications of strategy in the private sector are obvious enough, with considerable advantages resulting from looking at the long term and the external environment, rather than always considering more immediate internal problems. Normal management processes may be adequate for ordinary operations but it is also necessary, from time to time to, reassess the fundamental reason why the organization exists, what it is trying to do and where it is going.

Even given the intrinsic attraction of strategic concepts in the private sector, it is really only in the immediate post-war period when they begin to be applied in a coherent way. Hax and Majluf (1984, 1996) argue there are five stages in the evolution of planning: budgeting and financial control; long-range planning; business strategic planning; corporate strategic planning and strategic management. These defined stages are relevant to the present discussion because of the difference between strategic *planning* and strategic *management* and, later, for the complementarity of these stages in the private sector with the development of planning in the public sector.

Budgeting and financial control are rather limited forms of planning. Relying on immediate financial results can lead to a rather near-sighted approach to management. Long-range planning, which began in the 1950s, is an improvement in that it includes multi-year projections of future sales. This made some sense in the immediate post-war period with 'high market growth, fairly predictable trends, firms with essentially a single dominant business, and relatively low degree of rivalry among competitors' (Hax and Majluf, 1984, p. 11), but is limited if these conditions are not met. Long-range planning does not work if there is change in the external environment or strong competition, as the projections are not likely to be met.

There are three forms of strategic planning identified by Hax and Majluf and these have some points in common. All identify an organizational mission, perform some environmental scan, specify a set of objectives and produce a strategic plan to achieve these objectives.

The first kind of strategic planning is business strategic planning. This began in the 1960s, and is where the concepts of mission and environmental scan or analysis first appear. These can be explained briefly.

The *mission* of the business includes a clear definition of current and expected business scope, products, markets and expectation over a period of a few years. The mission involves consideration of what business the organization is in.

The *environmental scan* involves the detailed assessment of the organization's internal strengths, weaknesses, opportunities and threats. This would include items inside the organization: the skills of workers, managerial capabilities, type of plant, financial structures, the constraints of government and the like. However, the real advance is the undertaking of a dispassionate analysis of the external environment, including: market structures and trends, including other countries; the extent of technological change; threats from similar products or substitution; the capabilities of competitors; anything which affects the very existence of the organization.

Objectives are more specific aims resulting from the mission and environmental scan. Elements of strategy at a higher managerial level become objectives at a lower one, as Ansoff argues (1988, p. 54):

> Objectives are a management tool with many potential uses. In the operating problem they can be used for establishing performance standards and objectives for all organizational levels, for appraisal of performance, and for control decisions. In the administrative problem they can be used to diagnose deficiencies in the organizational structure. In our main area of interest, the strategic problem, objectives are used as yardsticks for decisions on changes, deletions, and additions to the firm's product-market posture.

From the mission, environmental scan, and specified objectives, a business strategy plan is derived for both the short and longer term, combined with resource allocation and performance measures.

The second form of strategic planning is corporate strategic planning. This emerged in the 1970s due to 'increased international competition, changing societal values, military and political uncertainties, discriminating buyers, and economic slowdown' (Toft, 1989, p. 6). Corporate strategic planning is more concerned with the higher levels of the organization than business strategic planning and in allocating responsibility even among differing parts of the business. The strategic plan is specified in much more detail than in the first form of strategic planning.

Both business and corporate strategic planning have their limitations. Ansoff argues that early experience with strategic planning 'encountered three serious problems: "paralysis by analysis", that is, when plans produced little result; "organizational resistance" to the introduction of strategic planning, and ejection of strategic planning if the support of top management was withdrawn or relaxed' (1988, p. 166). The problems led to the third form of strategic planning: strategic management.

In the 1980s, strategic planning started to be replaced by 'strategic *management*', a more refined form that incorporates the strategic planning function, but extends it much further. The difference between them is that 'strategic planning is focused on making optimal strategy decisions, while strategic management is focused on producing strategic results: new markets, new products and/or new technologies' (Ansoff, 1988, p. 235). Strategic management, therefore, is more comprehensive; rather than merely drawing up a plan it aims at integrating planning with all the other parts of the organization. Hax and Majluf argue (1996, p. 419) that:

> Strategic management is a way of conducting the firm that has as an ultimate objective the development of corporate values, managerial capabilities, organizational responsibilities, and administrative systems that link strategic and operational decision making, at all hierarchical levels, and across all businesses and functional lines of authority in a firm. Institutions that have reached this stage of management development have eliminated the conflicts between long-term development and short-term profitability. Strategies and operations are not in conflict with one another, but they are inherently coupled in the definition of the managerial tasks at each level in the organization. This form of conducting a firm is deeply anchored in managerial style, beliefs, values, ethics, and accepted forms of behaviour in the organization, which makes strategic thinking congruent with the organizational culture.

Strategic management aims to extend the strategic vision throughout all units of organization, encompassing every administrative system. Instead of being mechanistic, it 'recognises the central role played by individuals and groups and the influence of corporate culture' (Toft, 1989, pp. 6–7). Also, prior to the mission statement, there should be a permanent vision of the firm articulated by the Chief Executive Officer. This corporate philosophy 'has to provide a unifying theme and a vital challenge to all organizational units, communicate a sense of achievable ideals, serve as a source of inspiration for confronting daily activities, and become a contagious, motivating, and guiding force congruent with the corporate ethic and values' (Hax and Majluf, 1996, p. 255).

There are two main points in this. First, there needs to be greater integration between planning, management control and the organizational structure; greater integration between the communication and information system; and with the motivational and reward systems (Hax and Majluf, 1984, pp. 76–7). Planning should not be regarded as a separate activity, relying on a separate planning department, but as a responsibility of management and not to be isolated from the organization. Secondly, the organization needs to pay attention to its ‘culture’. Plans still exist in strategic management, but more attention is paid to implementation because of the human factors present in the organizational culture and affecting its management.

It is easy to see that strategic management fits the private sector and, if implemented well, would provide a company with an information base to make decisions that would not necessarily arise from normal operations. It can help an organization to step back from the normal management process or the day-to-day and ask fundamental questions about the existence and future of the organization.

Strategy in the public sector

Public organizations do have long-term existences and problems in deciding focus. They could conceivably benefit from a strategic approach, although some modification of the private sector perspective may be necessary. There was always some kind of planning in the public sector and the methods used have fairly closely followed the five stages of planning set out earlier for the private sector. Budgeting and financial control started very early in the public sector. This planning stage could be argued to be the quintessence of organizations in the traditional model of administration, where the main planning aim is simply to spend the budget allocation. Long-range planning was also used in the same way as in the private sector and with the same problems of forecasting. Strategic planning in the public sector is a phenomenon of the early 1980s, significantly later than its development in the private sector. Strategic management was also adopted but, again, followed the private sector with a gap of some years. Since 1993 the United States federal government has established strategic planning as a universal requirement for its agencies (Joyce, 2000).

However, strategic planning and strategic management are private sector concepts and it cannot be taken for granted that the ideas will work in the public sector. There are more problems and constraints compared to the private sector and these ‘range from constitutional arrangements to legislative and judicial mandates, to government-wide rules and regulations, to jurisdictional boundaries, to scarce resources, to political climate factors, to client and constituent interests’ (McCaffery, 1989, p. 207). Nutt and Backoff argue that strategic managers in the public sector ‘should be wary of using private sector approaches that assume clear goals, profit or economic purposes, unlimited authority to act, secret development, limited responsibility for actions, and oversight through market mechanisms that signal financial results’ and in public organizations ‘many of these assumptions are not valid’ (1992, p. 23). Early formulations of strategy in the public sector tended to commit all these sins, but the more recent movement towards strategic *management* may prove the most promising approach, as it has in the private sector.

Bozeman and Straussman argue there are three major features of a strategic approach: defining goals and objectives, developing an action plan that mediates between the organization and the environment, and designing effective methods of implementation (1990, p. 54). According to Allison, strategy involves establishing objectives and priorities for the organization (on the basis of forecasts of the external environment and the organization's capacities) and also devising operational plans to achieve these objectives.

Strategic planning models

In the same way as the private sector, the earliest stages of a strategic approach in the public sector were aimed at *planning* rather than *management*. A useful definition is that of Olsen and Eadie (1982, p. 4) in which 'strategic planning is a disciplined effort to produce fundamental decisions shaping the nature and direction of governmental activities, within constitutional bounds'. This definition stresses three points. First, strategic decisions are 'fundamental decisions', not low-level ones, as the latter can presumably be performed by normal bureaucratic means. Secondly, strategic decisions are specified as decisions which affect 'the nature and direction of activities' and the whole future of the organization. Thirdly, there are limits to the scope of strategic planning of a political and constitutional kind, which is an immediate difference from the private sector. Ideally, strategic planning does not subvert normal political or bureaucratic approaches but takes place within them.

In the early 1980s, Olsen and Eadie were among the pioneers who argued that strategic planning had a place in the public sector, which could learn much from the private sector about planning. They claim that strategic planning process consists of the following basic components (1982, p. 19):

- The overall mission and goals statements, which are formulated by an organization's executive management and provide the framework within which strategies are developed – the 'targets' toward which strategies are aimed.
- The environmental scan or analysis, consisting of the identification and assessment of current and anticipated external factors and conditions that must be taken into account when formulating the organization's strategies.
- The internal profile and resource audit, which catalogues and evaluates the strengths and weaknesses of the organization in terms of a variety of factors that must be taken into consideration in strategic planning.
- The formulation, evaluation, and selection of strategies.
- The implementation and control of the strategic plan.

There are rather obvious similarities with strategic planning in the private sector in this model. When compared to the private sector models set out earlier, it would seem to have most in common with the business strategic planning model.

The model set out by Osborne and Gaebler is similar, although it does seem closer to the corporate strategy model than that of business strategy. To them 'strategic planning is the process of examining an organization's or community's current situation and future trajectory, setting goals, developing a strategy to achieve those goals, and measuring the results' and most variants involve a number of basic steps (Osborne and Gaebler, 1992, p. 233):

- *analysis* of the situation, both internal and external;
- *diagnosis*, or identification of the key issues facing the organization;
- definition of the organization's fundamental *mission*;
- articulation of the organization's basic *goals*;
- creation of a *vision*: what success looks like;
- development of a *strategy* to realise the vision and goals;
- development of a *timetable* for that strategy;
- measurement and evaluation of *results*.

Osborne and Gaebler draw on the model of Bryson (1988) quite explicitly, so some more detail of that can be spelt out.

The Bryson model of strategic planning

Bryson (1988) puts forward an eight-step model, one that owes a great deal to the private sector model shown earlier. Although there could be some quibble as to the sequence of particular points, it does provide a suitable list of points to enable a strategic plan to be formulated. He sees the steps as follows:

- initiating and agreeing on a strategic planning process;
- identifying organization mandates;
- clarifying organization mission and values;
- assessing the external environment (opportunities and threats);
- assessing the internal environment (strengths and weaknesses);
- identifying the strategic issues facing an organization;
- formulating strategies to manage the issues; and
- establishing an effective organization vision for the future.

The Bryson model is a strategic planning model derived from the private sector, but with some variations to allow for the public sector context.

The first step is the obvious one of initiating and agreeing on a strategic planning process. The second step is to consider the organization mandate, or what is specified in the establishing legislation of the public organization. This is one major difference from the private sector and, no doubt the reason for Bryson including it as a separate item on the list. In the private sector the mandate is in a sense without limit, in that it is quite common for a company with expertise in one area, say steel, to diversify into the oil or food businesses. This is not the case in the public sector. Public organizations have *mandates*, specified in legislation, that limit the scope of their activity. Mandates are of fundamental importance in deciding on the strategic plan. It is often a useful lesson for public agencies to re-examine what they are meant to do under the legislation which set them up.

The third step is to settle the organization mission, that is, the *raison d'être* of the organization; why it exists at all, and what it is trying to achieve. Public sector organizations find it notoriously difficult to decide exactly what they do. Often this goal uncertainty may have been deliberate, as although vague goals cannot be achieved, neither can anyone say they were not. This is one reason why governments now often insist that strategic plans be prepared. The lack of clarity of goals has become a major weakness in an age in which clear goals are demanded by governments, although the inherent difficulty of goal setting is complicated by the input from politicians. Missions or goals should be specified and analysed, as the very way they are characterized can have implications for how the organization acts. It is obviously not easy for many government agencies to decide what their mission actually is. For example, what is the precise aim of a social welfare department or a health department? Where strategic planning can assist is in making an organization or an agency specify what it is trying to achieve. In many cases this is something not done previously. Organization objectives are at a lower level and should derive from the strategic plan. If the mission is to improve the community's health, then the objectives can be more specific targets in particular areas. As far as possible, although controversial in its implementation, such targets should be empirical.

Fourthly, consideration of the external environment involves essentially the same process as in the private sector. General economic, social and political conditions, the three strategic dimensions of global, social and technological change and the 'negotiated relationship among the various organizations in an environment – determine the level of complexity and uncertainty an organization confronts' (Methé and Perry, 1989, p. 42). Public organizations exist in an environment that has both opportunities and threats. Public organizations in the administrative model were criticized for being overly insular, preoccupied with internal matters and not thinking about how or where their organization exists within government or society as a whole. A good strategic plan would discuss the opportunity or threats faced by the organization in the context of its external environment. The environmental scan should look at both the threats to continued organizational existence and to opportunities in other related areas. Public organizations exist in an environment in which threats are ever-present. A good plan would point to these and do so in detail. It should go beyond the obvious to be a clear, comprehensive picture of where the organization fits in its broader environment.

A public organization is essentially no different from one in the private sector when it comes to assessing its external environment, or in having a need to do so. There are differences of emphasis as Nutt and Backoff argue (1992, p. 180):

> The emphasis in the content of SWOTs varies markedly across sectors. First, firms have tight markets and weak political linkages. The reverse is true for public and third sector organizations; markets are loosely defined and authority systems impose constraints… Second, firms are pulled toward opportunities and public and third sector organizations tend to be driven by threats.

This is a perceptive comment. Public organizations may be more reactive than pro-active and respond more to threats, which means an expectation of a differing result from strategic processes.

Fifthly, the internal operations of the organization are also critical to its existence. If it has internal weaknesses it becomes harder to justify its continued operation in an atmosphere in which any excuse is used for making cuts. The internal environment assessment requires a thorough assessment of the capability of staff. This would include the quality and qualifications of staff, age, sex or other profiles in the hierarchy, departure rates, and less quantifiable measures including the state of morale. There should be an assessment of the extent of resources, particularly financial, but also the systems that are used, notably information systems, accounting systems and so on.

Despite any good plan requiring thorough organizational self-examination, it is usually difficult for an organization to look at itself in a critical way, as this can be construed as a direct criticism of the current leadership. Being able to do so is necessary for a meaningful strategic plan. Any of these internal factors may impinge on the organization's ability to fulfil its strategic mission and objectives, and so must be examined closely.

Sixthly, strategic issues should surface as a result of the environmental scanning activity. This would deal with any weaknesses identified inside the organization, threats from outside, or opportunities for the future. It may be possible to offer new services or new approaches to service delivery. Strategic issues should be separated from day-to-day ones in some way and need to be listed as they would form the basis of strategies to be formulated and implemented. An example of a strategic issue could be a major staffing problem, say, in a tax office where senior, experienced accounting staff are leaving for the private sector at far higher salaries. Another might be that a particular good or service being provided is now being contracted out to the private sector in some other jurisdiction, so that privatization might be considered in future. A strategic issue is a major issue, one that affects the organization's future or ability to function.

Seventhly, formulating strategies – sometimes referred to as deriving an 'action plan' or 'action programme' (Hax and Majluf, 1996) – is where the strategic issues deriving from the previous steps are put into effect. In this step strategies 'are formulated to achieve the selected targets' and, in practice, they may be considered 'as implementation plans, setting forth the major steps, accountabilities, deadlines, and resource requirements involved in achieving the target' (Eadie, 1983, p. 448). Once strategic issues are identified, an action plan should be formulated to deal with them. In the above examples of strategic issues, a response to the first would be to offer more money or better conditions for the accountants to stay. If an organization feels its existence is threatened by forms of privatization, it would need to be pre-emptive, to make a case for its continuance, and as well to think of contingencies – other alternatives for the staff – if the worst happened.

Eighthly, organizational vision, Bryson's final point, is rather more vague than the mission, but is meant to provide a code, a vision, a shared view of those within the organization for the future. Bryson is not, however, really clear how this differs from the mission. One parallel may be the development in the United Kingdom where public, and formerly public, organizations publish 'citizen's charters' to govern their relationship with clients. Presumably, part of the idea is to provide a shared vision to those inside the organization to govern their behaviour.

In sum, strategic planning, as set out by Bryson, does offer much to the public sector. He argues that 'at its best, strategic planning requires broad-scale information gathering, an exploration of alternatives, and an emphasis on the future implications of present decisions'. It can 'facilitate communication and participation, accommodate divergent interests and values, and foster orderly decision making and successful implementation' (Bryson, 1988, p. 5). It should be regarded as an adjunct to the political process, one with limits. These limits may be greater than in the private sector, a factor which changes the way plans are drawn up and what they contain, but does not diminish the value of the process.

Strategic planning does have limitations in the public sector, in precisely the same way as it did in the private sector. Frequently the only product of the process in the early years of strategic planning in the public sector was to produce a formal document. This documentation was 'all too often the main, if not the sole product' (Eadie, 1989, p. 170). There may be paralysis by analysis, and so on. However, it is markedly better than planning by budget or simple forecasting. More recently, however, there have been moves towards strategic *management*, a more comprehensive approach again deriving from the private sector (see Elcock, 1996).

Strategic management

As noted before, the next stage in the evolution of planning in the private sector is that of strategic management, argued to be a more realistic approach than strategic planning. The public sector, too, is moving towards strategic management as a result of similar limitations found with strategic planning.

Strategic management aims to integrate the planning function with the overall management task. Beyond this point, there are differing views as to exactly what is entailed in strategic management. As in the private sector, strategic planning involves analysing the environment for opportunities or threats, and formulating strategic plans to exploit those opportunities or cope with threats. In one view, strategic management includes these two aspects of strategic planning and extends strategy development to include strategy implementation and strategic control (Montanari, Daneke and Bracker, 1989, p. 305). McCaffery agrees, arguing that strategic management includes strategic planning, but it is 'a more inclusive concept, emphasizing dynamic interaction with the environment and an incremental methodology that allows for scanning the environment to choose the target that will yield the most benefit for the effort expended' (1989, p. 194).

Bozeman and Straussman see four aspects to strategic management. They argue (1990, pp. 29–30):

> As we use the term, strategic management is guided by four principles: (1) concern with the long term, (2) integration of goals and objectives into a coherent hierarchy, (3) recognition that strategic management and planning are not self-implementing, and most important, (4) an external perspective emphasizing not adapting to the environment but anticipating and shaping of environmental change. Strategic *public* management adds an additional ingredient: strategic thinking must be cognisant of the exercise of political authority.

The first two are essentially no different from strategic planning. However, the need for good implementation and the greater interaction with the environment are persistent themes in the transition to strategic management.

Eadie argues strategic management includes: an action orientation; recognizes the importance of design; and recognizes the importance of the human factor. An action orientation is to make sure that any document has built-in processes of implementation, including detailed action plans, schedules, accountabilities and specified costs. Design involves 'matching desired outcomes with the processes to achieve them' so that 'what an organization accomplishes through the strategic management process and how quickly these accomplishments are to be achieved are obviously tied to its capability, including human and financial resources' (Eadie, 1989, p. 171).

From these various perspectives, the changes from planning to management seem to be, first, greater care in developing the plan and what it represents and, secondly, greater attention to implementation.

The strategic management plan

Strategic management includes strategic planning and a plan is formulated in a similar way as before. What the plan means and its details do differ from strategic planning models. One particularly useful model is that of Nutt and Backoff who set out six points for a strategic management plan (1992, p. 152):

- depict the organization's historical context in terms of trends in its environment, its overall direction, and its normative ideals;
- assess the immediate situation in terms of current strengths and weaknesses and future opportunities and threats;
- develop an agenda of current strategic issues to be managed;
- design strategic options to manage priority issues;
- assess the strategic options in terms of stakeholders affected and resources required; and
- implement priority strategies by mobilizing resources and managing stakeholders.

Nutt and Backoff's first point is novel. The strategic management group is asked to 'reconstruct aspects of the history of the organization that have special significance'. In this, 'trends, events, and directions are examined, noting how they have changed in the past and may change in the future' (1992, p. 169). Organizations have a history and a culture, both of which need to be considered in formulating strategy.

The second, third and fourth points are similar to those found in a strategic planning model. The environmental scan is presumed to be more thorough, but this is a difference of emphasis, not kind. Strategic issues and options are similar to before, but the real difference is in recognition of stakeholders and using them to implement strategy.

Implementation

Implementation refers both to the implementation of strategic management and the implementation of any strategic plan once it has been developed. Both of these will inevitably involve changes within the organization. Implementation may be more difficult in the public sector as 'publicness brings with it constraints, political influence, authority limits, scrutiny, and ubiquitous ownership' (Nutt and Backoff, 1992, p. 201).

The biggest implementation problem will be in convincing staff that a strategic focus is useful, and that the changes to follow will be beneficial in the long run. It should be possible for the plan itself to anticipate opposition, and to involve people from all levels of the organization. Organizations contain people who have their own culture, and convincing people or changing cultures are processes that need to be managed and not assumed. Strategic planning models tended to focus on the steps involved without any consideration that there were people involved. The human factor is important (Eadie, 1989, p. 171):

> People, as we now know, are as, if not more, important to the success of strategic planning than are the mechanics of the planning process ... Since people learn to identify

> issues and formulate strategies, considerable attention is now being given to the development of the human resources as a key element in strategic management applications. Also, recognizing the benefits of collective effort in both strategy formulation and implementation, we now properly view management team building as crucial to strategic management success.

The process cannot simply be imposed; there must be ownership of the plan. Stakeholders need to be managed. One key change from strategic planning to strategic management is the importance attached to stakeholders. This is different from 'the narrower concept of strategic planning; stakeholders are decision makers within the organization and its environment who have an interest in organizational performance and can help or hinder the choice and implementation of strategies' (McCaffery, 1989, p. 195).

There are some simple points in improving the management process. It is usually argued that having a separate planning branch to carry out the task is not the best way of formulating any strategy, as other parts of the organization feel no ownership of it. It is better to have a strategic management team of five to ten managers, including the chief executive, but also including managers from levels below top management who are closer to operations (Bozeman and Straussman, 1990, p. 47; McCaffery, 1989, p. 196). Nutt and Backoff also refer to the strategic management group in an organization as made up of 'people who represent interests and power centres internal and external to the organization' and which becomes the 'key source of ideas about change and how to make the change within the organization' (1992, p. 152). The chief executive should be part of this group.

One reason it is hard to introduce strategic planning into public organizations is that many have been static in operation and, more importantly, thought processes, for a long time. To change into a dynamic organization – one with expectations of change – requires a complete change of culture.

The main aim of strategic management is to incorporate strategic thinking into management at all stages, instead of undertaking a one-off planning exercise to produce a document that may not be used. This is much harder, so much so that full strategic management is uncommon in the private sector, let alone the public sector. As Toft argues: 'strategic planning is more widely used in the public sector than strategic management', and this is something that 'probably reflects an earlier stage the business sector has passed through' (Toft, 1989, p. 6). However, it does seem likely that the public sector will eventually adopt strategic management rather than strategic planning and gain some benefits from doing so.

Criticisms

There have been criticisms of bringing strategic planning into the public sector. One set of criticisms applies to strategic planning or management in general, the other to their application to a public sector context. Olsen and Eadie refer to three categories of reservation and criticism (1982, p. 66):

- The formal strategic planning process is presented as more logical and analytical than it really is or can be. The design is too abstract and fails to take into account the socio-political dynamics at work in any human organization.
- The formal strategic planning process is too rigid and slow-moving to respond adequately to a rapidly changing, turbulent environment.
- The formal process works against creativity and innovation.

Olsen and Eadie then discount these reservations. However, the implementation of strategic planning or management has not been without its problems, suggesting that these or other criticisms should be looked at anew.

Olsen and Eadie's first point has some substance in that there are obvious difficulties in deciding what given public agencies do. To decide mission and goals is rarely easy and may not be meaningful. However, politicians or central agencies increasingly demand plans with clear goals and objectives as part of budgetary decision-making. In the longer term, it will become more difficult for agencies without clear goals to survive in the competition with other agencies for resources. The second point has more validity in that strategic management has been forced on agencies in a rather rigid way in some instances. Also, a plan set in stone for many years will certainly fail as the environment changes around it. This problem should be able to be resolved by good implementation and updating of the plan at regular intervals or by seeing strategic planning as a continuous, rather than cyclical, process. In a time of rapid change, 'environmental scanning and strategy formulation must be ongoing activities if an organization is to respond effectively to both threats and opportunities' (Eadie, 1983, p. 449). Also, the plan itself should not be the main product, but rather the process of thinking about the organization in a strategic way. On the third point, in some circumstances there could be bias against creativity and innovation, although the strategic planning process should itself be innovative and creative. In fact, this might give an opportunity for innovation compared to a static model of administration that did not plan for the future.

There are other criticisms than those noted by Olsen and Eadie. A fourth criticism is of the application of strategic concepts to the very different public sector context. Strategic management has been successful enough in the private sector to suggest that it is a model of some power and considerable validity, but there still may be problems in applying it to the public sector. There may be problems of goals, in that the public sector finds it hard to set goals or objectives for its activities. Olsen and Eadie are themselves criticized as being overly optimistic that a strategic imperative will prevail, with a danger that any plan 'will become a symbolic or ornamental enterprise conscientiously undertaken, but with only slight impact on practical management' (Montanari, Daneke and Bracker, 1989, p. 314). This is a real problem, particularly if the output of the process is only a document, rather than the process causing a real change in management practices.

A fifth area of criticism refers to problems of accountability. There may be real problems with political control in that, if the strategy is made by the organization this usurps the input of the politician, causing problems of accountability. This criticism suggests that planning is or should be anti-political, when 'it is an integral part of the political process' (*ibid.*, 1989, p. 314). There should not be a problem with accountability with regards to strategy. It is really that the previous rather *ad hoc* strategy is being replaced by more thought and analysis. Strategic planning and management do not replace political decision-making, but rather seek 'to improve on the rawest forms of political decision-making, however, by assuring that issues are raised and resolved in ways that benefit the organization and its key stakeholders' (Bryson, 1988, p. 70).

A sixth possible criticism refers to the difficulties of setting objectives. It could be argued that the objectives of public sector organizations are so imprecise as to make any strategy meaningless. There are two responses to this. First, the imprecision of objective setting may not be as different from the private sector as would normally be imagined. According to Ansoff (1988, p. 28) objectives are currently 'one of the most controversial issues of business ethics' with some writers seeking to 'remove profit from its position as the central motive in business and replace it with doctrines such as equal responsibility to stockholders, long-term survival, or a negotiated consensus among various participants in the firm'. This is some distance from the normal assumption that the private sector is purely motivated by profit. If the objectives of a firm are in reality 'a negotiated consensus of objectives of the influential participants' (*ibid.*, 1988, p. 31), this is not really different from a stakeholder perspective in the public sector.

A second response might be that of Nutt and Backoff who substitute 'ideals' for objectives. They argue (1992, p. 177):

> Our strategic management process uses ideals in place of goals. Goals are not used because they are typically ambiguous in public organizations and tend to remain so after clarification attempts … However, leaving goals implicit makes it difficult to modify or even evaluate current practices. Without some concept of the organization's aims, all change becomes contentious and the organization's strategy tends to stay rooted in past practices and conventional wisdom. To provide targets that identify intentions, we use the notion of ideals. Ideals suggest aims that can be articulated in concrete terms to capture goal-like targets and offer ways to seek compromise among competing views that dictate what the organization is (or is not) about.

In this way the strategic management process can go ahead without becoming bogged down in setting precise targets. There must still be ideals of some kind and these should be enough to make the strategy meaningful.

A seventh criticism is that the public sector has such short time horizons that any long-term perspective is bound to fail.

Time perspective is a problem, but rather than this point dooming any strategic plan, it should be factored into the analysis for the plan. Any long-term view in a rapidly changing area does need to be constantly updated. Some private sector industries also change very quickly – computers, for example – but strategic management is still feasible there.

There are other problems. Sufficient information may not be available to enable a plan to be developed. There may be a bias towards measurable activities in the strategic plan, to the possible cost of activities that are not. Staff may be inadequately trained and there is always the problem that even when produced, the strategic plan gathers dust on a shelf and is not regarded as meaningful by the staff.

However, none of these criticisms is so damaging as to make a strategic perspective in the public sector useless. They may serve as a caution against expecting too much and point to the need for careful implementation with stakeholders. It should be a method of thinking above all else, as Bryson argues (1988, p. 46):

> Any strategic planning process is worthwhile only if it helps key decision makers to *think* and *act* strategically. Strategic planning is not an end in itself, but merely a set of concepts to help leaders make important decisions and take important actions. Indeed, if any strategic planning process gets in the way of strategic thinking and acting, the process should be scrapped not the thinking and acting.

Introducing a strategic perspective into the public sector is valuable if it is done sensibly, not too rigidly, involving stakeholders, and as an aid to management rather than being an end in itself. It is the case that the transition 'from bureaucratic organizations to strategy-led organizations that manage continuous improvement and responsiveness to the public will take some time to achieve' (Joyce, 2000, p. 229). After this is done, or even while it is managing the process, there should be positive effects on the organization with regard to focus and results and ultimately its long term future.

Conclusion

An enhanced concern with strategy is part of the change from the traditional model of administration to the managerial model. As a result of managerial reforms, no organization can automatically assume its future existence is guaranteed. Even if it may not face the immediate threat of going out of business if a product does not sell, as in the private sector, the difference between sectors may no longer be that great. There is the constant threat of re-organization, amalgamation with some other agency, privatization or the government deciding that the function is no longer needed. The absence of certainty is not altogether bad, as it concentrates attention on what the organization does in terms of goals and missions and in phrasing these to meet the government's overall strategic objectives. In theory, it should be possible to link the strategic planning process with the other elements of the managerial programme. From the strategic planning process, it should be possible to identify the areas of operation to be concentrated on. These are identified as programmes, funded separately as programmes, and performance measures and detailed evaluations feed back into the strategic planning process the next time around.

In the private sector, strategic management and planning are useful tools for management, although they have not proved a panacea. The same should be true in the public sector. Just thinking about the future is a useful exercise for public sector organizations, although it was neglected under the traditional model of administration. If the aims of strategic planning are to assist in the provision of information, it should prove useful. There have been some bad examples of strategic planning in the public sector, where this lesson was not absorbed. Strategic management should not be introduced in an overly rigid fashion, nor indeed should the managerial system in general. The process should include compromise, political constraints and politicking as an integral part rather than something that occurs outside the model.

Strategic planning or management is not something to be done just once. It is the planning *process* not the plan itself which is important; the use of strategic concepts allow the organization from top management down to develop a shared vision for the future. It does not guarantee that mistakes will not be made. Strategic planning and strategic management simply give some direction and purpose to public organizations, something that is required in moving from public administration to public management.

8

Personnel and Performance Management

Introduction

Although the main focus of public sector reforms has been on the external environment of the public organization, through both strategic management and improving the relationship with outside groups and other external influences, there have been major changes to internal management as well. Public policy and public management may still take place in offices, organized and staffed more or less bureaucratically, so in that sense there is some continuity with the earlier model. Despite this essential continuity with the old model, despite the changes being of detail, there has been more controversy over internal management changes than either strategy or external management. This may be because the traditional model focused on the organization, and, over time, elaborate procedures and systems were built up and changes to them are naturally resisted. There has also been resistance from public servants and public sector unions who find changes to personnel systems – performance appraisal, short-term contracts, merit pay – threatening to long-established terms and conditions of work.

Two main aspects of internal management will be looked at here: personnel management and performance management; financial management will be discussed in the next chapter. All have seen major changes under the managerial model which attempt to make the organization and its internal management systems achieve results rather more directly than before. Even though the greater external focus in new public management is an overdue reform, it only directly involves managers at the higher, strategic levels. The various reforms to internal management, however, have affected everybody within the organization.

All these functions existed to various degrees in the traditional model of administration. There was always attention paid to organizational structures, the personnel management system and the monitoring of performance, although these were considered in a rather narrow, bureaucratic way. Monitoring performance was particularly weak in the traditional model, and other internal management components, notably the budget, were aimed at monitoring inputs and not outputs or the performance of objectives. Internal management in the traditional model was criticized for being obsessed with *structure*, with any results being incidental or assumed to follow naturally from organization. As with the other changes to a managerial model of government, the focus for internal management is now supposed to be on results.

Personnel management

In organizing and staffing, the manager sets out the structure and procedures and fits staff to the key positions. While this may be done bureaucratically, it need not be. The organization should be designed to fit its function. The personnel management function is crucial in any organization, perhaps particularly in government, as quality of the services delivered relies on the staff that do the work.

Personnel management in the traditional model of administration followed the bureaucratic theories of Max Weber almost to the letter. As set out earlier (Chapter 2), the individual public servant was, in Weber's theory, to have a particular set of working conditions – appointment for life, appointment by a superior authority and not elected, positional appointment and promotion, old age security provided by a pension – and 'a career within the hierarchical order of the public service' (Gerth and Mills, 1970, pp. 199–203). The notion of a career service, common in many countries, followed these precepts almost exactly.

As an example, a typical description of a career service personnel model is that of the Commonwealth Government in Australia as described by the Coombs Commission in the mid-1970s as (Australia, 1976, p. 169):

- *recruitment by merit* (however defined) to a
- *unified service* (intended to mitigate the evils which result from fragmentary service) subject to
- *independent, non-political control* of recruitment and of the conditions of employment; and where the rights of career public servants are protected by
- regulations which *discourage the recruitment of 'strangers'* to positions above the base grade, and by
- *legislated protection against arbitrary dismissal* (termination being only for cause and by due process). This unified service is characterized by
- *a hierarchical structure of positions* defined by
- a regular system of *position classification* of salaries (with incremental advancement within the salary ranges of particular positions), with the career public servant rising through this hierarchy of positions according to
- a system of *promotion by merit* subject to
- a system of *appeals against promotions* (designed to ensure that justice is seen to be done), the final reward for long and loyal service being
- a *distinctive retirement and pension* system

The normal practice at least until the 1970s was for aspiring administrators to enter the public service direct from school after sitting an examination administered by a separate non-partisan government agency, be appointed to a position at the bottom of the hierarchy, gain regular promotions, often based on seniority, or seniority combined with 'efficiency', and, in principle, aspire to become a department head. Recruitment was carried out by merit and appointment was to the service as a whole rather than to one department or agency. Lateral appointment to higher levels than the base grade was discouraged. In Australia until 1976 there was a ceiling imposed that no more than 10 per cent of new recruits could be university graduates. Careers were largely restricted to men as, until 1966, women were forced to resign when they married. Finally, and in accordance with strict Weberian principles, the reward for long and loyal service would be a distinctive retirement and pension system. In return for permanency of employment, usually for a lifetime, public servants accepted that they would be neutral, non-partisan and anonymous. For those on the inside, the traditional career service system was comfortable, not too hard and provided a steady career for those of a mind to follow the rules.

There are some advantages to this as a system of personnel administration. It provides a measure of stability for those inside. It was designed to be non-partisan, while the principles of neutrality and anonymity fitted an administrative or technical view of public service. Appointment at the base-grade and steady progression through the hierarchy, even promotion by seniority, should inculcate loyalty to the department and public service and could reduce office politics.

However, as a system of personnel *management*, there are more problems than benefits. A system characterized by rigid hierarchy is unable to cope with rapid change and can and did become self-absorbed and claustrophobic. Personnel management should aim to select, appoint and develop the best available workers for the required tasks. Even though this matching cannot be done perfectly in any system, it would be hard to find an example where these three points were performed worse than the traditional model of administration.

Taking recruits only at the base grade initially aimed at training them for a lifetime of service in an unusual occupation. What it meant in practice was that a cohort group would advance in parallel fashion until the end of their careers, so that the persistent and unambitious public servants would become departmental heads and the impatient or talented would leave. Unsatisfactory personnel selection devices such as seniority give the appearance of fairness, when all they really do is reward the time-servers and punish the able. A system of promotion by seniority is an acknowledgment either that performance cannot be measured or that everyone has equal performance in administrative tasks. Both are damning of the personnel system that produced it, a system that almost guaranteed mediocrity.

The absence of performance measurement can also lead to other personnel problems. A clique of like-minded managers may develop who then only hire or promote those of their own kind. These may be all males – this was frequently the case – or from a particular religious or social sect. Other social groups either find it hard to gain a foothold or to achieve advancement if they do. As with the practice of seniority the public workforce using such practices would hardly be a model of efficiency, but with the traditional model of administration such inefficiency could be hidden for many years.

A particular personnel problem in Britain was the emphasis placed on general ability rather than upon specific skills deemed relevant to government. Even after the reform process was well under way, authority remained with generalist administrators (Zifcak, 1994, p. 166). If the United Kingdom was so anomalous in this regard, it is little wonder that the Thatcher government began to question the management capabilities of its public service.

In the United States, the civil service system also had major problems in developing a management culture as described by Ingraham (1995, pp. 12–13):

> Virtually everything about the civil service system and its concomitant rules and regulations works against the development of a strong managerial culture and strong managers. The wrong incentives are in place and they are in the wrong places. The civil service system was not intended to be a flexible management system; true to its intent it is not.

Personnel systems in the traditional administrative era were obsessed with fairness rather than ability to achieve a result. It was indeed designed not to be flexible and that was what was achieved. As Ingraham also argues (1995, p. 11):

> The emphasis on rules and procedures has created an organizational environment in which applying rules and following procedures has been valued more highly than using discretion and flexibility effectively to mobilize resources to achieve organizational objectives. This distinction can be summarized by considering the differences between administration and management. The former describes the neutral civil servant applying the right rule at the right time, but not questioning the rule and certainly not exercising discretion in whether it should be applied. Management, on the other hand, connotes considerable authority, discretion in its use, and accountability for outcomes and product rather than to rules and regulations. Civil service systems generally create administrators, not managers. (Ingraham, 1995, p. 11)

It began to be perceived that the personnel system itself did not attract the right people to government service or promote the most able. While it may have bred capable administrators, what was needed was capable managers. The rigidity of the administrative structure makes it difficult to hire the right people as the selection procedures are cumbersome and usually beyond the control of the manager. It is similarly difficult to provide appropriate reward structures or to remove people who are not performing. In addition, the rules inhibit managers' ability to motivate subordinates (Bozeman and Straussman, 1990, p. 11).

Reforms to personnel systems

In the personnel system, as with the other changes from public administration to public management, there is a general aim to focus on results, flexibility and providing incentives. It is becoming easier to hire the right people, quickly and often with variations to the standard conditions of employment. Often contracts are used. At the highest levels, it is becoming common for ministers to appoint their own senior staff, in what may be an extension to other countries of the American system of political appointees to the public service. The reward and incentive structure has changed with performance pay being common. It is also easier to remove those who are not performing. The public services now cannot afford to have staff who are not contributing but the corollary is that good performers can be identified. This means that devices such as seniority are disappearing, as is the dominance by particular social groups. Some countries have rigorous programmes of affirmative action and while these have been driven by societal demands they also have an efficiency aspect given that talents are normally distributed but some groups were excluded previously.

Ideas for changing personnel systems have been around for some time. The Fulton Report in Britain in 1968 recommended that the system be opened up, that outsiders be employed at all levels and that the rigid hierarchical structure in which barriers were placed at several points be removed. Under the previous system, professional staff could not rise beyond a certain point, but this too was to change.

The Civil Service Reform Act of 1978 in the United States was similarly based on the view that management needed to be improved and that managers would take greater responsibility for their organizations and their staff. The Act established merit pay and a new Senior Executive Service. This is an elite of senior managers who would be appointed to the SES rather than to any specific position, with the aim of allowing ready transfer between positions. It also introduced performance appraisal and performance pay, both of which have also been implemented in other countries. These form an attempt to introduce the incentives common in the private sector into the public sector, in order to provide some tangible reward to the able. The Act also introduced new demotion and dismissal procedures, again with the idea of improving quality.

In general, there has been a move towards breaking down the rigid hierarchical structures and providing flexibility. Rather than secure lifetime employment, more employees at all levels face regular re-structuring of their agencies, more movement, more redundancies and less certainty (Farnham and Horton, 1996). There are likely to be more dismissals, and little or no growth in numbers employed. Public servants who assumed they had a steady job for life may find the adjustment difficult. Other changes are possible. Term appointments are likely at lower levels, permanent part-time work will become more popular, and changes to make retirement benefits portable would greatly enhance movement in and out of the public sector. More use is being made of contracts for short-term employment rather than lifetime employment, and for contracting out functions once carried out inside the system. These contracts will mean employees no longer have public service conditions of employment. Some governments are looking at carrying out administrative functions by contract;

in the battle to contain costs, governments will look at any alternative. Staff are now increasingly recruited at all levels. Base grade appointment is becoming quite rare in some places and it is more common to recruit graduates or even department heads directly from outside.

Public sector employment has generally declined. Among the advanced countries there is a general decline in numbers employed by government as a percentage of the workforce (Pollitt and Bouckaert, 2000). In the United Kingdom, for example, between 1979 and 1999 public sector employment in the UK fell from 6.5 million to 4 million, although definitional changes make a strict comparison difficult to make (Greenwood, Pyper and Wilson, 2002, p. 17). The National Health Service is no longer part of the public service, but is publicly funded and with close to a million employees those numbers should really be added to the 4 million cited above. In general, however, a number of countries have reduced the number of public employees.

These changes have been controversial and were resisted by employees and unions. But at a time when flexibility, a mobile workforce and management by results are common in the private sector, it makes no sense for the public services to insist on the personnel practices of a past age. Caiden (1982, p. 183) refers to 'the bulk of public employment where conditions are similar to those obtaining in the private sector' and this is, in fact, the case. Except, arguably, at the highest levels, most public servants carry out similar duties to those in business. Personnel practices peculiar to the public sector were introduced because government work was considered to be quite different, but increase in size and function has meant that most public servants are engaged in service delivery, not policy advice, and the case for different standards of employment is less tenable.

It follows that personnel arrangements more like those in the private sector will become commonplace. According to Osborne and Gaebler, public sector experiments have shown the success of 'broad classifications and pay bands; market salaries; performance-based pay; and promotion and lay-offs by performance rather than seniority', and that other important elements of a personnel system could include: 'hiring systems that allow managers to hire the most qualified people … aggressive recruitment of the best people; and streamlining of the appeals process for employees who are fired' (1992, p. 129).

The public service is now more competent than it was. Better methods of management and analysis as well as recruitment and promotion procedures are likely to make public sector managers smarter, especially when combined with better utilization of new technology. The human resources available now are certainly better than they were, when it was assumed that public administration required no special competence. Greater flexibility in promotion and improved performance measurement should allow the competent to rise faster. With the demise of the career service model, staff are less likely to spend their entire careers in one agency, or even in public service, but to interchange between public and private sectors. In addition, while there are criticisms of having economists or management specialists in charge of agencies, general competence by senior staff has improved and this is likely to continue.

For the ambitious and able, public service work is more interesting than it once was, when capable people would often leave in frustration at the rigidity of the system and were often unwilling to wait their turn for promotion. Barzelay argues that public managers can have much more varied roles than previously (1992, p. 132):

> The post-bureaucratic paradigm values argumentation and deliberation about how the roles of public managers should be framed. Informed public managers today understand and appreciate such varied role concepts as exercising leadership, creating an uplifting mission and organizational culture, strategic planning, managing without direct authority, pathfinding, problem-solving, identifying customers, groping along, reflecting-in-action, coaching, structuring incentives, championing products, instilling a commitment to quality, creating a climate for innovation, building teams, redesigning work, investing in people, negotiating mandates, and managing by walking around.

It could be argued that many of these tasks are merely derived from the private sector, that they are fads and are not relevant for government. What is more accurate is that the tasks specified by Barzelay are those of a manager rather than an administrator, with the role of the former more varied and more interesting.

A public service does two main things. The first is to provide assistance and advice to the political leadership. The second is to deliver services, to implement what the government or previous governments have passed legislation for. The two can be linked in that insights found while delivering services can lead to information or anomalies that can be fed to the political leadership for further attention and subsequent legislation. But conceptually the two are different. The traditional public administration provided for little distinction between the two, so that conditions of employment perhaps needed for the first – to provide frank and fearless advice, for example – required permanent employment and neutrality, were not really needed for the second service delivery role. They became conditions of service. And because some public servants needed to be permanent, all public servants needed to be permanent in the old system.

What the public management reforms have done, among other things, is to unpack the various kinds of public service work. The service delivery function is a production function, a management task, analogous to many in the market sector. There is a task involved in sending out millions of social security payments but one no different in character than a major logistic task in marketing. This has led to experiments in agentification, in contracts, in using call centres or the like and even providing government services through the private sector. They also have led to the realization that not all public servants need to be permanent, nor is it required for them to have unusual and more generous conditions of service than other comparable jobs in the private sector. Further, those parts of the public sector close to the political action – policy positions, heads of agencies and the like – found it difficult to justify permanency when the political leadership did not want it.

It is now realized that the personnel function – more often termed the human resource management (HRM) function – needs to be actively managed. Farnham argues there are five key features of contemporary human resource management and employment relations emerging in the public services (1999, p. 127):

> First, the personnel function is attempting to become more strategic than administrative in its tasks, but within resource constraints structured by the state. Second, management styles are tending to shift towards more rationalist, performance-driven ones, away from paternalist, pluralist ones. Third, employment practices are becoming more flexible and less standardized than in the past. Fourth, employment relations are becoming 'dualist', with most non-managerial staff continuing to have their pay and conditions determined through collective bargaining, whilst public managers are increasingly working under personal contracts of employment. Fifth, the state is moving away from being a 'classical' model employer. In its place, it appears to be depending increasingly on HRM ideas and practices taken from leading-edge private organizations, whilst adapting them to the particular contingencies of the public services.

The organization's overall strategy and even its very survival is linked to the competency of key staff. What is often termed strategic human resource management in government seeks to integrate strategy with staffing and links in other areas such as industrial relations, recruitment, training, incentives and performance evaluation.

Davis argues that a contract state might turn out being similar to the traditional model of public administration, containing a small elite of core officials (1997). This might be so, but there is no particular need for this small core to be long-term employees or to even have much knowledge of their department's area of expertise. The actual administration might be better if there were a core, but the changes are so widespread that it would be hard to identify who should be in the privileged core. The elite model proposed by Northcote–Trevelyan or Weber may return, but seems unlikely in the short or medium term. More likely is that the public service will become like a management consultancy firm. Some consultants may have a long career in the same place, but this is unusual. More likely is rapid change and short-term positions in the public service. Perhaps there will be a floating population of policy advisers: sometimes in the bureaucracy; sometimes advising politicians; sometimes working as consultants for one of the big accounting or consulting firms. Permanency and a career may be seen as archaic and not characteristic of many public service staff who will transfer more readily in and out of the sector instead of being lifetime employees.

The task for public managers is more complex and challenging than it once was. A managerial public service may be more interesting for public servants than was the traditional model. As Caiden argues (1996, pp. 30–1):

> Few would want to return to the passive bureaucracy of the past, its conservatism, adherence to the strict letter of the law, reluctance to depart from precedent, undue weight

> given to respectability (read good connections), reliability (reputation for avoiding innovation), seniority (length of routine service), and group conformity. Such traits might have suited the tempo of past times but they need to be transformed to meet today's needs and to prepare for tomorrow's surprises.

In the best public services this transformation is indeed happening and there is certainly no real possibility of returning to the rigidity of the past. But it is also the case that the transition period has been difficult for many public servants. The public sector is a difficult place to work at the best of times. Poor morale may be endemic or, at least, hard to combat. The public service is likely to be much smaller, although it will probably have to offer higher salaries to compete for the scarce, competent staff it will need. Such a service might be much better, but trying to improve the perception of outsiders and to recover some respect from the community at large will be much more difficult.

Performance management

By any standard, performance management in the traditional model of administration was inadequate, and this applies to both the performance of individuals and the organization. Measures which did exist were *ad hoc* and far from systematic. It is true that there are difficulties in measuring performance in the public sector when compared to the private sector, but it seemed that little effort was made. Perhaps it was assumed that results would follow from bureaucratic organization, so that any explicit measure was unnecessary. There was often no idea what was produced, how well it was produced, who was to take the praise or blame, or even who was a good worker. In any case, an administrator does not need to worry about performance as all he or she is doing is carrying out instructions, and performance measurement is the problem of those giving the instructions. Evaluation of programmes or people was infrequent and inadequate, with no idea of progress towards objectives, if indeed there were any clear objectives.

Reforms to performance management are a particularly important part of the managerial programme. Agencies in many parts of government are now expected to develop 'performance indicators', that is, some way of measuring the progress the organization has made towards achieving declared objectives. Statistical measures can be developed in any organization, although there are more difficulties in practice in the public sector than usually experienced in the private sector. Performance of staff is also to be measured more systematically than before. The performance appraisal system aims to measure the performance of individual staff, even to the extent of defining the key contributions expected over the year, which are then compared with actual achievement at the end of the year. This can extend to rewarding or sanctioning staff according to progress towards agreed objectives. Informal methods of appraisal are considered to be ineffective and lead to inferior organizational outcomes.

There is a general aim to monitor and improve the progress of staff and agencies towards achieving objectives.

One of the starting points was the Financial Management Initiative (FMI) in the United Kingdom that aimed at promoting in each department (UK Treasury and Civil Service Committee, 1982):

> an organisation and a system in which managers at all levels have:
>
> - a clear view of their objectives; and means to assess, and wherever possible, measure, outputs or performance in relation to those objectives;
> - well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
> - the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively.

This had implications for financial management, but also for personnel and performance. Indeed, all three were linked together in a new management system which involved the specification of objectives for all government policies and for individual units within the bureaucracy; precise allocation of costs to activities and programmes; and 'the development of performance indicators and output measures which can be used to assess success in achieving objectives' (Carter, Klein and Day, 1992, p. 5).

Carter, Klein and Day argue that the FMI in the United Kingdom represented 'a move to institutionalise the search for efficiency and to generalise the attempts to change the management culture of Whitehall'. Performance indicators became a new movement within the public services with the express aim of finding out how hard government activity was to measure. As a result, FMI was 'intended to challenge the way in which the public sector has gone about its business for a century or more' (*ibid.*, 1992, pp. 22–3). Performance indicators were established for all kinds of activities. Indeed, in some offices, a bewildering number of them were used, often far too many. Carter, Klein and Day argue (1992, p. 181) that different indicators can be developed for different purposes:

> Given different policy objectives, different kinds of performance indicator systems will emerge. So, for example, if the prime concern is with the efficient use of public resources, the emphasis will be on trying to devise output (and, if possible, outcome) measures: the approach of the economist… If the prime concern is with accountability, then a rather different emphasis may emerge: process indicators which measure the way in which services are delivered to the public – their availability, their timeliness, may be more relevant. If the focus of attention is on managerial competence, then the stress may be on setting targets for the performance of individual units or branches. These objectives may, of course, coexist within the same branch.

Governments have increased the use of performance indicators, as the managerial system takes hold and such data becomes the subject of public debate. If central government 'is to maintain control over the implementation of policies while at the same time decentralising day to day responsibility, the performance indicators become an essential tool: it is necessary to centralise knowledge about key aspects of performance in order to be able to decentralise activity' (1992, p. 179).

Performance indicators are open to criticism for trying to specify the unspecifiable, given the inherent difficulties of measuring performance in the public sector. Managers will argue that the benefits brought by their particular organization cannot be quantified, or that empirical measurement distorts what it does by focusing only on those things that can be quantified and are able to be processed by the information system (Bellamy and Taylor, 1998). This may be a danger, but can be overcome by setting measures directly related to the organization's overall success. Also, once objectives are set they should not be set in concrete. Since the objectives of public organizations frequently change, 'management indicators must be flexible and continually open to re-examination and modification' (Cohen, 1988, p. 68).

Having such measures is necessary for judging the manager's achievement of results, as is characteristic of public management, even though there are limitations to how far this can be extended. As Holmes and Shand argue (1995, p. 563):

> Our contention is that performance measurement and its wider use in performance management is a worthwhile exercise as long as it is done in full knowledge of its limitations. At the very least it can provide improved information relevant to decision-making. It can usefully inform the budget process without a pretense that there can be direct link between the budget and performance. It may also provide useful accountability information for public debate. Indeed, a major spin-off from the reforms has been a substantial increase in the amount of information of impacts of government policies and programs as reflected in budget documents, annual reports, etc. ... This has, for the most part, contributed to much greater transparency in government, a major factor in improving performance.

Of course, there are difficulties in measuring performance, and greater ones in the public sector, but this does not mean that no attempt should be made. The original idea of the managerial reformers was to provide some surrogate measure for the use of profit and other measures in the private sector. Without some attempt at measuring performance, the other aspects of the managerial programme will not work. It is important, however, that performance measures be developed for the specific needs of the public sector (see Talbot, 1999).

It is unlikely that any one measure will be as good as profit, but there are several reasons why performance measures will continue to be used. First, individual public servants may see the use of indicators of appraisal as a threat, but it can be an opportunity by pointing to good practices and good performance, both of which may be rewarded. Secondly, as any public activity is under threat of being cut or removed altogether in the current climate, a function or position in which measures of performance are inadequate is much more vulnerable. Thirdly, there is little point in setting clear objectives, or funding programmes accordingly, unless there is some means by which progress towards objectives could be monitored. There has been so much capital invested in these other changes that performance measures will be insisted upon.

Some problems of the personnel and performance changes

The various changes to internal management have been criticized and, given they have affected everyone, this is rather unsurprising. Some have argued that a public service career is not what it was. The notion of career service is disappearing, as is lifetime tenure or the inability to be dismissed. Promotion prospects are less certain and there has been a bewildering series of reforms affecting morale.

Personnel arrangements

There are several points made by critics as to the changes in personnel systems. Pollitt and Bouckaert (2000, pp. 162–3) refer to a contradiction in the personnel sense between motivating public employees and reducing their conditions of service. There is some point to this. At the same time as it is claimed that the public management reforms will liberate managers and allow them to take responsibility, tenure is being removed as are many of the special conditions of service once given to administrators. As Peters argues (1996, p. 18):

> These changes tend to replicate personnel management in the private sector and also to weaken the long-term commitment of government to its employees. Working for the public sector is now less different from working for the private sector, and one should think about the implications of those changes.

The review of personal performance becomes an instrument of control. Horton argues that ‘civil servants are now more obviously managed, with the personal review acting as an instrument of control, although it is more often presented as an instrument of consultation and individual empowerment’ (1999, p. 153). Pollitt and Bouckaert also argue that managers have more freedom but are simultaneously under greater scrutiny (2000, p. 138):

> Beneath the surface, the process of letting – or making – public managers manage has not been so simple. There have been countervailing currents and considerable centralisation, partly through the establishment of evermore sophisticated performance indicator and target regimes, underpinned by rapidly advancing information technologies … Executive politicians have transferred their focus for control from inputs to outputs, via processes. This may account for the somewhat ambiguous responses from public service managers themselves – they have experienced greater freedom to deploy their inputs (e.g. switching money from staff to equipment, or *vice versa*) but at the same time they have felt themselves under closer scrutiny than ever before as far as their results are concerned.

Public servants have greater scope to do things and to achieve results, but with this has come increased attention as to whether or not results have been achieved.

By itself this may not be a big problem, but it is very difficult for public managers if they are expected to achieve results while following the same detailed procedures as in the bureaucratic model. Management freedom to act does need to be meaningful, but no-one can escape verification after the fact that results have been achieved.

Another problem has been the idea of providing incentives by means of extra pay. Even if performance pay is a good idea in the abstract, it has been hard to implement in a fair and reasonable way. It could be used to reward favourites and may cause resentment in those who consider themselves worthy of extra reward but get none.

Finally, it still remains difficult to measure the performance of personnel in the public sector, so that problems of unfairness are not likely to be solved. On the other hand, it could be argued that 'fairness' in reward structures is a peculiarly public service view of the world, that the private sector hardly has 'fair' reward structures and that some unfairness may be the price to be paid for greater flexibility.

Performance management problems

Performance management has attracted a series of criticisms. While it is no longer tenable for there to be no performance indicators, there is the hope that improvements can be made.

Even the bottom line measure of financial performance in the private sector is not a perfect measure of organizational performance. Performance measurement is not easy anywhere and it is certainly the case that private organizations use a variety of measures other than simply profit. Competition is probably a more effective driving force than any form of measurement. Yet public organizations are also competitors: competitors for scarce budgetary resources. Governments wish to have some means for deciding which parts of their operations are using resources well.

There are problems in the implementation of performance measurement. It is difficult to design adequate measures of performance but as the remainder of the managerial programme depends on this, making some progress is necessary. There have also been problems in the type of performance indicators that have been used thus far. Measures need to be meaningful but parsimonious and to have a direct impact on the operations of that part of the public sector. Poorly chosen performance measures may result in management being focused on achieving satisfactory results by the measures used instead of the best possible performance by the organization as a whole. In addition, despite the attractions of a rigorous system of performance appraisal of staff in identifying both good and bad performers, it is difficult to design a system that provides reliable comparisons and is accepted by those involved. In many parts of the public service it is hard to compare the performance of individual people in a fair and comprehensive way. There are problems with implementation of performance measures, as there are for any changes which affect so many staff, but rather than abandon the use of performance indicators, it is suggested that more work should provide better measures.

A pattern seems to occur in which performance measures are initially both opposed and poorly conceived. Osborne and Gaebler argue ‘this pattern – adoption of crude performance measures, followed by protest and pressure to improve the measures, followed by the development of more sophisticated measures – is common wherever performance is measured’ (1992, p. 156).

Perhaps too much can be claimed for the use of performance indicators. Rather than being performance *measures* – perfect surrogates for profit in the private sector – they are really *indicators* of performance which are simply pointers to good or bad performance, and do not try to measure it precisely. Not measuring performance is now inconceivable, but there are many better ways in which performance indicators can and should be used. As Carter, Klein and Day argue, ‘the real challenge is to move from an exclusively managerial view of accountability and the role of performance indicators, to a wider, political definition’ (1992, p. 183). As well as indicators of overall progress towards objectives or the achievement of financial targets, there should be indicators of customer or client satisfaction or the speed and level of service delivery. Indicators should aim at measuring effectiveness and quality, rather than efficiency (Flynn, 1997, pp. 170–85) and outcomes instead of outputs.

Problems of morale

The series of unrelenting attacks on government and bureaucracy, followed by a series of bewildering changes including those of performance measurement and personnel changes, have caused problems of morale. Public administration in its Golden Age was a valuable and valued profession. This was no longer the case by the 1980s and individual bureaucrats had to cope with antipathy from the citizenry. Weber wanted bureaucrats to be respected as an elite group, but increasingly, they have been vilified as wasting scarce taxpayer money. The lack of regard from the public for the bureaucracy has undoubtedly made the managerial reform process easier to accept, but has probably exacerbated the problem of public service morale. Managerial changes and reforms have imputed the motives of public servants and taken away many of their hard-fought benefits, such as the expectation of a job for life.

Not only is there a serious morale problem, there seems to be no quick or easy solution to it. Demoralized workers are obviously less effective, so that improving overall performance requires attention being paid to problems of morale. The morale problem may be part of a larger problem. Attacks on the bureaucracy, even on government as a whole, might be part of some general disaffection with the idea of politics and government. Perhaps the attacks on government have affected, not only public administration theory and practice, but the very idea that government and public service could improve the lot of those within society.

Whatever the cause, the public sector is not likely to be the comfortable, easy place it may have been before the 1980s. Pollitt appears surprised that lower-level staff 'show less enthusiasm for enacted reforms than do the "mandarins" at the top' (2001, pp. 476–7). This should not be a surprise. The old administration was comfortable and easy, a great place to work for those valuing stability. The managerial workplace is more difficult; it is more rewarding for those who are capable but less comfortable for those that want an easy life. In this respect it is more like the private sector. As an OECD paper argues (1998, p. 48):

> Some public servants also profess to be concerned about the disruption that change inevitably brings, and the number and speed of changes. The fact is, however, that the amount of structural adjustment in the public sector is typically no greater than is being experienced elsewhere in the economy, and the pace of change has speeded up everywhere.

There might be a gradual improvement of morale inside the system as the expectations of workers change to resemble those of private sector employees. If public servants do not expect to be employed for life, they should have fewer morale problems than those earlier employees who thought they would be. As the reforms proceeded, expectations of staff did seem to change. This has positive effects in that flexibility in staffing could result. Flexibility, however, works both ways. Without an expectation, or even desire, for long-term employment, good staff would stay for a short time and then leave for another job in the private sector or a different part of government. Perhaps the result of all the changes will be improved quality in the public sector and this development will satisfy both citizens and public employees. It will be necessary, however, to treat staff as the valuable resources they are. Old-style authoritarianism is most often counterproductive in dealing with good staff, as they will simply leave.

Conclusion

There have been major changes to the various parts of the internal management system of the public sector since the early 1980s. Personnel management has moved some distance away from the unsatisfactory methods of the traditional model, where, in the name of equity, personnel procedures almost guaranteed mediocrity. Performance management is also being transformed, both in the personnel and agency sense. Performance appraisal systems offer more than those in existence before, while performance indicators offer the promise of assessment of agency performance towards specified objectives. Performance can be measured in the public sector, not perfectly, but that is no reason to discard the use of performance indicators.

And yet, of all the areas of managerial change, there have been greater problems in internal management and a feeling that there is still a long way to go.

Most of the problems have concerned implementation. It is not easy to institute a new personnel system or to persuade staff that it is better than the previous one. Changes have been so frequent that many staff do not know where they stand. This causes problems of morale, exacerbated by the feeling that a public service career is less attractive. If once it was a permanent career, valued by the community, it certainly is no longer. The implementation of performance indicators is similarly difficult. They should be simple, parsimonious but still meaningful. In theory, all these changes make much sense, but have been difficult to bring into effect.

There are two points to be made in looking further ahead. First, even if there have been problems in setting up new systems, the direction of reform in internal management is quite clear. So if particular changes are difficult they will be superseded by further changes in the same direction, rather than going back. Secondly, comparisons or studies should not look at how well the reforms work in the abstract, but rather how well they compare with what went before. In this regard, all the changes mentioned here are far better than those that existed under the traditional model of administration. In that model, personnel and performance management did exist but were of such dubious quality that any change at all should prove to be a significant improvement.

9

Financial Management

Introduction

Financial management is, arguably, the most important part of the internal management of government. Any activity of government needs money in order to operate; indeed the ability to raise taxation and to spend it is what sets the institution of government apart from other parts of society. Raising and spending money are not narrow, technical operations for any government. The use of money determines the very nature and extent of government activity, as well as the winners and losers in the political competition for financial favours. A party or group in government has access to the government's taxation revenues to spend; a loser has nothing. With the increasing pressures on government both to provide services and to contain or reduce its costs, the budgetary process has become a crucial battleground, one which exists within the bureaucracy no less than in the community at large. A reality of government is the internal political game played by agencies as advocates and moderators of political demands.

Financial management in the traditional model of administration was rather primitive. Due to poor information a form of incremental management was all that could be followed. This was related to inputs into the administrative process as governments had only inferior ways of determining what the public sector actually produced. The information available from input or line-item budgeting was so poor that many of the other features of the traditional model of administration followed. It was thought too difficult to measure performance, if indeed this had been considered. The purpose of an agency in many instances was to spend the budget with little thought as to why or for whom.

Reforms to financial management have been one of the keys to overall public management reform. After more than fifteen years of these, it is possible to assess those aspects of the public management reforms that have worked and others that have not. In the countries that implemented them well, the financial reforms probably worked best. Financial management is now closely related to personnel or performance management, under an umbrella of financial management or a broader strategy like the Financial Management Initiative (FMI) in the United Kingdom in 1982, or the Financial Management Improvement Programme (FMIP) in Australia (see Zifcak, 1994). In turn, the most important part of financial management, the centre of activity for the bureaucracy, is the government budget.

The government budget

Finance is the centrepiece of government; it is to government what oil is to the transport industry. Without it very little can be done. Budgets have several functions, ranging from the simple recording of government financial transactions to a major role in determining the health of the entire economy. In the simplistic, 'most literal sense, a budget is a document, containing words and figures, which proposes expenditures for certain items and purposes' (Wildavsky, 1979, p. 1). However, any budget is much more than this, as Wildavsky continues (p. 2):

> In the most general definition budgeting is concerned with the translation of financial resources into human purposes. A budget, therefore, may be characterized as a series of goals with price tags attached. Since funds are limited and have to be divided in one way or another, the budget becomes a mechanism for making choices among alternative expenditures.

By allocating money for some purposes rather than others, the government may alter the shape of the society. As demands for government spending are always far greater than its capacity to pay, there must be some way of deciding who will be favoured and who will not. There may be technical ways of deciding where to locate, say, a new hospital, but there is no technical way of choosing between a hospital and a school, or between a school and a road. Governments somehow reconcile funding between quite diverse and competing political demands. At the highest level of government, the only way of deciding who is to be favoured by spending, or penalized by particular forms of taxing, is through the imperfect, sometimes irrational, method of political bargaining. Therefore, the budget must ultimately be a political document and procedures must allow for this fact, which means there must be limitations to rationality in financial management systems.

Economic functions of the budget

There are two main functions for the government budget in an overall sense: economic, and financial (Musgrave and Musgrave, 1989). Economic functions concern how the government, through the budget, influences the entire economy. A government tries to achieve a great deal with its overall financial management, so that what inevitably results is a rather unsatisfactory compromise between conflicting aims. This also puts a great deal of pressure on the bureaucracy in devising a financial information system that can provide adequate information in a form which is useful for these various purposes.

Through the budget government tries to determine the level of public activity in the economy, a reasonable distribution of income and wealth, and to provide some control over the overall level of economic activity. These are usually described as policies for allocation, distribution and stabilization.

Allocation Allocation policy is concerned with the relative size of the public and private sectors. In other words, the budget sets out both the overall level of government activity and specifies which activities are to be carried out publicly rather than privately. Both government expenditure and taxation policies influence the allocation and distribution of resources in the private sector. For example, a decision to raise public expenditure on road construction will have widespread effects on the private sector by directing benefits to contractors, concrete manufacturers and their employees.

Arguments about the size of government are really about the system of allocation. The view that government spending and taxing consume too high a proportion of economic activity, suggests there may be a distribution between sectors which is better than the present one. When a government controls a large proportion of economic activity, shifts in its spending have a substantial effect on the private economy. However, allocational decisions cannot be made precisely. There is really no *a priori* or explicitly rational level of government spending and taxing that all citizens accept as fair and reasonable. All a government can do is intuitively compare the electoral costs of imposing particular levels of taxation, with the electoral benefits of expenditure.

Distribution Distribution policy represents the government's attempt to redress to some degree the inequalities in wealth and income between citizens. The major part of distribution policy is the provision of social welfare, including transfer payments to certain classes of citizens, but all other budgetary decisions have some distributional consequences. A tax benefit given to a particular group, such as farmers, is distributional in exactly the same way as are direct payments for social security. As with allocational decisions, the level of transfer payments and the effects on particular groups cannot be determined technically. Musgrave and Musgrave (1989, p. 10) argue: 'the answer to the question of fair distribution involves considerations of social philosophy and value judgment'. Some on the Right even argue that a fairer distribution necessarily leads to a poorer economy by reducing profitability and investment. In practice, as there is no agreement on what a desirable distribution between sectors or income groups should be, arguments about 'fairness' in distribution are inherently controversial.

Stabilization Stabilization policy is where the government aims to improve the overall economy through budgetary policy. This is probably the most difficult economic function. All government spending and taxing decisions have marked effects on the private sector as well, so by varying these policies and their aggregate levels, an attempt can be made indirectly to influence the entire economy. With the advent of Keynesian economics, governments explicitly accepted responsibility for promoting full employment, price stability, economic growth and a stable balance of payments.

Fiscal policy is important for providing stability for the economy. Although spending and taxing have economic effects of their own, the net balance between them – the deficit or surplus – is of major importance. Keynesian economic theory argues that if the budget is in deficit – expenditure greater than revenue – the overall effects are multiplied so that the whole economy can be stimulated. If the economy is overheated, then the government can, in theory, budget for a surplus to slow the economy. The budget balance can also have effects on the net debt position of the government, and can cause reactions in the private sector, especially in financial markets.

However, from the 1970s there was a change in the intellectual respectability of the Keynesian model. Relying on the government budget to manage the economy originally represented an economic revolution in that budgets did not have to be balanced every year. By varying its budget balance a government could, in theory, ameliorate the damaging affects of the boom and bust business cycle. The Keynesian model promised much and was successful for some time, but the coincidence of high inflation and high unemployment in the mid-1970s produced a reassessment. The orthodoxy is now that of 'neoclassicism', with the emphasis placed on reducing government, balancing the budget and letting market forces find a desirable economic equilibrium.

Financial functions of the budget

The financial functions of the budget are analogous to accounting. Balance sheets need to be drawn up for the whole of government activity, in the same way as in the private sector. The financial functions of the budget are: first, an evaluation of total government and public authority expenditures within the budget sector; and, secondly, to act as the legislature's instrument of accountability and control over the government in its handling of financial matters. The first of these is a pure accounting function to set out estimates of receipts and expenditures. The second is an important part of the system of accountability.

In the earliest days of the English Parliament the financial role was the most important role of the legislature, and one that continues today. Magna Carta was concerned in part with financial matters, with the Crown agreeing to consult the nobles when taxation was contemplated. A long struggle between the Crown and Parliament gradually led to the latter's approval being necessary when taxation was raised, and spending of it was in turn reported back to Parliament. Even now, budget day is traditionally the most important day of the parliamentary calendar. Other countries, particularly those with a British heritage, have a similar financial reliance on the legislature. A United States

President must obtain Congressional approval for spending and has a limited veto over Congressional spending.

The budget is where the accounts of the government are reconciled, and where revenue and expenditure items are set out for public scrutiny. The main steps in budgeting are: formulation – where the budget is drawn up; authorization – the formal approval by the legislature; execution – where it is carried out; and appraisal – how it performed. The budget involves legislation; any government spending or taxation measures must be firmly based in law.

There are significant differences between countries: in the United Kingdom and other parliamentary countries the government is firmly in control of its financial resources; it can dominate all four stages, with almost total control of the first three. This is not so in the United States. The greater degree of separation of the powers – legislature, executive and judiciary – means that, while the President can propose a budget, the Congress is not obliged to accept any part of it. Congress can also pass its own budget measures, something unknown in Westminster systems, where, by convention, the government initiates spending measures. The long period of very large United States government budget deficits during the 1980s and 1990s – something damaging both to its own economy and to the world economy – was in large part due to the government not being able to control its budget, and a breakdown in the system of compromises between Congress and the White House. The entire Federal government sometimes closes down for several weeks, such as in 1996, when no agreement was reached on the budget and, as civil servants cannot be paid without authorization from Congress, they could not work.

Traditional financial management

The traditional model of administration had its own form of financial management, one aptly suited to an administrative view of government. The usual form of financial management was the traditional budget, also called the *line-item* or *input* budget. This kind is for one year: it includes only inputs into the administrative process, and the amounts allocated in a given budget would usually represent incremental changes from the expenditure approved for the year before.

There are several main features of the traditional budget. First, money is allocated to those particular items or types of expenditure that are the major inputs to the task of administration. These typically include money for staff, equipment, postage and all incidental items used in running the department. Secondly, the budget contains a comparison between income and expenditure for the previous financial year. Thirdly, there is a marked tendency for the budget for the forthcoming financial year to be based solely on the record of the previous one. This is *incremental* budgeting; that is, the budget represents a series of incremental increases on the previous year, usually to account for inflation.

The line-item budget does have some points in its favour. It is a good *control* mechanism, although it is difficult to transfer spending between items, and managers have little flexibility. As Wilenski (1982, pp. 168–9) pointed out, the traditional budget is:

> First, an ideal mechanism to limit expenditure to the amounts and to the items voted in the appropriations. Secondly, it provides a certain degree of flexibility if across-the-board cuts have to be made mid-year for macro-economic purposes. Third, the traditional budget makes budgeting easier and more manageable: arguing from a historical base is easier than having to justify each item from scratch; choice is routinised, conflict about objectives and methods of achieving them, which might otherwise reach unmanageable proportions, is strictly limited so that the budget is in fact prepared in time. Finally, supporters of the traditional budget claim that it is adaptable to all economic circumstances and conditions.

The system is highly conducive to a meticulous form of financial supervision, in that it can be easily seen whether money was spent on the items for which it was voted. Also, the system fits in well with an annual budget cycle, where agencies are asked to compare their actual expenditure with the amount allocated, and thence to make estimates as to what those items and additional ones will cost in the forthcoming year. Across-the-board cuts can be made and there is even some advantage to incremental budgeting, in that the funding for next year starts with a base in the current year, reducing arguments to the major changes only. However, the advantages of line-item budgeting are insufficient to outweigh its faults. The smallest amount of government expenditure may be accounted for in the traditional budget, but by itself, this kind of retrospective control does nothing to improve managerial efficiency. Managers may be too concerned with demonstrating that they have spent the money 'correctly', or have spent exactly the monies allocated, irrespective of whether their expenditure was either efficient or achieved its purposes.

There are several problems with line-item budgeting. First, it is not clear from budget figures what departments or agencies actually do, or whether they do it well; that is, it stresses *inputs* rather than *outputs*. There is no necessary relationship between input costs and the achievement of any goals as these two are quite unrelated in any documentation. Secondly, line-item budgeting is quite short term, usually only one year in duration. This means that items of long-term budgeting tend to continue unchanged and are not considered in any detail. Instead of spending being decided on a basis of assessed need, it tends to be carried out incrementally, with inadequate critical appraisal. With such a short-term view of the budget there is often no idea of the future cost of new programmes to a second, third or even tenth year. Thirdly, the specific items of expenditure within a budget are quite rigid in that managers have little flexibility in moving resources from one kind of spending to another. If amounts are allocated to particular inputs they are invariably spent, otherwise the budget for the next year may be reduced. Departments might employ extra staff, or spend money on items that are unnecessary, just to use up the allocation. Finally, the paucity of information in the traditional budget means that politicians have only limited ability to make major changes, and only limited data linking costs to achievements. Politicians or the public have no satisfactory way of judging whether taxpayers' money is serving desired ends, or is doing so efficiently or effectively. As a result of these various flaws, recent years have seen substantial changes to the system of financial control.

Financial management and the public sector reforms

The traditional budget makes no express link between allocation of money and performance. As this is its main failing, it seems an obvious reform to somehow link the budget with outputs and performance. The deficiencies of the line-item budget led to demands for better forms of budgeting, mainly by governments arguing that the traditional method of budgeting did not provide enough information for decision-making purposes.

The early years of financial reform were not encouraging. As far back as the Hoover Commission in the United States (1949), performance budgeting was advocated for the military. It failed there, as did other attempts in the 1950s. The comprehensive 'planning, programming, budgeting' (PPB) system was introduced into the US Defense Department in 1961 and extended to other federal agencies by President Johnson in 1965. The initiative did not survive the Nixon administration and, by 1971, 'PPB as a major budget system and even as an acronym was allowed to die a quiet death' with the main reasons for its failure being (Lee and Johnson, 1989, p. 84):

> The lack of the leadership's understanding of and commitment to using programme budgeting tended to deter success, as did an agency's general 'underdevelopment' in the use of analytic techniques. Agencies administering 'soft' social programmes had difficulty devising useful programme measures. Bureaucratic infighting also reduced the chances of successful implementation.

The demise of PPB is sometimes used as an argument against any comprehensive financial management system.

Another attempt at more rational budgeting was that of 'Zero-based budgeting' (ZBB) which was introduced by the United States Department of Agriculture in 1962. The basic idea is that no assumption should be made that future spending is related to past spending, so that the department or agency must justify *all* its budget each year. On becoming President in 1977, Jimmy Carter mandated ZBB for all federal agencies. In fact, ZBB was never applied as expected as a comprehensive management approach. It did not revolutionize budgeting approaches and was abandoned by the Reagan administration in 1981. The main reasons for its failure were the waste of administrative time in producing massive amounts of documentation to justify the total budget and the practical political problems of cutting programmes.

More recent public management changes have included a series of changes to government finance, which are, collectively, far more than was attempted in earlier financial reforms. Guthrie, Olson and Humphrey argue (1997, p. 256):

> There have been at least nine categories of ‘new public financial management’ reforms. The first two categories include changes in financial processing and cash management systems; and improvements in FM information systems. The third category is the establishment of new financial regulations for the authorization and recording of expenditure (including a reliance on professionally set accounting standards). The fifth relates to the promotion of commercially minded asset management systems (with emphasis on contracting out, internal charges, and recognition of depreciation). The sixth are attempts to institutionalize accrual-based accounting information in budgetary, management, and external reporting processes (and the related aspect of the promotion of charging systems for public services). The seventh category is the development of a performance measurement approach within the public sector, including techniques such as financial and non-financial performance indicators, league tables, and programme evaluations. The eighth accounting element concerns the budgetary processes, not only delegated budgets, but also the attempted integration of financial accounting into traditionally economic-based budget information sets. FM [financial management] reforms have especially tried to link budgets (as predetermined plans) with the reporting of results (in financial and non-financial terms). The final category of reforms involves changes to internal and external public sector audits, notably in terms of providing reviews of the efficiency, value for money, and effectiveness of public services.

This is a very comprehensive set of changes. Some of these overlap with other reforms and are not just financial reforms. The main reforms will be considered separately.

Budgeting reforms

The move away from the traditional budget accelerated as governments attempt to regain control of their spending, although as the OECD argued (1990, p. 7):

> Unlike the earlier Programme Planning and Budgeting (PPB)-type systems which concentrated on policy planning and analysis of programmes, the current reforms are management oriented and focus on what organizations do and produce and on the means for holding them accountable for performance. More broadly, these developments aim to give managers budgetary and other incentives that make them aware of and accountable for costs and performance, and more willing and able to shift resources from less to more productive activities.

Programme budgeting aims to direct funding more towards the achievement of actual policy objectives or outputs. Under programme budgeting, government activities are divided into the hierarchical structure of programme, sub-programme, activity and component (if necessary). Appropriations can then be made to particular programmes according to the priorities of the government of the day. Instead of funding *inputs* to the administrative process as in the traditional budget (salaries, overtime, postage and so on), identifiable *programmes* are funded. Management reporting systems can then be based on the programme structure to encourage better feedback on programme performance, and allow, in principle, for evaluating the effectiveness of managers and staff. This, or the extension of programme budgeting to funding outcomes, depends on the establishment of suitable performance indicators. The proper development of objectives, programme structures and performance indicators is a difficult and time-consuming task for all levels in an organization, but is a logical extension of the change from administration to management in government.

There are several advantages in the programme budgeting approach over the traditional, line-item approach. First, it allows better allocation of resources. The political leadership can to some extent reassert its control over budgeting. Under the old system, there was insufficient knowledge of what was actually achieved, as the allocation of financial resources was not related to the work done or to any particular goal. Agencies could squirrel away money for a rainy day without the knowledge of political decision-makers mainly because of the absence of adequate information. Budget choices should be able to be made more explicitly by politicians in terms of national objectives. Secondly, forward planning is enhanced. Programme costs can be extrapolated for some years ahead, which can enable a clearer appreciation of the ongoing cost of pursuing government objectives. Under a one-year system, it may be tempting to undertake new expenditure for political reasons, without worrying too much about longer-term costs. Thirdly, better management practices can be expected, arising from the comparisons of objectives with achievements, not only financial, but other measures of performance which go with them. Finally, budgets are public documents in which the government accounts for the money advanced to them by taxpayers. Presenting information in programme statements which link programme objectives and performance with resources used can improve the link between government and the public. This should also assist in improving the accountability of the government in general and the public services in particular.

There has been a shift from detailed regulations and compliance management to 'increased use of the discretion and initiative of operational managers in achieving targets' with policies in place to wind back 'centrally-held controls over inputs, delegating spending authority, providing greater flexibility to line ministries and agencies, and developing a range of incentives for improved performance' (OECD, 1990b, p. 6). Common reforms include provision for savings realized to remain with spending agencies and not be automatically re-appropriated by the central budget office. There is more financial discretion left with operational managers. These advantages are substantial, so much so it is a wonder line-item budgets remain anywhere. However, it is salutary to remember that the PPB system failed in the United States in the 1960s.

Another important budgeting change involves the preparation of detailed budget estimates beyond the usual single year. This is another generally successful reform. In Australia, for example, Forward Estimates have been prepared since 1972, but since 1983, their format has been greatly improved and published in time to assist the following year's budgetary process. Forward Estimates provide the government and the public with information on the level and composition of spending over the next three years and with quite comprehensive forecasts of spending and revenue beyond that. Rather than comprising 'wish lists' from departments, they now represent an assessment of government spending, both overall and on particular programmes, that will occur in the absence of policy changes. This enables the long-term costs of programmes to be better estimated.

Accounting reforms

Traditional budgeting is based on cash, that is, revenue received and outlays paid out and in the one year. Accrual accounting is more sophisticated as it includes the value of assets in a more comprehensive way. Its major objective is to compare the total of economic costs incurred during a reporting period against the total economic benefit accrued in that period. In other words, the value of assets is included as well as their depreciation, so that a complete picture of the government's financial position is known in a way similar to that of the private sector. This system has the advantage of the full position being known and to provide a more meaningful comparison of financial inputs to policy outcomes.

Accrual accounting was implemented as early as 1991 in New Zealand, but it was only during the late 1990s that other jurisdictions tried it. In Australia the federal government started in 1999–2000 as did the state governments at around the same time (Carlin and Guthrie, 2001). Such accounting reforms are 'an important part of the process of transforming spenders into managers'; a manager needs to be accountable for costs (OECD, 1997, p. 25). An OECD paper argues there are conditions for it to work (1997, p. 25):

> Two conditions must prevail for accrual accounting to be more than a bookkeeping exercise: managers must have genuine choice in deciding whether to bear the costs; and the costs they are charged must have an impact on the financial resources available to them … The second condition is that costs affect the resources available to the agency. If an agency were charged for depreciation, this cost should reduce the resources otherwise available for operations.

Accrual accounting requires that the full costs be charged to operating units, including accommodation and assets used, in other words, the full economic cost of operating that unit.

In principle, accrual accounting would by itself drive substantial reform. However, accrual accounting, or what Carlin and Guthrie term 'accrual output-based budgeting' (AOBB) is difficult to bring about and, if implemented badly, could impose similar rigidity as the traditional model. It does, however, offer an improved accounting system to go along with other parts of public management.

Another aspect of accounting is the more intense use of auditing than was previously the case. Public sector auditing once concentrated on financial probity by managers rather than whether or not a programme or agency was serving any useful function. Performance auditing can address this. It is part way between financial management and performance management. It covers the auditing functions carried out by auditors, usually independent from the areas being reviewed, but its role includes deciding whether programmes themselves were effective as well as looking for financial probity.

Devolution of budgets

Related to the previous point, governments have increasingly devolved budget authority to line managers. Instead of the allocation of photocopiers, for example, being decided centrally, it becomes the decision of a line manager to decide if that section wishes to buy a photocopier or a computer or use it for some completely unrelated purpose. In principle, a one-line budget could be given to a particular manager to then manage the resources as he or she chose. The idea is to relate budget authority with management authority. As Thompson argues (1997, p. 6):

> In the private sector, operating budgets are primarily a means of motivating managers to serve the policies and purposes of the organization to which they belong. Budgets convert an organization's commitments into terms that correspond to the sphere of responsibility of administrative units and their managers and provide a basis for monitoring operations, evaluating performance, and rewarding managers.

The same principle can be applied to government. A manager needs to produce results and the budget is the main resource allowing this to be done. This has generally worked quite well. As an OECD paper argues (1997, p. 23):

> Entrusting managers with responsibility for their operating resources has not compromised spending control. It has proven easier to maintain cash limits when managers are given a fixed budget within which to operate, than when spending details are controlled by outsiders. Managers have demonstrated that they can maintain timely and accurate financial records and that they can compile financial statements that comply with accounting standards.

In principle, devolution of real budget authority to managers is inarguable: in practice it has not been so easy for central agencies to devolve budget authority as completely as might be desirable.

Contracting out

The contracting out of the provision of government services can, in some senses, be considered a financial reform. It is assumed that cost savings will be made, usually seen as of the order of 20 per cent (OECD, 1998). It is perhaps more important that contracting is an extension of programme budgeting and specifying what is required in performance terms. In drawing up a contract it is necessary to spell out exactly what is to be achieved and the mechanisms of monitoring. The detailed delivery is then in the hands of outsiders, but in principle there is little difference in what could occur within government, by specifying exactly what an agency or a section is to achieve and funding it accordingly. If the mechanisms are precise enough, there should be no great difference in internal or external provision, other than not having public servants carrying out the delivery.

In general, the financial reforms aim to make the public sector more like the private sector in terms of how it deals with money. As Kamarck argues (2000, pp. 246–7):

> Performance-based budgeting, the use of new accounting systems, and the general interest in accountability exhibited by some of these reform movements are part and parcel of an effort to bring the public sector's financial management more in line with commonly accepted practices in the private sector. Like civil service reform, many of the experiments in financial management reform seek to close the gap between the public and the private sector.

It could be argued that the private sector is hardly a model, given the lack of agreement over accounting standards and the like. However, it is still more rigorous than the public sector was under the traditional model of financial management. Financial management is concerned most of all with providing information to enable decisions to be made. The newer forms of management do this better than did the previous one.

Criticisms of financial reforms

Despite a fairly general view that the financial reforms have been successful there have been criticisms of specific elements.

Budget reform criticisms

Instead of budgeting through inputs, the newer management looks at using outputs or performance, particularly programme budgeting. This has attracted criticisms since the 1960s and the PPB system in the United States.

The most prominent critic of programme budgeting was Wildavsky. For him, programme budgeting has failed 'everywhere and at all times' (1979, p. 198). His general argument is that programme budgeting is an attempt to impose rationality on what is basically an irrational (or highly political) process. Yet his criticisms may not be as universal as he suggests. They greatly overstate what programme budgeting can actually do, because, as pointed out earlier, the final budget decisions are necessarily political, in that choices must be made between totally dissimilar activities. Programme budgeting, at least as it is now being implemented, simply provides far more *information* for the politicians who finally make the decisions. At the point of decision, their choices may still be irrational, although more information obviously helps decision-making. Also, Wildavsky's criticism of PPB is likely to be far more applicable to the United States – where budgetary responsibility is diffuse or evaded altogether – than in parliamentary systems where the executive has complete control over its budget. Results in parliamentary countries point to more success than might be suggested by American experience in the 1960s and 1970s. Programme budgeting requires considerably more information about the activities of the agencies than is required for traditional line-item budgeting, so is not easy to implement. But even if there are difficulties in its implementation, programme budgeting offers far better information on which to base budgetary decisions.

Another problem is that of the political environment. Gray *et al.* (1991, p. 52) studied the implementation of the FMI initiative in the United Kingdom and found some disillusionment with its implementation, which 'reflects the way public sector organizations are both administrative *and* political entities':

> By imposing rules of budgeting and financial reporting, for example, new accounting systems change the balance of interest and advantage within the management of government and, as a consequence, expose latent political tensions. This problem was recognized by the FMI designers; the intention was indeed to change the behaviour of financial management by changing the rules which governed it. Civil servants are traditionally adept at playing and adapting to games; it is a feature of their socialization both before and after entering the service. But, the balance of advantage in resource allocation has shifted in favour of those who can exploit the very marked emphasis on economic rationality expressed in the FMI rules and systems.

In principle, the budget becomes more rational but in practice there may be a façade of reform, behind which is the old form of incrementalism.

Traditional budgeting was usually considered to be an incremental activity, characterized by small increases from the budget of the previous year to account for inflation, and with some theorists (Wildavsky, 1979) arguing that this was beneficial. There have been substantial changes to the system of budgeting, but does this really mean the end of incrementalism? Complete rationality in budgeting would require listing all alternative ways in which money could be spent, enumerating the advantages and disadvantages of each, and then selecting the highest ranking preferences and funding them accordingly. No government could conceivably do this, for two reasons. First, budgeting in a democracy is, and must be, a political rather than a technical process, which means that a complete, technical system like PPB will probably fail. Secondly, budgeting is necessarily composed of commitments, such as social security entitlements which cannot be rapidly changed. The amount of ongoing commitment in any budget is variously estimated at around 90 or 95 per cent of total spending. Accordingly, any policy change is likely to involve small shifts, characteristic of incrementalism.

In practice, the performance-based budget may be more limited than it appears. Performance in the past and prospective performance are only one influence on budget making. As an OECD paper argues (1997, p. 24):

> In theory, the budget should be one of the principal means by which performance measures affect public policy. It should not be difficult to devise a performance-based budget system in which each increment of resources is directly linked to a planned increment in output … Yet the governments examined … have not closely linked performance and budgeted resources, preferring instead an arrangement in which data on actual or expected results is just one of several influences on the budget.

While far from the ideal, a budget process that is not completely mechanistic is more realistic. Incremental budgeting could be considered, above all, a response to inadequate information, so that, if better information is provided, choices can be made in an other than incremental fashion. Other influences will make their way into the process, but in the end a budget is an inherently political process.

A traditional budget gave a minor role to the politicians. It denied them adequate information to make decisions and provided no systematic record of the achievement of results. Budget reforms, as with others to the management of the public sector, have improved the position of the political leadership. Budgetary decisions may still be made in a political manner, and for political reasons, but can be more precisely targeted. The traditional budget was also ideal for public servants to conceal possible areas of fat, hoarding these as resources to fall back on in hard times. This could occur in the absence of good information about where money was being directed. With better information, the expenditure control system has been tightened from above.

Problems with the accounting changes

Pollitt and Bouckaert argue that 'the application of accruals systems is not equally straightforward for all different types of service and circumstance, and reform can create perverse incentives as well as advantages' (2000, p. 69). This is undoubtedly the case. Carlin and Guthrie also argue that accrual accounting reforms are 'more than neutral, technical, disinterested activities' (2001, p. 89). They can drive organizations into the managerial direction, into market-based activities and can alter the distribution of power within and between organizations.

The biggest difficulty is that of implementation. Adopting accrual accounting can provide more transparency, better relate outcomes to inputs and the like, but the task of putting a system together is difficult. Due particularly to problems of implementation, it is argued that such systems 'can provide welcome assistance in the effort to improve public management practices' but 'will not constitute the panacea suggested by some central agency rhetoric' (Carlin and Guthrie, 2001, p. 98). As more jurisdictions use accrual accounting it will become easier to determine the worth of this particular reform, but it is one that takes a lot of work to bring into effect.

Problems with contracting

A requirement to contract out or privatize may end up being more costly than in-house delivery. Private contractors need to add profit margins to the cost of provision, so if all other things are equal, it would cost more. In most circumstances the efficiency gains of private provision might still be present, but this needs to be investigated and not assumed. As Donahue argues, 'Private firms in competitive markets *are* frequently more efficient than government bureaucracies, but it is romantic to infer from this that the mere fact of private organization, *without* competition and *without* market tests, leads to efficiency' (1989, p. 222). The circumstances in which contracting-out will work are spelt out by Donahue (1989, p. 98):

> The more precisely a task can be *specified* in advance, and its performance *evaluated* after the fact, the more certainly contractors can be made to *compete*; the more readily disappointing contractors can be *replaced* (or otherwise penalized); and the more narrowly government cares about *ends* to the exclusion of *means*, the stronger the case for employing profit-seekers rather than civil servants. The fundamental distinction, however, is between competitive, output-based relationships and non-competitive, input-based relationships rather than between profit-seekers and civil servants *per se*.

There is considerable promise in privatizing or contracting-out, but the approach needs to be pragmatic rather than ideological.

In theory, private contractors should work more efficiently, but there is an added burden for public managers above those of simply contracting-out. This is to ensure *compliance* with the terms of the contract to make sure that performance occurs. Compliance is not straightforward, as several questions, both political and technical, need to be worked out. Administrative and technical questions involve such matters as 'drafting the contract, meeting legal requirements for bidding, creating adequate performance specifications, monitoring the contract properly, encouraging competition, and avoiding excessive dependence on contractors' and 'these administrative matters involving how to contract become more important than the basic policy question of whether to contract' (Rehfuss, 1989, p. 219). Contracting-out may reduce the size of the bureaucracy, but ensuring compliance and monitoring contracts is likely to require a public service with higher skills.

Privatization in the contracting-out sense does offer benefits, but only in some circumstances at some times. When it works well there are benefits in privatization. However, when it works badly 'privatization can muddy public finance, make public management more complex and awkward, strip away vital dimensions of the public purpose that are hard to pin down contractually, transfer money from public workers to contractors without any savings to the collective fisc, allow quality to decay, and *increase* costs' (Donahue, 1989, p. 217). Setting the conditions is not a simple task. However, it should be approached pragmatically rather than ideologically and attention should be given to the important task of monitoring by public servants. Contracting to reduce costs offers promise for the public services, but brings difficulties with it and should not be regarded as a panacea.

There are difficulties with the financial reforms, but this area is generally regarded as one of the most effective of the public sector reforms. This view may derive from the parlous state of financial information provided in traditional budgeting, so that regardless of the problems involved, the financial management reforms seemed so much better than what had gone before.

Conclusion

Government financial management is fundamentally political, but, rather than usurping the political process, the financial reforms will hopefully enhance it by providing more and better information. It is unlikely that the old system of programmes that persisted for many years without examination can survive with financial management reform. Political leaders may still indulge in pork-barrelling or in making wild promises they have no intention of keeping. The new forms of financial management should at least be able to make it clear what the costs will be. Governments with programme information can cut spending on marginal activities and increase spending on deserving activities. The government budget and budget process are now closer to what they should be: tools for management. Overall, the restructuring of public management 'has brought sizeable efficiency gains that are reflected in lower staffing levels and reductions in real operating expenditures' (OECD, 1997, p. 10).

Financial management has been transformed, in some countries, from a traditional system that provided little information and did so in an opaque way, to one where, in theory, precise data can be provided to aid decision-makers. The problem with the traditional budget systems is that there is no information as to either the purposes of the spending or how well or badly the purposes have been met. Wildavsky opposed rationality in budgeting, but times have changed; information systems have been greatly improved; no longer is it sustainable to avoid financial reform because it is hard to do.

All that any financial or accounting system can aim to do is provide information. Performance budgets set out the costs of identifiable programmes, which, along with associated measures, allow for decisions to be made as to whether or not they are achieving their purposes. Accrual accounting allows for the long-term consequences of spending to be calculated more precisely by its effects on the overall balance sheet as it includes changes in asset values.

Of course, financial reforms are not perfect; of course there are problems in precisely setting the performance measures; of course accounting systems can be used to reinforce power structures. They can also be used to hide or deceive as has occurred even in the private sector. But more information allows for better decisions to be made, though it does not guarantee them. In a democratic system those decisions are made, for good or ill, by elected governments, where the traditional financial systems allowed civil servants to hide the true state of the accounts from their supposed masters. Having transparent accounts does increase ministers' power and those of central agencies, but is more accountable to the people. This is clearly better than when there was so little information that the best form of accounting was by cash and the best form of budget was by input only with an amount set aside for salaries, with a little bit allocated to other inputs such as postage and phone calls, and without any requirement for performance. All that any financial system can do is provide information, which can then be used or abused. Old-style, traditional budgeting did not provide sufficient information for choices to be made. And even with new financial systems in place, there is nothing to stop a government from making a bad budgetary decision. It will, however, be made aware of the long-term consequences in a way that was not possible before.

10

E-government

Introduction

In the first years of the twenty-first century, as the economies of many countries change rapidly with the information revolution, it is undeniable that there will be effects on the operations of government. Parallel to developments in the private sector in e-business and e-commerce, there have been sufficient governmental changes induced to warrant the name 'e-government' – a term becoming more used within public management.

E-government, as a term, may refer to 'the use of information technology, in particular the Internet, to deliver public services in a much more convenient, customer-oriented, cost-effective, and altogether different and better way (Holmes, 2001, p. 2). A broader definition of e-government is the adoption of any information and communication technology by government. The technologies include video conferencing, touch-tone data entry, CD-ROMs, the Internet and private Intranets, as well as other technologies such as interactive television and Internet access via mobile phone and personal digital assistants.

The changes induced to the operations of government are likely to be far-reaching. Public organizations have never been averse to using technology, but they have necessarily only been able to operate within the level of technology available. As that changes so must the way that government is organized and operates. As noted by *The Economist* in a special survey, 'Within the next five years it [e-government] will transform not only the way in which most public services are delivered, but also the fundamental relationship between government and citizen. After e-commerce and e-business, the next Internet revolution will be e-government' (*The Economist*, 24 June 2000). The precise effects are difficult to predict, but that there will be major change driven by technology is a safe assumption to make.

The public management reforms and e-government are related reform movements. As Bellamy and Taylor argue 'The patterns of organizational change which are so commonly associated with the information age are remarkably consistent with the patterns associated with current forms of managerialism in public administration' (1998, p. 37). Obviously the technological changes have had an impact on the public management reforms; but rather than them being a technological determinant that inevitably led to new public management, it is rather the case that e-government merely reinforces the change to new forms of managing which were already occurring.

E-government is in its infancy and much can go wrong, as discussed later. It is already the case that some countries are much more advanced than others and the gap between the technologically advanced and the others may grow wider. However, even given the potential problems, it does appear that the time of e-government, allied with the other public management reforms, has arrived.

Technology and the administration

Public organizations during the period of the traditional model were often technological leaders, using the latest in equipment that was available. The telegram and the telephone were very important for communication both within and outside government services and government departments were assiduous users of both. The nineteenth-century theory of bureaucracy depended on such nineteenth-century inventions. As Fountain argues (1999, p. 142):

> Organizational forms developed by state and industry … were rendered possible by technological achievements that underlay the Industrial Revolution. The steam engine, telegraph, telephone, and early adding machines all made possible bureaucracy as well as the inter-organizational forms underlying business and government using vertical integration and spatially dispersed headquarters and field organizations. Technological developments did not determine these forms in an inevitable fashion, but they made them possible and, in some cases, completely logical.

The traditional model of public administration grew and thrived with the technology of the quill pen and later the typewriter for written communication. In both of these technologies there is essentially one piece of paper or document from which copies are made, laboriously if at all. A strictly hierarchical system fits this kind of technology perfectly. That paper is passed up and down the hierarchy gaining approvals or providing information and the organization is designed to reflect this. The passage of single pieces of paper induced transaction costs just by having to proceed from desk to desk via the centralized mail system. This basic technology was also perfectly suited to the principles of bureaucracy.

A central part of Weberian bureaucracy is the concept of 'the office', a place where officials go to work, where the public goes for its interactions with the agency and where records are kept. The office is also the central place for organizational technology and for processing information. As Weber describes it (Gerth and Mills, 1970, p. 197):

> The management of the modern office is based upon written documents ('the files'), which are preserved in their original or draught form. There is, therefore, a staff of subaltern

> officials and scribes of all sorts. The body of officials actively engaged in a 'public' office, along with the respective apparatus of material implements and the files, make up a 'bureau'.

The 'scribes' and the 'apparatus of material implements and the files' refer to the technology then available, with the office being the repository of the files. The files store information; these are required to record precedents so that the agency makes the same decision when circumstances are the same as an earlier occasion, and to process claims for benefits such as pensions.

For many years the system worked well, helped perhaps by relatively few major changes in office technology at least until late in the twentieth century. The photocopier was a major advance over the carbon copy, as were such instruments as conference telephone calls, but these were refinements rather than developments requiring totally different organizational systems. Even if the nineteenth-century equipment now seems rather primitive, it was a very big jump from what had been there previously. The telegraph and telephone were revolutionary when they were invented, as was the typewriter. It was only when the widespread use of interlinked computers within government became common that a further revolution took place. Earlier changes could be incorporated into the agency with little effect on power structures or the way the office was organized.

From the 1960s governments became assiduous users of computers, but in a limited way. Computing was regarded as a separate activity within an agency, staffed by experts, but operated in a way analogous to a typing pool. The early use of computers had little impact on organizations, as they were introduced in ways that reinforced existing boundaries, as Bellamy and Taylor argue (1998, p. 11):

> Here, in these early days of government computing, was affirmation by machine of the centralized forms of bureaucratic organization which prevailed at the time. The mainframe computer was being used to process data which had central, corporate functionality. It offered no challenge to the hierarchical and centralized structures by which it was surrounded. Indeed, its effect was to sustain and even to reinforce those features of large-scale bureaucracy. Its reason for being was simple automation; the accomplishment of large-scale data processing tasks at lower costs than hitherto.

The information and communications revolution changed that. Only when technology became distributed with personal computers on every desk, as has become common within government, combined with intranets and access to the Internet, has there been any serious impact on organizational structures. As Seneviratne argues (1999, p. 45):

> The public sector's conservative approach to its use of ICT began to change in the 1990s. With new software applications and more powerful hardware, the old inflexible technologies of the prior decades were replaced by more flexible systems that relied on networks and new methods of electronic communication. Technologies such as electronic

> mail, document imaging, and data exchange had made their way into public agencies and were making possible the processing and sharing of information in ways that were unimaginable prior to the 1990s. Technology was now being viewed as a key component in improving the way the public sector conducted its business and provided service to citizens.

At this time, 'unlike the first main era of business computing, the "micro revolution" permits challenges to be mounted to the very organization of government' (Bellamy and Taylor, 1998, p. 12). The office and its management must change as a result. Given the spread of information technology, 'the necessity for people to be in a common setting in order to share the characteristics of an organization has diminished ... therefore, forming alternatives to traditional organizations has become practical' (Peters, 1996, p. 9).

In a networked age, formal structures designed for nineteenth-century technology are unlikely to remain relevant. Information technology, particularly but not exclusively the use of computers, changes management; even the hierarchy itself. Managers do not need to wait until an item makes its way through the hierarchy, copies appear on their own computer screens. Information and data of all kinds can be gathered and transmitted cheaply, and transformed into performance information, which, in turn, allows management to be decentralized, even as it is able to be monitored by senior management. Records are kept electronically so that they are accessible from many different locations at the same time. Investments in information technology have resulted in less worker time spent in processing routine work. The US Department of Defense, in converting its medical records to electronic files, believes that 'it will ultimately save one billion dollars a year in unproductive time previously spent searching for lost paper medical records' (Kamensky, 1998, p. 83). Some public servants can use their computers from home instead of going to an office. Local offices become less necessary as a seamless service can be provided remotely through call centres or over the Internet.

Of course, the existence of a technology does not, by itself, determine the desired outcomes. There is no automaticity to organizational change. The existence of technology does not, by itself, determine the predicted outcomes; it is rather that the technology makes changes possible.

The beginnings of e-government

E-government undoubtedly follows similar changes that occurred in the private sector, although the Internet itself started in the United States as a government project. In the late 1990s, e-commerce and e-business were terms adopted as descriptions of the fundamental changes taking place as businesses adapted to working with the Internet. In the early stages, a business would simply place information about their firm and its products on a website; later there would be interaction, such as the ability to place orders over the Internet and ways of using the information as a resource. So-called 'dot.com' companies were set up to exploit opportunities that arose from a different way of doing business. One result was something of an Internet bubble as stock prices soared for companies that had no real prospect of making money and the industry eventually crashed for a time. However, what may have been forgotten in the boom and bust of the Internet economy was that, for many firms, their very way of doing business has been transformed. Even if business-to-consumer (B2C) sales have been slow to take off, business-to-business (B2B) links have grown very rapidly, and while start-ups may have found the environment more difficult than it first appeared, established companies have had to make fundamental changes to their operations.

A similar story occurred in government, but with a time-lag compared to e-business. The products of government – overwhelmingly services – are often quite suited to electronic delivery when compared to the problems of organizing the delivery of goods. It may have been expected that governments would have been leaders in electronic delivery, but the private sector was the pioneer. Once it had started, however, the greater service provided by private e-business as the result of technological change led to demands for government to do the same (OECD, 1998a). As Kamarck argues (2000, p. 234):

> The information revolution is … creating a demand for governmental reform simply by exacerbating the distance in performance between the private sector and the public sector. In the United States in the 1950s, doing banking was not very different from an interaction with government. One had to go to an office at a certain time, stand in line, and deal with a functionary. By the time the information revolution allowed the private sector to cater to the customer and deliver service through automated teller machines at any hour of the day, the governmental sector looked and felt far behind.

The adoption of technology by the private sector has led to changes in the way it undertakes business. It led to demands for government to provide similar service. If banking at all hours via ATMs or the Internet could become the norm, why should the consumers of government services have to queue only in working hours for quite similar services?

Bellamy and Taylor argue that there are three stages in the development of information and communication technologies in government (see also Heeks, 1999). The first stage is 'automation' where the aim is to use machines to reduce the costs of existing, mainly paper-based work and with information only as a by-product (Bellamy and Taylor, 1998, pp. 38–40). This characterizes the early phases of managerialism.

A second stage is that of 'informatization' described as a shift from automation to 'an emphasis on the information that can be liberated' (Bellamy and Taylor, 1998, p. 46). In this stage, the new information resources:

- Permit the integration of data from a number of sources, thus enabling the memory of organizations to be vastly magnified;
- Permit the significant enhancement of organizational intelligence, by enabling new ways of integrating or matching data that will yield much more information about its

external environment (including information about markets and customers) and internal processes (including the movement of stock or the performance of employees);
- Permit greater flexibility in arranging who may access and exploit information resources, and how information-dependent processes are undertaken;
- Permit new kinds of interactive communications within and between organizations (including between organizations and their suppliers or customers).

They add that it is these kinds of facilities that are demanded by the new public management (Bellamy and Taylor, 1998, p. 47).

The final stage is that of 'transformation' described as 'using business process re-engineering to totally reorganize across boundaries, to share data' (Bellamy and Taylor, 1998, pp. 51–3). This last stage could be regarded as the goal of e-government, although Bellamy and Taylor do not use the term. Delivery services can be organized by 'life event', or for particular groups, such as the elderly or students, instead of organization by department or agency. The dream is 'the simple but hugely potent claim that liberating the power of new technology will drive down the costs of public services and, at the same time, help to rebuild relationships between governments and their citizens' (Bellamy and Taylor, 1998, p. 64).

By the late 1990s, rapid changes in technology did start to affect the organization of government. In the United States, the reinventing government movement of the earlier 1990s did foresee that organizational changes would need to be made, following its explicit aim of creating a government that would work better and cost less. Technology was a way to do this. Osborne and Gaebler argued that bureaucracies designed earlier in the century 'simply do not function well in the rapidly changing, information-rich, knowledge-intensive society and economy of the 1990s' (1992, p. 12). The Gore Report refers to the impact on public organizations of what it called 'electronic government', one of the earliest uses of that term (1993, p. 114):

> In the future, the concept of electronic government can go beyond transferring money and other benefits by issuing plastic, 'smart' benefit cards. With a computer chip in the card, participants could receive public assistance benefits, enrol in training programs, receive veterans services, or pay for day care. The card would contain information about participants' financial positions and would separately track their benefit accounts – thus minimizing fraud. Electronic government will be fairer, more secure, more responsive to the customer, and more efficient than our present paper based systems.

At the time, however, the capability for carrying out such a vision was not really in place. As *The Economist* argued in 2000, 'reinventing government a fashionable but premature idea a decade ago, is at last being made possible by the Internet' (24 June 2000).

In the UK in 1996, the government launched *government.direct*, a Green Paper for the electronic delivery of services. This prospectus was 'said by ministers to herald a new phase of public service reform' (Bellamy and Taylor, 1998, p. 10). A few years later, at the end of the 1990s, distributed computer networks with a personal computer on the desk of every public servant, intranets and greater use of the Internet, meant that what was foreseen in the early 1990s had now become possible.

Other countries have developed national strategies for e-government. Examples include the e-Europe Action Plan 2002 endorsed at the Feira European Council in June 2000; Portugal's *Society of Information 2000–2006* programme, which 'encompasses elements of e-government development around social requirements and broader technology access issues' (Accenture, 2001); the Netherlands' *Electronic Government Action Plan*, and Australia's *Government Online* strategy. In the United Kingdom there is a policy target of 2008 for all public services capable of being delivered electronically (Prins, 2001). E-government is still under development but there is an international trend towards its implementation, even if there is some way to go.

As mentioned earlier the kinds of products and services government delivers are particularly suited to electronic delivery. They are also often tasks undertaken under sufferance, such as renewing a car licence, where speed of delivery is desired. Many consumers like shopping in person and this reduces the possible impact of Internet shopping: very few like standing in line at government offices (Holmes, 2001).

E-government stages

There are different ways of classifying e-government interactions. In the development of e-business, the earliest phases are those where information only is provided and later there are two-way transactions. There are also different kinds of interaction possible between government and other parties, notably with citizens, businesses and other government agencies. There is a generally agreed four-stage set of developments dependent on the level of interaction allowed, particularly by websites (see *The Economist*, 24 June 2000):

- *Information* The first stage, which is as far as most governments had progressed by 2002, involves departments and agencies using the World Wide Web to post information about themselves for the benefit of external users. Websites provide information in a passive way outlining the purposes of the public organization and how to contact it. This information does not include real provision of services. Websites are provided by departments rather than functions and have limited capacity for updates. This is the most common form of website.
- *Interaction* These sites become tools for two-way communication, allowing citizens to provide new information about themselves (i.e. change of address), gathered using instruments such as e-mail. It is no longer necessary to phone or write a letter to contact government. Content files present information about more issues, functions and services which can be downloaded; forms may be downloaded and completed offline and posted in the

normal way. However, feedback is limited. There are large numbers of such sites in existence, many of which depend on the relatively low technology of e-mail.

- *Processing* A formal quantifiable exchange of value takes place, such as paying a licence or a fine, even filing a tax return. This level allows for tasks, previously carried out by public servants, to become web-based self-services, although they require off-line channels for completion.
- *Transaction* This is where a portal for a wide range of government services is provided. A portal means much more than a simple web site. It is able to integrate government services and provide a path to them based on citizens' needs, replacing the traditional structure of department or agency. Through a portal, the information systems of all departments and agencies can be linked to deliver integrated services in a way that avoids users having to understand the agency structures of government.

The Singapore government set up the e-Citizen portal in 1997 as a pilot to demonstrate to government ministers what was meant by 'integrated' and 'citizen-centric' digital services. It includes more than 50 life events and 150 transactions (Holmes, 2001). The Australian state government of Victoria was another early pioneer. Its Multi-service Express (ME) portal offers citizens nearly 100 digital services giving three ways of access: by service type, by life event, or by location. The portal is connected to the state's MAXI network, which offers both public and private services organized around life events. In the United States, the site *www.firstgov.gov* tries to provide a single gateway for users to all government websites, which are organized around the information the user is seeking, as opposed to the name of the agency, its services, or the tier of government responsible for that service. Others are, in Canada, *www.canada.gc.ca*, which provides a single gateway to a broad range of government services, and, in Australia, *australia.gov.au*. According to one report, the leaders in e-government will be those countries that fully exploit the portal model (Accenture, 2001).

Many governments are still at relatively low levels of interaction, rather than enabling transactions or providing portals. However, first or second stage sites are important as they provide information to citizens to a greater extent than was common in old-style bureaucracy. Much more change is engendered by third and fourth stage interaction.

Government-to-citizen links (G2C)

Although the full impact of government-to-citizen links will not be felt until there are greater numbers of citizens both connected to the Internet and using it, there are a number of ways in which e-government will assist the link between government and citizens. Service delivery systems may be linked with life events and citizen needs. For example, many of the compliance tasks involved in foreign travel can be linked with each other on the same website. Passports, visas, health warnings and vaccinations may be accessed together when someone, or their agent, books travel. It is much easier, as noted earlier, to renew vehicle or drivers' licences or pay fines through links of this kind.

E-government allows public agencies to provide many services whenever its clients require them and without having to attend an office in person. Renewing of licences, changes of address or even completing forms for provision of welfare can be done on-line. It is also cheaper. An on-line licence renewal in Arizona costs $1.60 per transaction compared to $6.60 normally and, with the processing carried out by IBM, under contract, both the state and the company gain economic benefits (*The Economist*, 24 June 2000).

Providing services more conveniently reinforces the view of the citizen as customer. For many services this is an appropriate perspective. There is potential in the increasing use of tools such as Customer Resource Management (CRM) software to enhance the service provided. Correlating information about location, status, dependents, and other demands on government enhances the ability to identify an individual's current situation and anticipate future needs, although there are obvious dangers if insufficient attention is paid to privacy and security. Customer resource management techniques allow a closer relationship with citizens – for good or ill – by making better use of information already collected through techniques such as data warehousing and data mining.

Another, relatively unsung, part of G2C is the greater availability of information on government services that can be accessed by citizens. Even if much of this is essentially one-way, there is much more information available which is more easily accessible than previously under the traditional model of administration. In that model information was held centrally and released only grudgingly, usually by printed reports that were difficult to get and did not encompass much of the inner workings of government. It is now much more common for information of all kinds to be released as it is completed, in downloadable form for anyone to access.

Government-to-business links (G2B)

E-business in the sense of electronic exchanges involving commercial and fee-for-service transactions is a rapidly growing sector of the economy in a number of countries. In manufacturing, large companies such as Ford and General Motors use the Internet to source parts and have required their suppliers to adapt their internal workings to comply. Public organizations, too, are placing significant resources into delivery and procurement systems for their interactions with business. If using the Internet is becoming more common in the private sector for business-to-business interchange, it is hardly surprising that government would wish to do the same. Increasingly, governments are requiring suppliers to operate as e-businesses.

There are cost savings to be made by government in the area of procurement. Government contracts are, in most countries, a substantial part of business for the private sector. However, there are transaction costs incurred by businesses in knowing that a contract has been called and in complying with the tender requirements. This can lead to higher costs being charged to government by tenderers and to there being a relatively small number of companies willing to go through the complex procedures involved. Tenders are, as a result, often less competitive than they might be otherwise. Such transaction costs can be reduced by e-government. The Australian government and some US states have encouraged e-business practices within public agencies by charging a fee to companies that submit paper proposals. It is even possible to have online reverse auctions where suppliers can compete with each other for the lowest price with the possibility of making more than one bid in the time allowed.

Procurement of standard items such as stationery is much easier and cheaper through placing orders to contractors on their website. Many governments have already done this with savings from reduced transaction costs, with the US Department of Agriculture reducing transaction costs for purchases from $77 per order to $32 per order and the latter to fall further to $17 with an even better online system due to be implemented (Holmes, 2001, p. 39). A survey of agencies in Australia found that two-thirds of agencies paid more than 50 per cent of the value of their payments electronically in 2001; the main reported barrier to achieving the target of 100 per cent of suppliers being paid electronically was the continued lack of readiness or willingness of the suppliers themselves to be paid in this way (Australia, *Government Online*, 2001).

Government-to-government links (G2G)

Government agencies increasingly use electronic links between each other in order to improve service delivery. This is not altogether new, but capability has been enhanced. Using the Internet, or a standard such as XML (extensible mark-up language), can overcome problems of incompatible computer systems. Other parts of the same government, other levels of government, even the governments of other nations may benefit by electronic exchange of information. In the instance mentioned earlier of foreign travel, it would also be possible for the booking of travel or requesting a passport or visa to trigger a set of other government-to-government information flows, ranging from immigration or customs checks to dealing with security concerns. There are already sophisticated exchanges of data between governments and these can be enhanced by e-government.

An example is Centrelink in Australia, an agency created for the purpose of delivering services. These are provided for a number of dissimilar departments – Social Security, Employment, Education – with the agency as a contractor for service delivery. Citizen needs cross the boundaries of departments. Services to the elderly, for example, are provided by several agencies. By linking these through e-government, better service could be delivered; after all, it is the service that is important rather than its agency home, with the citizen unlikely to understand the nuances of organizational structures. In this way information flows can cross departmental boundaries. E-government can allow government agencies to work together more effectively, although there need to be adequate safeguards for privacy and security.

For the immediate future, government-to-citizen links are likely to be less important than government-to-business or government-to-government links. While some services are able to be provided to citizens there is the problem of there being insufficient numbers of Internet users to make a difference to efficiency. On the other hand, the much smaller number of businesses can be virtually forced into compliance if they wish to interact with government, and there is greater facility for interchange between different parts of government or governments.

The impact of technological change on bureaucracy

From the discussion so far, it is clear there must be impacts on a system of bureaucracy designed for an earlier technological era. There were several imperatives driving the public management reforms, as discussed in earlier chapters. Technology was certainly one, not least because the private sector's use of information and communication technology led to demands for better service from government. As Kamarck argues (2000, p. 235):

> The information revolution in the private sector raised expectations on the part of the public and made rule-bound, paper-based governmental bureaucracies seem old-fashioned and unresponsive. At mid-century the organization of the Pentagon and the organization of General Motors were not terribly different. But as organizational theory in the private sector evolved and produced a new information age theory of organizations, public sector insistence on traditional bureaucracy seemed all the more obsolete.

One effect of e-government is that organization can be based on information flow rather than hierarchy. Governmental clients or 'customers' are not necessarily aware of the precise boundaries between what one agency does and another, most particularly with regard to service delivery. Services to clients can be grouped together. To start with, a website could be constructed to provide information and contact across a number of agencies; later the agencies themselves could be altered to conform to the flow of information.

It is often argued that organizations will need fewer middle managers as the result of such technological change. Middle managers are the contact points between higher and lower levels, with their main roles being: first, to process information from below and pass it on to higher levels; secondly, to transmit information and instructions from higher levels; and thirdly, to supervise staff.

By many analyses there is likely to be less need for these staff in all these roles. Higher-level staff gain their information directly, often in automated form; lower-level staff do not need such close supervision as they once did; whether someone is working or not can often be monitored electronically. Bureaucracy in the power relation sense remains in place; hierarchy does not disappear, but does not need so many levels. Managers can be delegated tasks; their performance still needs to be monitored by higher levels but without a need for detailed supervision.

There is also likely to be less need for lower-level staff. For example, a number of countries allow for on-line lodgement of taxation returns. In Australia, some 80 per cent of all income-tax forms are now filed electronically, usually through tax agents. There are organizational effects: on-line lodgement reduces the time taken to process returns, but also greatly reduces the staff needed to process paper forms including the data entry of details. Much of the data needed is placed into the relevant parts of the database by the client, meaning that it can be processed directly by the assessor, instead of anyone else being needed at lower levels to get the data ready. There is less need to hire base-grade or casual staff, as was the norm, to process forms after the due date for submission of tax returns. Tax office staff can spend more time on assessing the return itself, rather than dealing with the documentation.

A further effect on hierarchy is that the use of powerful database software enables higher-level tasks to be done by lower-level staff. As Fountain argues (1999, p. 139):

> Knowledge workers and knowledge work have replaced simple, repetitive, clerical tasks required in paper-based bureaucracy. Case workers, whose desktop computing capacity provides access to several databases and powerful analytic tools, perform work previously disaggregated into several positions. In some cases, automated tools allow relatively simple employees to make sophisticated evaluations. Task integration due to information technology has resulted in a collapse in the number of job categories and simplification of the position classification system in the federal bureaucracy.

A tax assessor, for example, would be assisted by a good computer, by powerful software, by search engines, by relational databases and would not need quite so many years of experience as was once the case. If many of the functions can be carried out by lower-level staff, with assistance from software, resources can be diverted to higher tasks. This points to effective devolution of authority, even as there is enhanced capability to monitor results at higher levels. Thompson argues that a number of functions will change markedly (1997, p. 4):

> The use of modern object-oriented databases, expert systems, and networked information systems have rendered administrative centralization and specialization of staff functions such as reporting, accounting, personnel, purchasing, or quality assurance largely obsolete. Computers make it possible to capture information once – at the source – and to coordinate parallel activities during their performance – not after they are completed.

There are, then, several points relating to personnel and career structures; there will be less need for base-grade staff, greater capability of lower-level staff, fewer middle managers and, perhaps, greater scope for higher-level staff. As a result of these changes, there are flow-on effects for the career structures of public servants. There will be fewer base-grade staff required and more lateral recruitment of those with experience. Secondary effects include ‘modifications to supervisory roles, transformation of hierarchical relations, and, at a deep cultural level, modernization of the nature of authority structures and systems’ (Fountain, 1999, p. 139). The workers will be quite different as Nye argues (1999, pp. 9–10):

> New information technologies are re-organizing work. Speed, agility, and customization are the best ways to produce value in the consumer marketplace. Large bureaucratic pyramids turn out to be a less effective way to organize such work than are networks within and between firms. The knowledge workers who staff network organizations see themselves neither as labour nor capital. To earn their loyalties, both companies and governments must appeal to them in new ways. They want government to have the convenience and flexibility of the marketplace.

These will mean that knowledge workers are more likely to take advantage of flexible arrangements, as consultants, contractors, and to earn high salaries without necessarily being career public servants.

The ‘office’ in the Weberian sense also changes. With remote-access technology there is no necessity for staff to proceed to a central point to avail themselves of its equipment. Staff may just as effectively work from home, and staff of welfare agencies who carry out, for instance, home visits need not be out of contact. Part-time work is facilitated by communications technology. Already, virtual teams working across disparate locations and home-based working are well established in some governments. There can be a ‘logical office’ or a ‘virtual corporation’ rather than an actual one in which location in different cities or even countries becomes irrelevant to the work carried out (Bellamy and Taylor, 1998, p. 36). This is not universally welcome as out-workers may have difficulties in operating logical offices due to dislocation, and miss out on socialization with co-workers or the vital office politics. However, such changes are already being implemented in government organizations.

The bureaucratic organization may change dramatically as the result of e-government. What remains will still be a bureaucracy but one that is quite different. As Fountain argues (1999, p. 146):

> It is certain that a solid core of hierarchy and functional specialization will remain in information-based organizations. But the control apparatus that required multiple layers in the chain of command has been greatly simplified, with gains in accountability, through information technology. With information systems that render employee behaviour largely transparent, hierarchical authority is relieved of the task of physically observing employees. In a transparent system shirking is obvious, as is greater output. Hierarchical authority takes on the more important task of direction setting in turbulent environments,

> keeping officials current with environmental changes and ensuring the alignment of task, technology, human resources and goals.

The governmental working environment will be very different if all these changes to the system of bureaucracy occur. There will be opportunities for some but threats for others. There is likely to be more intellectually challenging work to do, but, on the other hand, an ever-present electronic monitoring of performance could cause some unease amongst staff.

E-government and the public management reforms

It could be argued that e-government is the latest instalment in public sector reform, even, perhaps, the conclusion of the new public management agenda. What is beyond doubt is that there will be effects caused by e-government on the operations of the public sector as well as on theories of it.

It is argued here that e-government forms a powerful combination with the public management reforms. It offers a way of operationalizing the theoretical changes of managerialism, while the way e-government is to work – the focus on service delivery, involvement of the private sector through contracts – is itself following the precepts of new public management. Perhaps the public management reforms and e-government can be seen as separate movements, but also as reforms that are mutually reinforcing. It would be conceivable for a more hierarchical, bureaucratic organization to implement the new technologies, but, without the subsequent organizational changes, they would be unlikely to work very well. A traditional model of e-government would be similar to the 'automation' phase described earlier; computer systems would be used merely to improve processing time without changing the organization.

One way that e-government can assist the implementation of the public management reforms is by providing the necessary information to managers. As Bellamy and Taylor argue (1998, p. 48):

> The coordination of public administration through a nexus of contracts creates huge demands for information resources. Contracting parties need information both before and after a contract is made … Less obviously, contractual relationships also require the reconfiguration of information flows. Information needed for the hands-on management of contracts must be both timely and robust, placing new emphasis on speedy dissemination and widespread, on-line access … Above all, if frontline staff are not to be swamped by demands to supply and verify the raw data needed for performance measurement and contract monitoring, many more data than ever before must be captured automatically from street level transactions with customers. In other words, public services must not only be computerized, they must be informatized.

There is a conundrum as to whether there is to be yet another new model of public management or whether e-government can be incorporated within the public management reforms that started in the 1980s. It is claimed by some that e-government may be a new stage in public management. Lenk and Traunmüller, for example, argue (2001, p. 71):

> Electronic government is clearly transcending new public management in that it implies new bold and comprehensive approaches to administration modernization beyond managerialism and a few theories borrowed from economics. Moreover, it is directly acting upon the production processes in which administrative services are generated, and not only upon better ways of managing these processes.

A new model of management based on e-government is possible, but unlikely, in the short term. E-government fits the new public management agenda well: it is focussed on service delivery to customers; it is most likely to operate in conjunction with the private sector, while acting upon the production processes is also very much a part of managerialism. E-government can facilitate the public management reform process by providing the requisite information system. E-government may become more important than new public management, but the key point is that of theoretical change (Chapter 14) and in this sense it can be incorporated within the public management reforms as it has the same underlying theories. It is evident, however, that e-government has little to do with traditional public administration. It is possible for a new model to arise, but for now e-government would seem to fit quite neatly within the paradigmatic change of the public management reforms.

Problems of e-government

E-government does have the potential to be a new phase in the government reform process that started in the 1980s. Much has been promised, particularly by the computer companies and consultants touting for business, but the reality is more prosaic. There are potential problems with e-government, as with any reform process.

The digital divide

While the numbers of people connected to the Internet shows remarkable growth, there are still many in society who are not connected and never will be. There is a potential problem that such citizens could be bypassed or left behind by their more adept neighbours. This is not as much of a problem for e-business as for e-government. A private provider of a good or service can decide to exclude those who do not wish to be on-line; government cannot, as it must make its services available to everyone and on similar terms regardless of the level of technology its clients may possess. Even if most tax returns are submitted electronically there still need to be ways of submitting them by ordinary mail. Some governments provide free Internet terminals in libraries or other public places, but it is still the case that there will be governmental clients without access. It will be necessary to allow other channels for government communication, such as telephone call centres.

Another aspect of the digital divide is that people in developing countries have less access than those in developed ones; this exacerbates the differentials between rich and poor nations. The lowest usage of the Internet and e-government are in developing countries. In India, only 20 people in 1000 have telephone access; only 3 in 1000 have access to a computer (Holmes, 2001, p. 26). Although governments in such circumstances are trying to bridge the gap it is obviously more difficult than in developed countries.

Privacy and security

The advances in information and communication technologies do offer much for governments as well as offering enhanced service delivery for its clients. However, the problem is that 'these capabilities have the potential for surveillance and control' (Bellamy and Taylor, 1998, p. 86). Safeguarding privacy and security are important aspects of e-government. While files are technically able to be shared between agencies for efficiency reasons, they also impose problems of privacy invasion.

E-government does bring with it an enhanced surveillance capability over the citizens in a society. Internet or e-mail usage is recorded and able to be traced far easier than ordinary mail or telephone calls; both leave electronic traces and can be stored for long periods of time in an easily accessible form. All e-mails can be searched for key words of interest to police or intelligence agencies, where intercepting telephone calls or mail in the traditional way is much more labour intensive and usually confined to a few suspects. It is technically possible for many more people to be under surveillance electronically for the same level of police resources. The FBI in the US, for example, has programmes to tap the Web and can collect data and read the e-mail of criminal suspects (Holmes, 2001). The police in the UK have powers under the Regulation of Investigatory Powers Act passed in 2000 to require Internet service providers to install interception devices on e-mail and Internet activity and relay it back to a government monitoring centre. Other governments have enacted similar legislation, such as Singapore, and as *The Economist* argues (24 June 2000):

> Singapore's somewhat authoritarian government is probably not too worried by the threat to privacy or civil liberties. The point of the Web is that it is a two-way street. E-governments may be more transparent and accountable than the old-fashioned kind – a risk Singapore seems willing to run – but they will also know far more about their citizens than they do now, and have much more efficient ways of putting to use what they know.

Computer security is also currently inadequate. Hackers have been able to find their way into government computers. The systems for the electronic use of credit cards are insufficient and there would need to be some form of digital signatures implemented and other safeguards implemented before the payment of fines or accounts over the Internet becomes more widely accepted.

A further issue with privacy and security is that of ownership and usage of information especially with the widespread contracting-out of information technology. According to Bellamy and Taylor (1998, p. 155), over 30 per cent of Whitehall information technology was contracted out and such contracts put a few companies 'in a strategically powerful position in relation to information age government' and further:

> They also expose important issues about the control and exploitation of personal data on UK citizens which are now flowing into computer installations run by commercial companies. These flows of information raise sensitive questions about data stewardship. Especially data ownership and data privacy, but they also raise questions about the nature and efficacy of control over the commercial value of customer datasets, questions which have not been publicly aired or resolved.

Through data mining, and in combination with modern marketing techniques, government information could be used to target particular kinds of products. It would be possible if a register of births was in private hands for direct mail to be used to sell baby products. Without safeguards it would be possible for an agency involved in the delivery of health care services to on-sell its data to insurance companies, who could then use patient records to determine risk. It could be argued that governments could use their information for commercial purposes themselves, but there is likely to be more concern over privacy in government than if the information is controlled by a contractor. There will be a continued need for legislative and ethical standards, but they will need to be very tightly specified to stop the private sector using government information in this way. This is a major problem for e-government, in general, as *The Economist* argues (24 June 2000):

> The one important reservation is that vastly more efficient governments will know vastly more about each and every one of their citizens. The exponential increase in the ability of government to gather, store and mine data about people will raise well-founded worries about privacy and civil liberties. The price of happy e-citizenship will be eternal vigilance.

Already there are protocols for usage of information, privacy laws and such like which governments have instituted, but the privacy and security aspects of e-government are amongst the most worrying aspects of it.

Implications of e-government for politics

E-government may lead to changes in the political system as well as the internal operations of government. Terms such as, 'electronic democracy', 'digital democracy' or 'democracy.com' (Kamarck and Nye, 1999) are becoming more common. There are those who advocate referenda carried out by e-mail or website vote. Political parties are already using websites; e-mails to politicians have largely replaced earlier mail and telephone responses on issues. In 2000, Arizona held its Democratic party primary as an on-line election and more such events are likely to follow. Since the early 1990s Brazil has used computer tabulation of elections, although the voter still has to attend in person to verify their eligibility to vote (Holmes, 2001).

Bellamy and Taylor (1998, p. 117) argue that representative democracy may become a form of consumer democracy:

> In an era when representative politics has become delegitimated and when, at the same time, bureaucratic and managerial capability is being increased through the application of new ICTs, there is a strong possibility that the information and communications capabilities of the information age will simply augment and speed up the decentring of representative democracy, helping to dissolve it into a highly managed form of consumer democracy.

Even if the articulate and informed always receive disproportionate attention in any political system, relying on electronic responses to political issues would disenfranchize large numbers of voters. The result could be a kind of populism and, as has been shown in a number of countries, the use of the Internet makes it easier for extremists to organize and gain attention. The system of representative democracy has evolved over centuries and, for all its faults, continues with the support of most of its people. There are real problems with the idea of electronic democracy.

Difficulties with implementation

It is, of course, possible that the e-government changes will not happen and there are major hurdles to overcome. There may be active resistance from staff. Also, government information technology strategies have tended to be very expensive, exacerbated by a tendency to buy systems badly, and to lock-in to short-lived technologies. Much money has been wasted; failure is common (Heeks and Bhatnagar, 1999). A related problem is that of standards, whether or not they should be open or proprietary and the continued difficulties of communication across different kinds of computer. The standards issue may be able to be addressed by the Internet itself, in that, as it operates in disregard of the kind of computer system used. A further possibility is the apparent acceptance of Extensible Markup Language (XML) as a standard to overcome the problem of proprietary software.

A more systemic problem is the distance between hype and reality. Bellamy and Taylor argue that ‘despite the powerful hyperbole which surrounds the notion of an information age, heroic scenarios for reinventing government through the application of ICTs are fundamentally misleading. The institutions of governance will mould and fashion the revolutionary potential of ICTs into an evolutionary reality' (1998, p. 93). And in conclusion to their book they argue (1998, p. 170):

> The heady images which are so often associated with ICTs, together with the technologically determinist expectations that they will transform the nature of relationships in and around governance, are balanced by the relative insusceptibility to change of the normative and assumptive worlds which suffuse political institutions. The information polity is, in consequence, an arena which will display the same kinds of political compromises and policy confusions that characterize other important arenas of society. For all these reasons, the intoxicating visions of government in the information age should be allowed to dissipate in the thin air from whence they came.

Bellamy and Taylor issue a warning here of what might happen, but it is one with some problems of its own. They also argue 'the doctrines associated with the NPM, as well as those implied by ambitious reinvention strategies, are predicated on the highly questionable assumption that information *can* be made to flow throughout the system of governance in ways which challenge fundamentally the integrity of many of its information domains' (1998, pp. 168–9). It is axiomatic that any movement, any reform, will be modified by its implementation and it is undoubted that the institutional inertia within government bureaucracy makes it even harder to adapt to change. But it is a sclerotic society or organization that allows for no attempt at change at all on the grounds that it is all a bit too hard to implement. Also, other jurisdictions than the United Kingdom, which is Bellamy and Taylor's frame of reference, have implemented various successful technologically driven changes. It is the case, however, that implementation is a far from trivial task.

Conclusion

In some respects, e-government can be considered a second managerial reform, another stage in the public management reforms that commenced in the 1980s. It does present a further challenge to the traditional model of public administration and, if implemented well, will transform the way public services are organized and delivered. The greatest potential of the e-government reforms is in operationalizing the theoretical changes, in changing from public administration to public management, as described in earlier chapters. Contracting-out requires sophisticated monitoring systems; new budgeting and accounting systems require good information technologies, as does performance management. E-government can assist in bringing into reality the theoretical changes of the public management reforms.

In its special survey on e-government, *The Economist* argued 'for the first time since the establishment of the modern welfare state, there is now a real chance to "re-invent" government – and make it a great deal better' (24 June 2000). There is much in this. By whatever name it is called – 'reinventing government' or 'managerialism' or 'new public management' – there was substantial theoretical change that, in some cases, foundered on the difficulties of implementation, notably a paucity of information. E-government does provide the opportunity to bring about the changes that were foreshadowed in the early days of public management reform. The use of information and communications technology in government is proceeding apace and may lead to even more change to the operations of government than has been seen thus far in the reform process. That being said, it cannot be argued as yet that e-government is the management reform that supplants or surpasses those of the other public management reforms. It is more the case that the two movements – new public management and e-government – are mutually reinforcing.

11

Managing External Constituencies

Introduction

One of the key differences between a managerial model of the public sector and the traditional model of administration has been the extra attention paid to matters affecting the organization which are outside its immediate control. As discussed earlier, part of this renewed external focus has been to look at strategy, at the threats and opportunities in the environment in which the organization finds itself. The other part is the need to deal directly with outside individuals and institutions and how to manage these relationships. A key function of any manager is to attempt to control the organization's environment, or, at least, to influence as far as possible any factor that might impinge on its mission and objectives. External constituencies are important influences and any manager needs to take account of them in the management task.

The management of external constituencies is now being carried out quite differently from how it was under the traditional model of administration. There are two aspects to this. First, there is the real and perceived need inside the bureaucracy to manage external relations, something that, by itself, is quite different from the traditional model's narrow focus inside the organization. Secondly, interest groups – the most important of the external actors – are now regarded as having a far greater and generally positive role in the policy and administrative process. The relationship is now closer between bureaucracy and groups, even symbiotic, but this is both a more realistic and positive development in public sector management when compared to a system where groups were regarded as essentially negative and to be kept at arm's-length.

The need for an external focus

Any organization needs to pay some attention to the outside world, for that is where context, opportunities and threats may be found. This is especially true for public organizations as they are influenced by outside bodies to a greater extent than those in the private sector. Public programmes are more visible;

they belong to all citizens and not just immediate consumers. Users and taxpayers feel some ownership of all the activities of government. For example, government assistance to the arts is of obvious and direct interest to the arts community, but it may also concern taxpayers who have no interest in the arts and might resent their money being used in this way. This wider interest means greater scrutiny of the public sector by the media and the public at large than is the case in the private sector.

The public sector does not even have control over its own resources or goals, as Wilson argues (1989, p. 115):

> To a much greater extent than is true of private bureaucracies, government agencies (1) cannot lawfully retain and devote to the private benefit of their members the earnings of the organization, (2) cannot allocate the factors of production in accordance with the preferences of the organization's administrators, and (3) must serve goals not of the organization's own choosing. Control over revenues, productive factors, and agency goals is all vested to an important degree in entities external to the organization; legislatures, courts, politicians, and interest groups.

The additional scrutiny should not be surprising as public organizations were created at some stage by the political process and are, therefore, subject to public accountability. Public organizations are owned by the community, and are therefore always open to scrutiny from the public and the media. Having external political limits and high levels of accountability suggests a greater external focus by the public organization, in order to be aware of its environment and to manage its constraints.

Outside organizations do need to be dealt with. Procedures need to be developed and implemented; in short, the process of dealing with external components is a function of management. In Allison's model (1982, p. 17), the 'managing external constituencies' part of the general management function, involves: (i) dealing with external units of the same organization or the coordination of parts of the organization; (ii) dealing with independent organizations such as other parts of government, business and interest groups; and (iii) dealing with the press and public.

These functions certainly apply in the public sector. The first function is essentially coordinative, that is, it concerns the managerial procedures by which organizations subject to the same authority coordinate their activities. Different parts of the same organization need to deal with each other, and often regard each other as rivals. The second involves dealing with those organizations that are not controlled by the agency, but can influence its operations in some way. These organizations range widely and include: other parts of government, other governments – other levels or even other nations; individuals and interest groups. Interest groups are probably the most important of all outside actors and the management task they cause is innately difficult. The third function, dealing with the press and public, is a matter of public relations strictly defined. It is a normal organizational task, although the public sector environment may make it more difficult than most public relations in the private sector.

All these functions pose challenges for public sector management, especially with the changes induced by managerialism, but also due to the greater demands placed on governmental agencies by outside forces. External constituency management now emphasizes service delivery, the beginnings of consumer sovereignty and the 'empowerment' of clients. These all contrast with external relations in the traditional model of administration. Dealing with the outside has become far more important for public organizations with the decline of the traditional model. It could be argued the apparent failure of the older model to look to external constituency relations was probably a significant reason for its decline.

External relations in the traditional model

External relations were not considered to be particularly important in the traditional model of administration. The focus of attention was inside the organization, on structure and process, and external relations were to be handled by politicians. As part of the strict separation between matters of policy, to be handled by the politician, and matters of administration, the task of dealing with the outside world was naturally reserved for the politician. Any dealing with the press, the public, interest groups or other organizations was outside the duties of the public servant. When individual public servants are regarded as anonymous, they are neither able nor willing to appear on behalf of a department or policy, let alone have any ownership of it in the public mind. Similarly, the concept of neutrality means that a public official's external focus is limited by the fear of being 'political' and, in these circumstances, the public servant was quite willing to defer to the politician. It is little wonder that with such a theory being followed, ministers and parties were the sole target of interest group pressure.

In the United States, where the strict separation between policy and administration was not followed to the same extent as in parliamentary systems, there was a similar division of labour between politicians and public servants. American agencies were relatively open, with a major part of an agency's budgetary success being how well it could deal with outside groups such as Congress and its committees, the press and the public. However, in the United States, most outside contacts were not made by career public servants. They were usually carried out by the political appointees to the bureaucracy who came and left with a particular administration. In fact, that was their main purpose. Career administrators did not usually deal with outside forces to the same extent as politicians either outside or within the bureaucracy.

Looking again at Allison's points for managing external constituencies, it can be argued that all were either not handled at all or handled badly in the traditional model of administration. First, coordination was handled bureaucratically, if at all. Relationships between parts of the same agency were assumed to be as specified on organization charts and coordination was managed hierarchically by their common authority. Any bureaucratic politics was disregarded. There was little concern with how any activities added up to some agreed general function of the whole organization. That was a 'political' function and not the concern of public servants who only perform administrative functions.

Secondly, the relationships with independent organizations were also presumed to be managed by the political leadership, including the relationship with other branches or levels of the government. Interest groups – a major focus of what is to follow in this chapter – were barely tolerated by the public service. Naturally, any contact with them was left to the politicians. Private enterprises were considered only in passing, as yet another vested interest group just like any other. They might lobby for or against some things, particularly to have government money directed to them, but that was something for the politicians to worry about and not public servants.

Allison's third point involves any dealing with the press and the public. Both these were regarded rather negatively by the bureaucracy and were other parts of the external constituency function left for politicians to worry about. Any relations which did exist with the press and public were more often exercises in damage control than genuine attempts to inform or persuade the wider community in which the public organization existed. Another part of external relations in the traditional model was a rather negative kind in which the public service jealously guarded every scrap of information. With this mentality being pervasive, it is little wonder that dealing with the outside generally, or the press and the public in particular, was regarded negatively. In general, as expected in a bureaucratic organization, the outside was regarded as the outside and beyond the interest or knowledge of the public administrator. A strictly bureaucratic model is internally focused and does not need the outside. It is presumed to be self-sufficient and proceeding to the 'one best way' answer through deliberation, process and precedent with the views of outsiders only detracting from this rational process.

Interest groups were regarded with particular disfavour. As recently as the 1960s, according to Pross, the general public 'treated pressure group participation in policy-making as illicit', with some 'guilt by association' with lobbying being one reason for this, but as he continues (1986, p. 53):

> A more important influence may have been the fact that pressure group intervention in policy-making offended public perceptions of democratic government. The institutions of representative government – the single member constituency and the structure of political parties in particular – were sustained by myths that recognized no distinction between the representation of spatial interests and of sectoral concerns. Despite the growing incapacity of parties and legislatures, the belief persisted that they and they alone had the responsibility for articulating the needs of the people; that interventions on the part of other institutions were illegitimate.

The bureaucracy agreed with this view. Pross also argues that the 1960s was the 'epoch of the mandarins' and senior administrators were not prepared to admit that interest groups had an essential role to play in policy-making (1986, p. 55). All the relevant expertise was inside the department under the control of the mandarin. This meant there was simply no need to deal with the outside.

Despite the discussion about public participation that began in the 1970s, the traditional model was not equipped to permit meaningful participation by outsiders. Under the theory governing their actions, political relations were to be carried out by politicians, and, by its nature, a traditional bureaucracy is not conducive to an outside focus. The primary concern of the public servant was directed inside the organization, with questions of how the organization existed in a larger context, or how relations with the outside were to be managed, being rather unimportant.

External relations as a management function

A major change from the traditional model has been the realization that external constituencies can and should be *managed* by the bureaucracy itself. The outside world need not be regarded as a threat; but as something of concern to the organization. Instead of the usual response being to deny information, or to otherwise restrict access or contact, a new approach by public managers is required. External constituencies have become important and take up an increasing amount of any senior manager's time. Politicians now demand that agencies and public servants under their nominal control involve themselves in matters of strategy, rather than regard these as reserved for the political leadership. Similarly, there are marked changes in the functions involved in dealing with the external environment.

There is now far greater attention paid by public servants to all the areas mentioned by Allison. On the first point, coordination within a department has improved and, at least ideally, not by the *ad hoc* or hierarchical methods used before. Coordination should be improved by having a better idea of what the department or agency is supposed to do through the strategic management process and by financial resources being directed to areas of identified priority. Also, coordinative activities can be described more accurately as a *political* process. Partisans for particular parts of the bureaucracy, or for particular policies, compete with each other for resources using standard political means, rather than a hierarchical process. The traditional model refused to consider that bureaucratic politics could and would occur; in the real world it can and does, and needs to be managed.

Secondly, dealings with independent organizations should also be characterized as being fundamentally political, a political process in which public servants are involved as much as any politician. What makes a good manager of the relationships with other parts of government and with organizations outside government is how well he or she manages the various *political* relationships. This is particularly true of the most important relationship of many parts of the bureaucracy, that of relevant interest groups. This relationship is important, both in its own right and for the way in which external groups can be used to win internal bureaucratic battles. Agencies actively compete with each other in a contest for resources and for turf; interest group demands are very helpful resources for this kind of competition. There is a two-way relationship between groups and the system as a whole, as 'to survive as effective political institutions they must offer services needed by their host political system, receiving in return specific benefits for themselves and their members' (Pross, 1986, p. 88). Private enterprises, interest groups and other governments are all involved in the game of politics, in which bureaucratic politics is no less a form of the high art than is party politics. A good manager needs to be a good player in this real-life game.

Thirdly, public managers have to deal personally with the press and the public. These relations should now be seen as vital parts of the management function. As Allison notes, managers must deal with the press and public 'whose action or approval or acquiescence is required' (1982, p. 17). This is a key point. Under the traditional model, the press and public were peripheral to the main function of the agency, which was merely administrative, so that the only outside person for them to talk to was the person who had given the instructions. This was unrealistic. Agencies *need* the press and good managers realize this. Of course, they try to manage relations by putting a favourable slant on everything by having press offices and publicity machines, and even commissioning opinion polls and the like. The important point is that public officials have realized the importance of being in this kind of game. This was not the case under the traditional model.

Public service anonymity and neutrality have certainly declined along with acceptance of the manager's role in those functions once formally the preserve of the politician. The reality is that many public servants are well known for their views, are associated with the activities of their agencies in their own right and not simply as instruments of the politicians, and are sometimes even known for their personal or party political views. Public servants are now much more free to speak out in public, to appear at professional forums, to write articles for journals and generally to be visible and public figures.

Perhaps the extra focus of public managers on external constituencies should be regarded unfavourably because of its subversion of the political process which removed the notion of an apolitical career service. Against this, public servants do exercise power and have political roles, even if these points were played down in the traditional model of administration. By recognizing these facts the managerial model brings a healthy dose of realism to the relationship between the overall political system and the wider citizenry.

Another part of the changed relationship with the outside is the extra effort put into relations with an organization's clients. This is an external constituency of a particular kind and, while mainly important for present purposes in its implications for accountability (Chapter 13), it also has consequences for management. There are demands to provide a client focus and for the administration to be responsive and advantages for the quality of administrative processes for clients to be considered and involved at an early stage (OECD, 1987). Responsive administration and a client focus challenge administrative cultures because the traditional bureaucracy is uncomfortable with external relations. A managerial approach is more open and better equipped to cope with the outside.

Interest groups

The most important part of managing external constituencies is dealing with interest groups. These were once regarded with disdain by the bureaucracy but are increasingly regarded as vital for the policy and management processes. Interest groups have a number of what Pross (1986, p. 84) terms ‘systemic functions’: they facilitate communications between members and the state; provide legitimation of the demands their members make on the state and the public policies they support; regulate their members; and sometimes assist the state in administration of policies and programmes.

The terminology varies; some prefer ‘interest group’ while others prefer ‘pressure group’. Here, the two phrases are regarded as meaning exactly the same thing. Wilson defines interest groups as ‘organizations, separate from government though often in close partnership with government, which attempt to influence public policy’ and, as such, they ‘provide the institutionalized linkage between government or the state and major sectors of society’ (1990, p. 1). Saying that groups are the institutionalized linkage between government and society is a long way from the largely negative role they had for most of the twentieth century. Interest groups were always a well-recognized part of the political process, but it is only comparatively recently that they have been seen as part of the whole governmental system, including both policy and administration. Some writers (Richardson and Jordan, 1979; Pross, 1986, 1992) argue that parts of the bureaucracy and relevant groups are ‘vitally important allies’ in the policy process. Interest groups are now recognized as doing far more than simply exerting pressure on political parties or governments.

Groups are not part of government, but being the ‘institutionalized linkage’ with government, or providing ‘systemic functions’ is far more important as a role than was assumed in the traditional model. Managing in the public sector now has far more to do with the managing of interest groups than it did in the past. Instead of being regarded as something of a nuisance, interest groups are increasingly and actively wooed. The bureaucracy relies on interest groups in making policy. An overlooked fact of modern policy-making is that ‘the bureaucracy is not a passive recipient of group demands, but … actively encourages, impedes, and otherwise manipulates group participation’ (Chubb, 1983, p. 13). The demands made by interest groups are a *resource* to be used by the agency, they are resources in the political games the agency is required to play and they can be channelled into suitable directions.

The bureaucracy's relationship with interest groups has changed in recent years as groups have become more important. Interest groups lead public debate on most issues and are intimately involved in policy-making and implementation. Interest groups 'now perform a vital communications function, linking special publics to government and often supplanting … elite interaction and party intervention' (Pross, 1986, pp. 79–80). Instead of policy being made by the parties and the bureaucracy, with interest groups lobbying for particular points, it may be that government and bureaucracy need interest groups to fulfil their roles.

The changed relationship between bureaucracy and groups began in the 1950s Pross argues, with some deterioration in the legitimacy and status of the bureaucracy. This was at least partly due to the ineffective and inefficient system of management (1986, p. 73). The bureaucracy faced the decline of legitimacy by embracing the trend towards representative bureaucracy, particularly in those agencies dealing with social welfare or minority groups. The most widely used strategy, however, has been 'the expansion and institutionalization of the policy communities operating in each field of government concerned' (1986, p. 74). Policy communities give those most affected by specific policies an opportunity to influence them. Agencies can then argue that their policies are a product of consensus within the affected sector. The advantage of this strategy over others is that agencies can repudiate charges that they have manipulated consensus formulation among their clients. This means that the development of policy communities is 'not only a response to the changing power relationship of central agencies and line departments, but a groping towards more comprehensive representation of interests, which would enhance the legitimacy of agencies themselves' (1986, p. 74).

The policy community may be a response to the decline in importance of the bureaucracy or the realization that legitimacy needed to be found somewhere. It is persuasive in accounting for the new closeness between bureaucracy and government.

Policy communities

There seems little doubt that government and interest groups have become closer in recent years. This argument is extended somewhat further by some (Richardson and Jordan, 1979; Pross, 1986), who have claimed that 'policy communities' exist in which particular agencies and the interest groups of those particular areas are effective *partners* in the policy process. This notion means an even closer relationship and has implications for how the political process is viewed. As Richardson and Jordan argue (1979, p. vii):

> The familiar framework for studying policies – examining legislative behaviour, political parties, elections – inadequately explains how key issues are managed. We see the current

> policy style as the balancing of group pressures. It may once have been legitimate to see the role of groups as simply articulating demands to be 'processed' in the legislative/governmental machine. Now the groups are intimately involved in decision and implementation processes. A symbiotic relationship has developed.

Richardson and Jordan argue that the bureaucracy could itself be seen as an interest group in that official organizations and agencies behave 'in almost exactly the same way as more conventional external pressure groups' (1979, p. 25). Groups can be allies of departments, and while there may be conflict between ministers and groups over details of policy, they generally 'share a commitment to greater resources for that policy area' (1979, p. 29). This means that politicians do not necessarily make policy, nor is it made by politicians together with the bureaucracy, but by the interaction of the bureaucratic part of government and the relevant groups. As they argue (1979, pp. 73–4):

> In describing the tendency for boundaries between government and groups to become less distinct through a whole range of pragmatic developments, we see policies being made and administered between a myriad of interconnecting, interpenetrating organizations. It is the relationships involved in committees, the policy community of departments and groups, the practices of co-option and the consensual style that perhaps better account for policy outcomes than do examinations of party stances, of manifestoes or of parliamentary influence.

This theory seems a far more realistic account of what actually happens in government. It also fits the change from a bureaucratic focus to one in which internal politics is recognized. Particular parts of the bureaucracy develop their own interest groups to assist them in the real political battle, that is, the struggle for resources with other parts of the bureaucracy.

Further, Pross (1986) argued, in Canada, real competition in the political arena was that of policy communities. The policy community was defined as 'that part of a political system that by virtue of its functional responsibilities, its vested interests, and its specialized knowledge – acquires a dominant voice in determining government decisions in a specific field of public activity, and is generally permitted by society at large and the public authorities in particular to determine public policy in that field' (1986, p. 98). A policy community is populated by government agencies, pressure groups, media people, and individuals, including academics, who have an interest in a particular policy field (1986, p. 98).

The development of the policy community has implications for the operation of the bureaucracy and derives, according to Pross, from the decline in the influence of the bureaucracy. Public officials now have to generate support in the policy community, 'winning the approval of the other government agencies, the pressure groups, corporations, institutions, and individuals with a vested interest or an explicit concern in the policy field' (Pross, 1986, p. 132). Departments and agencies need their clients and need them to be organized into groups. If relevant interest groups do not exist, departments are quite likely to sponsor their formation. There are two aspects of this move towards policy communities most relevant for present purposes.

First, the decline in prestige and influence of the bureaucracy and the bureaucratic model led to other initiatives in the relationships between government and interest groups. The decline in bureaucracy is consistent with the decline of the traditional model of administration. If the power and influence of the bureaucracy had indeed declined, then legitimacy needed to be derived from somewhere. The relevant interest groups could be argued to have filled a power vacuum created by the decline of a bureaucratic model. This may be why they have been so readily accepted as important players in the political game.

Secondly, the relationship between government and groups has changed to a more openly *political* system, that is, one where policy outcomes are the result of political competition between a range of inside and outside actors. In this competition, interest groups are a decided asset; so much so that they will be encouraged and enlisted by the bureaucracy to assist in its struggle with other agencies. Two important resources are the ability to give technical advice and the ability to assist in policy implementation. Policy-makers 'rarely understand or have information on all the complexities of the issues they decide; advice from interest groups helps'. The bureaucracy is no longer regarded as having an information monopoly. Also, many types of policy can be implemented 'more easily, cheaply, and effectively if the relevant interest groups cooperate' (Wilson, 1992, p. 81).

Pross (1986, p. 243) also argues that the development of policy communities 'has transformed participating interest groups from useful adjuncts of agencies into vitally important allies' and the relationship between agency and interest group is more equal than it was. As a result the policy system is more open and dynamic. It is hard to say which came first: whether the changes to a more open managerial system have led to an enhanced role for groups or whether, as Pross argues, events occurred the other way around. However, there is certainly greater commonality between groups and government and between the new theories of groups and the system of managerialism.

In another variant of the idea that groups and the bureaucracy have common interests, Goodsell (1983, p. 138) sees bureaucratic interests within government as *representative* of outside interests:

> Because of the mammoth scope of tasks given bureaucracy in the modern society, virtually every interest has an administrative counterpart, whether it be agriculture, labour, the scientific community, war veterans, oil companies, schoolteachers, or beekeepers. Moreover, the interests represented are not merely those of the rich and well-born. Bureaucracies exist for enforcement of civil rights, promotion of minority employment, alleviation of urban poverty, protection of migrant workers, education of pre-school blacks, safeguarding of the environment, advancement of solar energy, enhancement of worker safety, promotion of labour unions, and receipt of consumer complaints. Very few causes are completely without an administrative spokesman.

In this view, agencies are competitors with each other inside the system, but act as representatives of outside interests. An aggrieved citizen can find the appropriate part of the bureaucracy, with its attendant interest groups, to be his or her representative. Goodsell argues that bureaucratic representatives of this kind can be more accountable than through the political system itself. This is a further extension of the policy community argument. It does raise some questions of political accountability in that the main arena for political conflict in the system as a whole becomes that between different parts of the bureaucracy. Certainly, agencies compete with each other and do so vigorously. This may be on behalf of groups, but whether this is more realistic, more representative or more accountable than normal political representation is a matter for speculation.

Theoretical problems in relying on interest groups

A particular problem is how interest groups and their increased importance to the political system should be viewed theoretically. More complete accounts of various theories of interest groups are readily available (Wilson, 1990; Grant, 1989; Dunleavy, 1991; Hrebenar, 1997). For now, it should be enough to mention particular ways in which these theories pose problems for the making of policy.

Is group competition beneficial?

The interaction between groups and the bureaucracy's reliance on them, will determine whether they are regarded favourably or unfavourably. For pluralists, competition between groups is beneficial to the policy-making process and even to outcomes. Policies that have been through the system of competition will have survived a rigorous process and should now be acceptable.

The main idea in pluralist theory is that government is not itself an active participant in group processes and competition, but rather acts as a kind of umpire, allowing rival groups to fight each other. Pluralist theory derived in the United States, most particularly in the 1950s and 1960s (Bentley, 1967; Truman, 1951). If an issue arose in the public arena and had a particular interest group acting in its favour, then those opposing the matter would form their own interest group. In this theory, there is a fluid relationship between an agency and the many groups of cost-bearers and beneficiaries in its environment. No single group has power and any government action results from interest group competition.

Pluralism is an attractive theory at first glance and, in some circumstances, pluralist tendencies can be seen to be at work in the interaction between government and groups or between groups. There are many groups in any developed society and they are often found on both sides of a particular issue. However, as an overall explanation pluralism has its problems.

For a start, it seems too much to claim that the existence of groups was itself an explanation and a justification of democracy. Also, it seems unrealistic to argue that government is only a bystander, an umpire with no views of its own. Pluralism has trouble explaining the fact that groups are not equal, or that some groups always have the ear of government while others are ignored. As long as pluralism is considered to be operant – government acts as the passive arbiter of interest groups – there should be no particular problem in effectively delegating policy-making to outside groups. However, if government is not a passive arbiter between groups, or if some groups always dominate others, the quality of policy-making may suffer from being left to interest groups.

There are similar problems if the relationship between government and groups fits a corporatist model of interest group behaviour. The theory of corporatism argues that there is a cooperative relationship between government agencies and the interest group or groups representing the major beneficiaries; this is usually seen as an agreement between big business, big labour and government. Although the idea fits some countries at some times – for example, Germany in much of the postwar period – corporatism as a theory has probably declined in recent years. Big business, big government and big labour no longer represent that much of a society and rarely do their interests seem in concert compared with the society as a whole. Even where corporatist explanations have seemed plausible, they have tended to fall down when more traditional links between the three actors came into play, or as Dunleavy argues: 'corporatism's difficulties remain primarily empirical – the fact that many large liberal democracies fit poorly with the immanent trend it identifies' (1991, p. 43). Also, agreement between these three large groups is not necessarily in the interests of society as a whole. It could, for instance, disregard the interests of consumers, small business or workers who are not in unions.

Pluralism and corporatism may be regarded favourably, and, if they are, there would be no problem with a close relationship between groups and bureaucracy. However, it can be argued that the interaction or over-reliance on groups might lead to inferior policy outcomes.

Is group competition harmful?

Allowing policy to be made by groups could arguably make government less effective. There are arguments that group competition is harmful to society as a whole and the functioning of the political system. In different ways, although both are from 'rational choice' economic theory (see Chapter 4), Olson and Stigler argue that interest groups may cause undesirable policy outcomes.

Olson argued (1965, 1982) that pluralism is illogical and the pluralist view is 'fundamentally flawed'. Potential groups would not necessarily arise into actual groups, as the organizer of a large group will not gain a large share of the benefit of a policy change when compared to the costs of organization in both time and effort. Instead of large groups being more important and more powerful, as pluralist theory argued, it is actually small groups that dominate and are more successful in getting government to agree with their views. Small groups – special interest groups – represent only a narrow segment of society. They have little or no incentive to make sacrifices in the interests of the society and can best serve their members' interests by striving to seek a larger share of a society's production for themselves. And, indeed, small groups in society, especially those with collective economic interests, do seem to have power greater than their numbers. Olson can be used to explain why it is that doctors' groups are far more powerful than the potential group of medical patients. Even if the sum total of concern about medical funding is greater among consumers, there is the problem of organizing when the benefit obtained by any one actual organizer will be small.

Large or 'encompassing groups', such as a union peak council or an employers' association, may be more willing to make sacrifices for the benefit of the nation and their own long-term interest. But, Olson argues: 'on balance, special interest organizations and collusions reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive' (1982, p. 41). In other words a society with many special interest groups will perform worse than one with none.

There is substantial explanatory power in Olson's theory and it is only when it becomes rather more grandiose – interest group competition is regarded as *the* single reason for the rise and decline of nations – that there are some problems. However, the point that special interests may reduce aggregate economic efficiency provides a lesson in going too far in allowing groups to make policy.

Stigler's view of interest groups is that their intervention leads to poorer outcomes. His 'capture theory' argues that there is a co-optive relationship between an agency and the relevant interest groups (1975). The regulatory agency of an industry will be *captured* by the industry it is supposed to be regulating which then controls what it does. While it is unlike the other theories mentioned here, the theory of agency capture has had an impact in the process of deregulation. It has also been used to support the arguments of those who believe that bureaucracy is an inherently flawed instrument. However, Stigler goes too far. For him there are no examples of public benefit and no examples of public interest. All regulation, all interest group pressure being followed by a governmental response, he argues, leads to outcomes worse than if the government stayed out. Even if Stigler's argument can be supported in some cases, the general case is overstated. He denies any chance for the political system to operate, as well as denying any possibility that political action in response to public demand can be beneficial.

The significance of Stigler's work, allied with that of Olson – both could be described as New Right economists – has been to give further theoretical backing to demands to reduce government involvement because of the persistence of links between government and interest groups. It has become easier to cut assistance schemes that support special interests, perhaps as a result of such theoretical arguments. It is also easier to deregulate, as capture theory predicts that any government regulation or regulatory agency will only make matters worse. Political leaders can declare they will not be captive to special interests and can use these arguments to cut their power.

The importance of theory for policy

Interest group theory has implications for the work of public managers. Reich argues that there are two related but conceptually distinct 'procedural visions' of how public managers should decide what to do: the first being 'interest group mediation' and the second being 'maximizing net benefits' (1988, p. 129). For the public manager, interest group mediation is as 'a referee, an intermediary, a skilful practitioner of negotiation and compromise' (1988, p. 129): in other words, this model is clearly related to pluralism.

Net benefit maximization is more analytical, related to decision theory and microeconomics. According to Reich (1988, p. 132):

> Here the public manager was less a referee than an analyst. His responsibilities were, first, to determine that the market had somehow failed and that intervention might improve overall efficiency; second, to structure the decision-making process so as to make explicit the public problem at issue, alternative means of remedying it, and the consequences and tradeoffs associated with each solution; and third, to choose the policy option yielding the highest net benefits – where there was the greatest social utility.

Reich argues that in practice there has been an amalgam between the two and advocates more public meetings and deliberations. But there is a problem in allowing interest groups to have a greater role: public policies are more likely to be characterized by interest group mediation – pluralism – rather than consideration of net benefits, a school in which both Olson and Stigler would find themselves as would other 'rational' policy analysts.

Problems with the external constituency function

It has been argued that, unlike the traditional model of administration, public sector managers are now active participants in the external relations of their department or agency. There is a trend towards an active partnership between interest groups and the bureaucracy, a relationship in which each party needs the other. For the most part these have been beneficial changes, but not without some problems.

There are potential problems of accountability, as discussed in Chapter 13. When the politicians were nominally responsible for any problem arising from outside relationships, at least there was someone to blame. There may be gaps in the accountability system with the changes described here, because accountability can be evaded altogether. If a problem arises from the bureaucracy's relationship with the outside, both the public servant and the politician can claim it is not their own fault. There are also substantial risks for public managers in their dealings with external constituencies. Public servants now have to realize that while there are benefits in being identified with their agencies, there are costs in that they become personally accountable. Related to this is the problem of politicization, in which career public servants become well-known partisans for policies in a party political sense. Both of these are potential problems; what seems to be occurring is the gradual development of a form of accountability akin to that in the private sector. Managers become identified with particular areas or policies and pay with their jobs or careers if the circumstances demand it. This may not always be fair to the individual public servant, but that is part of the price for the benefits of the managerial changes.

A bigger problem in dealing with outside influences in this kind of political way is that agencies, indeed governments, can become overly reactive. They may only respond to interest group demands instead of leading, or being proactive. They may allow, in effect, for the interest groups to become the policy-makers. The old bureaucratic system at least aimed towards formal rationality, and would try for this regardless of public views. It is the same with the partnership between interests and the bureaucracy. In the United States system, the interaction between interest groups, the bureaucracy and the relevant Congressional Committee has been described as an 'iron triangle', one in which the three parties act together for each other's benefit. In this kind of process, the consumer or the taxpayer can be forgotten; some interests may never get anything, agencies may be captured. However, the new views of interest groups are far more persuasive than the traditional view in which the outside was to be ignored altogether.

Conclusion

One part of the transformation in public sector management has been to focus on external constituencies. To look outside the organization and to manage the interaction with outside forces is at variance with the traditional model of administration, which was truly rather insular. There are promises as well as some problems in this change of focus, but on balance, there are far more advantages than problems. Interest groups are no longer regarded by the bureaucracy as a nuisance, hardly to be tolerated; this is a major change. As Pross argues, recent changes in pressure group behaviour 'are the product of, and have themselves fostered, a more open and dynamic policy process' (1986, p. 261). This should be beneficial to the functioning of the political system. Nowadays, interest groups are an active, resourceful and fundamentally useful part of the policy process. In the same way, the general change in orientation towards the outside world improves the bureaucratic process. After all, any public sector organization arose in the outside world as a response to the political process.

A public organization exists in a social context beyond the organization itself, a context that contains threats to its budget and even existence, as well as opportunities to advance its function. The management of external constituencies has become one of the major tasks of the public manager, one that has increased in importance in recent years and is likely to become even more important in future. Public management is sometimes criticized as being narrow and focused only on economic results. It is argued here that public management is far from being narrow but enhances political processes. The traditional model of administration tried to avoid politics, which was one of the reasons it failed. The new model accepts politics of all kinds but uses these productively.

Any form of political persuasion is legitimate, ranging from legal action, presentations, submissions and protest actions to cultivation of the print and electronic media. As Pross adds, 'books are written; advertisements concocted; speeches rouse multitudes – or leave them indifferent – all in the name of rational discourse' (1986, p. 130). These points have a wider application. Public management is sometimes criticized for being more inflexible or rigid than under the traditional model. In fact there is far greater flexibility in the ways managers can operate. Public managers have a number of political weapons available to them. They can co-opt or persuade interest groups to assist them; they can go into the public arena. In short, the game being played is one of politics, broadly conceived. It is bureaucratic politics, personal politics: any kind of politics. This means that politicians are rather more important than before, but because the game they play is one they understand, the managerial system may be more realistic than under the traditional model where public servants pretended they were not involved in politics and did not need to deal with the outside.

12

Public Management in Developing Countries

Introduction

Even if the public management reforms are appropriate for developed countries, there is still the question as to whether managerialism is applicable in developing countries. It cannot be assumed that a style of management started in the developed countries of the West would necessarily work in such a different setting. It is possible that the new public management is culturally bound in a way that restricts its utility in lesser-developed countries.

Developing countries followed the traditional model of public administration both during and immediately following independence. Strict hierarchies were the norm, all the familiar bureaucratic conditions of service prevailed. Staff were recruited by examinations to lifetime careers, many different layers made for an overly heavy bureaucracy typically slow to move and, in accordance with Weberian principles, the bureaucracy was a prestigious and relatively well-paid elite even in the poorest of countries. Almost all developing countries were once colonies of one European power or another with centralized, bureaucratic administration characterizing colonial governance.

In addition, along with a bureaucratic approach to administration, most developing countries adopted the principle of a strong state sector in the economy, in many cases allied with the then-prevailing ideas of socialism and Marxism. It was thought that the fastest way of achieving economic growth was through government ownership of enterprise, intervention in the private economy and dominance by a bureaucratic technocracy. In general, this strategy failed. As the World Bank argued (1997, p. 2):

> In a few countries things have indeed worked out more or less as the technocrats expected. But in many countries outcomes were very different. Governments embarked on fanciful schemes. Private investors, lacking confidence in public policies or in the steadfastness of leaders, held back. Powerful rulers acted arbitrarily. Corruption became endemic. Development faltered, and poverty endured.

Government loomed large in economic activity, but did not have the competence or standing to be successful and its larger role enhanced the power of the bureaucracy even more than in Western countries. Government became by far the most important societal actor, controlling the details of the economy in addition to its normal functions. This needed to change.

Following the end of the Cold War and a global turning away from statist and socialist ideas, most of the developing world, with some notable exceptions such as North Korea, has been adopting principles of free markets and participation in the world trade system. In addition, there are many more countries adopting democratic elections in comparison with the one-party states previously common. As part of these changes and under the direct encouragement of international financial institutions such as the World Bank and the International Monetary Fund, many developing countries are adopting principles of market liberalization, including cutting the public sector and restructuring to follow the principles of public management. There are arguments for and against the principle of adopting public management in developing countries. Holmes and Shand argue there should be greater attention to the implications of the management reforms for developing countries adding 'we believe that the basic principles are relevant for every country' (Holmes and Shand, 1995, p. 577). On the other hand, Minogue argues that 'sophisticated reforms such as market testing and internal markets are unlikely to work outside developed economies' (1998, p. 34).

Whether managerial principles will work in developing countries as they have in the West is far from clear. Indeed, it is argued by some critics that new public management does not work in developed countries, let alone developing ones. There may be some danger in adopting new managerialist approaches yet, the traditional bureaucratic model was not a great success in developing countries either.

The traditional model in developing countries

It almost goes without saying that the public sectors of developing countries can be characterized as following the traditional, bureaucratic model of public administration. Weberian bureaucracy and Taylor's scientific management were successful exports to developed and lesser developed countries alike and formed the basis of the model adopted in the period following independence. There must be some speculation as to why this occurred to quite the extent it did. Perhaps the prescriptions of the traditional model struck a chord with earlier forms of administration, perhaps the inherent elitism was familiar. Some of Weber's ideas came from the Orient; it could be argued that China, for example, had its own long history of bureaucracy going back as far as Confucius and with some continuity today (Aufrecht and Li, 1995, pp. 175–82). More likely is that at the time of its adoption in the post-independence period, the traditional model was in fashion everywhere, including in countries of former colonial powers where national leaders were usually trained. France and the United Kingdom exhibited high levels of statism in the 1950s and 1960s. Perhaps developing countries thought that by emulating the administration apparently successful in the West they could imitate their economic and social success.

The role of government

Developing countries emerged from independence in the 1950s and 1960s with government playing the largest role in the economy and society. It was a time in which state-dominated economic development was seen as the most appropriate way of developing, as it was in the post-war period in France and the United Kingdom, the countries with the largest number of colonies. Keynesian thinking was dominant in the West at the time and a large and active state seemed to offer the best means of governing. As the World Bank (1997, p. 23) argued:

> The new interventionist credo had its counterpart in the development strategy of the day, adopted by many developing countries at independence, which emphasized the prevalence of market failures and accorded the state a central role in correcting them. Centralized planning, corrective interventions in resource allocation, and a heavy state hand in infant-industry development were part and parcel of this strategy. Economic nationalism was added to the mix, to be promoted through state enterprises and encouragement of the indigenous private sector. By the 1960s, states had become involved in virtually every aspect of the economy, administering prices and increasingly regulating labour, foreign exchange, and financial markets.

In addition, the seeming success of the Soviet Union and China, with their particular models of economic development, seemed to provide an alternative system for many developing countries. This also promised something different from the model of the former colonial power, itself highly state-centric by comparison to what followed after the public sector reforms. In rhetoric, Soviet and Chinese socialism appeared to promise a path for developing countries and, with the Third World an ideological battleground during the Cold War, advice and assistance could be obtained by choosing one side or the other. Many countries chose the socialist side and gained some benefits, such as the Tanzam railway constructed by the Chinese in Tanzania in the early 1970s. Tanzania tried to follow other parts of the Chinese model, although the latter was starting to make its own transition from Maoism. Superpower conflict through Third World surrogates also meant the transfer of military equipment, often at the cost of programmes to alleviate poverty; this led to the military itself becoming an important part of the bureaucracy and even the economy.

Bureaucracies were particularly important in developing countries, but at a cost to the nation. Public employment accounted for over 50 per cent of non-agricultural jobs in Africa, 36 per cent in Asia and 27 per cent in Latin America, and in 1986 the wage bill for Guinea's civil servants accounted for 50 per cent of total current expenditure (Smith, 1996, p. 221). The bureaucracy often operated at a remove from its own society and constituted an elite with more in common with its counterparts in the West and with foreign corporations than with its own people. Although not part of the traditional model, corruption became endemic as public servants followed their own interests. Public service pay was low and it became common, as, for example, in Indonesia, for public servants to have additional jobs in the private sector as well as in government employ. The sanctions against corruption were weak, so it is hardly surprising that individual public servants sought to enrich themselves.

The bureaucratic model

The bureaucratic model in developing countries can be argued to have largely failed with the roots of its failure most often found prior to independence. Colonial governments used bureaucratic means to administer their colonies, often by using indigenous civil servants at least at lower levels. Even if higher levels remained firmly in the hands of expatriates or the home government, a system of administration was put in place and this system continued with little change into the post-independence period. As Turner and Hulme argue (1997, p. 222):

> In countries such as Bangladesh, the current administrative laws are usually those introduced by the British 50 to 100 years ago. South Asian civil servants commonly claim that 'their system' follows 'the British system': such claims are made with pride and are to demonstrate the pedigree and quality of their civil services. They fail, though, to note that they are based on a British colonial model (rather than the British domestic model) and that, 50 years on, modifications might well be desirable.

After independence many lower level colonial civil servants became senior officers in the public services, often due to the principle of seniority being rigidly acquired from the colonial government, but were ill-equipped for their new role. The bureaucracy was large and important but did not have the institutional support to work effectively. As Root argues (1996, pp. 151–2):

> Interventionist policies were welcomed by post-independence governments as ways to consolidate political support. Expanding the state's economic role provided the government with resources to reward followers. While rewards could take many forms, the availability of discriminatory legislation, tariff protection, price supports, and direct fiscal and financial transfers all encouraged rent seeking and favouritism. The resulting patronage, nepotism, and corruption allowed the state to be captured by narrow, private interest groups. Once captured, governments were unable to deliver policies that benefited the entire population.

Regardless of ideology, the form of government adopted resembled that of colonial regimes, which made it doubly difficult for developing societies to overcome the colonial legacy. This problem was exacerbated as the bureaucracy was often the sole source of expertise and knowledge, particularly of a professional and technical kind, and could dominate even when there was strong government and competing political parties. The practice of public administration became familiar to public servants and citizens alike. Weberian bureaucracy found fertile fields in the developing countries, but this was not without its problems, particularly when combined with underdeveloped political institutions. As Grindle argues 'whether because of the artificial and partial grafting on of western institutions by colonial powers or the ravages of chronic public sector poverty, rule by corrupt leaders, or institutional incapacity and decay, government institutions in most developing countries have never worked particularly well' (2000, p. 189).

As Smith argues, 'a universal feature of colonial government was that it developed bureaucracies while neglecting legislatures, parties, local councils and other bodies able to maintain control and accountability' (1996, p. 181). An administrative system can and did work for most of the twentieth century in the developed world, although with limitations as discussed in earlier chapters. But when bureaucracy is the only developed institutional actor, a serious imbalance can and did arise. Administration requires instructions to be given clearly to enable an administrator to carry them out. But if instructions are not clear, due to the inadequacies of the political system, or if political leaders are erratic, as was often the case, bureaucracy gains power. When bureaucracy, particularly administrative bureaucracy, is the most powerful institutional actor it rules without political constraint. But it is rudderless in the strategic sense without the input from the political leadership who would be presumed to provide administrative instructions in other systems. The separation of politics from administration may have been successful in developed countries for a long period, but in developing countries these principles were inadequate due to the underdevelopment of the political system. Only if the political and administrative systems were in some kind of balance could Wilson's prescription have some utility.

As a result the administrations of developing countries were true bureaucracies, meaning government by bureau, government by officials. There may even have been a 'bureaucratic mode of production' in which, as Smith argues (1996, pp. 235–6):

> The bureaucracy controls and manages the means of production through the state. It provides the necessary organization. It proliferates opportunities for bureaucratic careers by the creation of public bodies needing public managers – marketing boards, development corporations and other parastatal organizations and their subsidiaries. It articulates an ideology of state ownership and planning. It organizes the means of its own reproduction by passing on to the offspring of bureaucrats disproportionately advantageous opportunities to obtain the qualifications needed for entry into bureaucratic occupations and therefore the new class.

The bureaucracy maintained sole ownership of technical knowledge in the various sectors from agriculture to mining and industry. The bureaucracy was the sole employer of professional experts, most of them trained in the country of the former colonial master. There were no other institutions that could compete. As the sole source of knowledge it is easy for the bureaucracy to assume that it knows best, that its experts need to be able to impose their solutions to the various problems of development. As Smith argues (1996, p. 227):

> Development planning has consequently tended to be highly centralized, technocratic and of the 'top down' variety, where the experts at the top make the decisions about what the masses need in terms of programmes of development, whether in health care, agriculture, education or other areas of planned development. This feature of bureaucracy reflects the concept of a specially recruited group appointed on the basis of merit to produce rational and efficient methods of working. A system of recruitment that admits only those that can demonstrate the required level of expertise and competence is bound to produce organizations which lay politicians find it difficult to dominate.

Some of these problems also occur in Western countries, particularly where bureaucracies involve technical experts. Yet these have other sources of information, a tradition of the bureaucracy being quite firmly subservient to the political leadership, as well as formal and informal rules to ensure ethical behaviour. In developing countries, the bureaucracy was superior to the rest of society. The principles of examination led to a closed bureaucracy open only to elites, formally educated, often in the West, but operating at a remove from their society of origin.

Public enterprise

In the post-independence period, government was the prime agent of economic development, providing infrastructure, and producing goods and services, often provided through the mechanism of the public enterprise. Developing countries used public enterprises to a greater extent than in most Western countries. For example, in 1977, Tanzania's 400 state-owned enterprises accounted for 38 per cent of gross fixed capital formation, similar to that of Ethiopia (Jorgensen, 1990, p. 62).

Initially there were some good reasons for this greater use of public enterprise. There was a chronic shortage of capital and capital markets such that private ownership would necessarily mean foreign ownership. Also, in many cases, no one from the private sector was interested in providing utility services for nation building and for the nation to have the necessary infrastructure it would need to be provided through the public sector. It was hard to develop exports without adequate port facilities or rail links, while the cities required reliable electricity supplies and telecommunication links. In addition, at the time of decolonization, in the 1950s and 1960s, public enterprise was considered an appropriate form of organization. This is unsurprising in view of the major role given to public enterprise in the former colonial powers such as the United Kingdom and France. At a time when public utilities in European countries were in public hands, allied with the expectation that public enterprise could be used to advance the cause of socialism, it was natural that Tanzania or Bangladesh would develop a large public enterprise sector. Indonesia even gave public enterprise a protected role in its constitution. India saw industrialization as the key to reducing poverty and state ownership of industry as the means of controlling industry.

Much of the reliance on public enterprise was misplaced and the results were not what had been hoped for. Instead of serving as an agent of national development, many public enterprises served only the interests of their managers and workers. In 1991, public enterprises accounted for 23 per cent of formal employment in Africa and only 3 per cent in Asia, while the poorer the country the larger the relative size of the sector (Turner and Hulme, 1997, p. 176). Even if it could be argued that infrastructure needed to be provided through public hands, there seemed little justification for government ownership of jute factories in Bangladesh, mines in Africa or national airlines almost everywhere.

In some countries, public enterprises controlled almost all economic activity. From the late 1960s, the public enterprise sector in Zambia constituted about 80 per cent of all economic activity with the private sector accounting for the remaining 20 per cent (Kaunga, 1993). The sector was structured with one enterprise, ZIMCO, a holding company, controlling the other enterprises and with the government in turn, particularly the Zambian President, controlling ZIMCO. This meant the government, and particularly the President, could control the overwhelming proportion of economic, as well as political, activity. If economic success had followed, the public enterprise sector would have been lauded. However, Zambia declined; from 1960 to 1990 there was an average annual growth rate of minus 1.9 per cent compared to an average real increase of 2.9 per cent for other low-income countries (Simpson, 1994, p. 212). The external debt of public enterprises in Zambia was 55 per cent of GDP in 1986 (World Bank, 1995, p. 314). This is a high figure for total external debt for any nation, but this was just the debt contribution of the public enterprise sector.

Despite some successes, public enterprises in developing countries were characterized by low profitability, poor return on investment and lack of strategy. There were a number of problems: managers were poorly trained and lacked direction; there was an inefficient organizational structure with 'overstaffing common; inadequate financial control systems; weak oversight by the government; political interference; and the "opportunistic misuse" of state-owned enterprises by private individuals, bureaucrats or joint-venture partners' (Jorgensen, 1990, p. 62). Loss-making enterprises were a significant burden on government budgets with central government subsidies to state-owned enterprises in Tanzania at times equal to 72 per cent of spending on education and 150 per cent of spending on health (World Bank, 1995, p. 1). Money that was used to subsidize public enterprises could not be spent on more urgent needs.

By the early 1980s, the popularity of the instrument of the public enterprise was in decline, allied to some general questioning of the economic role of government.

Privatization was adopted by many developing countries in the 1980s following the apparent success of the programme in the UK. By 1987, fifty-seven developing countries had commenced programmes of privatization (Ramamurti, 1991). While privatization is under way in many developing countries it is difficult for the private sector to overcome its problems of insufficient capital or expertise.

Development administration

Particularly in the period following World War II, a single model of administration for developing countries was followed, termed ‘development administration’, a specialty within the broader field of public administration. The idea was to apply to developing countries the administrative theories and procedures derived from the former colonial countries to ‘modernize’ their economies, accelerating development to become equivalent, eventually, to the West. This approach included the various features of the best administrative practice available in the developed countries, which was the traditional model of public administration. A technocratic bureaucracy following rational–legal principles as set out by Weber would be all that was needed to overcome tribal authority and superstition, combined with the application of technical expertise to agriculture and industry. It was all rather patronizing, as Turner and Hulme argue (1997, p. 12):

> It was a form of social engineering imported from the West and embodying faith in the application of rational scientific principles and the efficacy of the Keynesian welfare economics. In its early days at least, it reflected the naive optimism and ethnocentricity of modernization theory, that there were straightforward technical solutions for underdevelopment and the West possessed them.

Along with the difficulties engendered by governing in a difficult time, the organization of the bureaucracy hardly helped.

While the motivations of the practitioners of development administration were high, there were problems, as Dwivedi and Henderson argue (1990, pp. 13–14):

> Development administration was supposed to be based on professionally oriented, technically competent, politically and ideologically neutral bureaucratic machinery … The ostensible output was modernization – induced and predictable social change following Western perceptions – preceded by institution-building and modernization of the indigenous bureaucratic machinery to undertake developmental tasks … But what was missing from the expected picture-perfect imitation in the Third World was the necessary set of conditions for bringing about a number of social, economic, cultural and political changes. These included an expanding economic base, a tax base, professionally trained manpower, political legitimacy, cultural secularization, universalism, a relatively open society, and a strong political superstructure capable of governing.

The principles of development administration were those of the prevailing model of administration in the West, that of formal bureaucracy. Despite the different models of economic development followed in Tanzania, India, Pakistan or the Pacific, the familiar precepts of a Weberian system were to be found.

Development administration largely faded as a specialty within public administration in the mid-1970s as its theories and assumptions came under attack (Turner and Hulme, 1997, pp. 12–17). This occurred well before the rise of new public management in the West. A similar kind of demise had befallen its allied discipline, development economics (Krugman, 1995). There were intellectual problems in trying to carve out a separate specialty and at times the arguments between different theorists seemed to ignore the fact that there were real problems in the administration of developing countries.

Problems of the administrative model

The traditional model of administration did not serve developing countries particularly well. Features which worked in the West, notably political neutrality and incorruptibility, were not followed in the Third World and the bureaucracy, while maintaining the appearance and institutions of traditional bureaucracy, served particular elite, ethnic or religious interests. Above all, it served itself. While there is some argument about the model of public choice as applied to the bureaucracy in the West, in the developing world it could scarcely be denied that bureaucrats looked after their own interests first. Also, it was rare that the performance of public services was evaluated in a systematic way and there were manifest problems of accountability with no-one taking the responsibility for negative outcomes.

How much of the problem can be attributed to the bureaucratic model itself? It could be argued that what was happening was not the problem of the model, but was due to its precepts being perverted, as exemplified by the problem of corruption. While this is possible, it is more the case that the flaws in the model were exacerbated in developing countries. It was always a naïve to think that bureaucrats would be impersonal, neutral arbiters and not involved in either politics or looking after themselves. The problems could be argued about in developed countries; in developing countries their effects could be seen in corruption and other forms of self-enrichment. While not unknown in developed countries, problems of corruption were worse in developing ones. As Huque argues (1996, p. 23):

> Public administration itself is susceptible to corruption since officials exercise a substantial amount of power. There are possibilities for acquiring improper benefits by interpreting or bending rules in favour of certain groups or individuals. All governments seek to have in place a number of safeguards for deterring and dealing with corruption within administrative agencies. At the same time, public administration has to develop ways and means to prevent and detect corruption in other sections of society. Much of the benefit of rapid economic growth or a stable political order may be lost in the growing tide of corruption.

How could it be expected that public servants would stay out of politics as the model naively assumes they should when the bureaucracy was the most powerful political force? How can Weber's model of rational–legal authority apply when the rule of law is itself weak?

Compounding these problems was the fact that developing countries failed to thrive under the traditional model of administration and the failures were more often than not failures of governance. In part due to the apparent failures of the traditional model of administration developing countries began to experiment with other forms. If the key characteristic of the traditional model is bureaucracy and the key characteristic of new public management is the use of markets, it was clear that developing countries began to discard the traditional model at the same time as they began to adopt market approaches more generally.

The public management reforms

In recent years, developing countries have changed their attitudes to the public sector and its management, in part resulting from changes in their views on the economy. In Eastern Europe, for example, there is a new-found appreciation for market economies and the transition to a market economy 'clearly requires both the elimination of a range of existing government institutions and practices, and the introduction of new agencies, with new goals, staffed with people having different attitudes and behaviour' (Rice, 1992, p. 116). Changes have been made which mirror the managerial changes in the developed world. These occur most of all both as changes to the role of government as economies are liberalized, as well as reductions in public enterprise and the adoption of public management. The World Bank's *World Development Report* first raised the issue in 1983 as 'development failures and disappointments were now seen not simply as the result of inappropriate policy choices but also because state institutions were performing poorly' (Turner and Hulme, 1997, p. 105). This was to be a persistent theme in subsequent reports on development.

The role of government

In response to attacks on the role and size of government in the 1970s and 1980s (see Chapter 4), the idea became current that the best government was minimal government in the developing world as well as the developed. Many countries saw the need to further define the role of government in order to move away from central planning and allow economic liberalization, privatization of public enterprises and change the management of government. Some of this was in response to continuing failure to develop or pass on economic benefits to the society as a whole instead of a narrow elite. Some of it was also in response to demands made by international agencies requiring market reforms and public sector cuts.

Developing countries found themselves undergoing various kinds of structural adjustment through international agencies, notably the World Bank and the IMF. Financial assistance to governments 'comes with a panoply of conditions; it is in no way a gift' (Haynes, 1996, p. 84). The Fund requires debtor governments to take action in five broad areas: first, trade barriers are to be lowered; secondly, subsidies and price controls are to be cut or withdrawn altogether; thirdly, financial systems are to be restructured by withdrawing controls on capital movements; fourthly, state-owned enterprises should be privatized and foreign investment controls cut; and fifthly, 'state intervention in both the management of the economy generally as well as in the provision of social services is to be minimised' (Haynes, 1996, p. 84).

The various structural adjustment programmes, at least in their initial stages, were not particularly successful. As Haynes argues:

> Despite the doubtless good intentions of the Bank [World Bank] and the Fund [IMF], the result of sometimes insensitively applied conditionality was to force many Third World countries to adjust to full orthodox liberalism without allowing the pace or thrust of liberalisation to be tempered by the peculiarities of local state-society relations. Results were often disappointing, with serious social and political repercussions. (1996, p. 86)

There seemed to be an assumption that, merely because neo-classical economic theory prescribed a minimal role for the state, all that was needed for economic development was to cut the public sector. It seemed that another orthodoxy – simple reduction of state activity – was to replace the previous orthodoxy of development administration. It also seemed that the result would be no better.

The shift to state minimization did not work as intended. Even the World Bank, one of the institutions whose prescriptions had led to this impasse, for which it must share some blame, could argue later (1997, p. 24):

> As often happens with such radical shifts in perspective, countries sometimes tended to overshoot the mark. Efforts to rebalance government spending and borrowing were uncoordinated, and the good was as often cut as the bad. To meet their interest obligations, countries mired in debt squeezed critically important programmes in education, health, and infrastructure as often as – or more than – they cut low-priority programmes, bloated civil-service rolls, and money-losing enterprises.

It was simple, but simplistic, to say that government just needed to be cut. What was more important was that government should be efficient, facilitative and appropriate to its circumstances rather than merely small. This change in attitude led the funding agencies to change their perspective on the role of government. In the 1990s, development specialists 'were concerned about building institutions for democratic accountability as well as for economic regulation and management' (Grindle, 2000, p. 189). And, following a period in which policy seemed to be based on the assumption that all developing countries needed was to reduce the role of government to the bare minimum, the World Bank began to emphasize public sector reform.

A major part of the new public management as applied to developing countries is the increased attention paid to what governments do. If in the traditional model government was large and all-powerful, developing countries would have to accept a facilitative role and not a role that was more direct. In its *World Development Report* of 1997 the World Bank argued:

> An effective state is vital for the provision of the goods and services – and the rules and institutions – that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible. Many said much the same thing fifty years ago, but then they tended to mean that development had to be state-provided. The message of experience since then is rather different: that the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator.

Markets were to be encouraged, not discouraged, and the role of government was as a facilitator in economic development rather than a competitor.

The role of government was seen by the World Bank as: (i) establishing a foundation of law; (ii) maintaining a non-distortionary policy environment, including macroeconomic stability; (iii) investing in basic social services and infrastructure; (iv) protecting the vulnerable and (v) protecting the environment. A foundation of law is required for markets to work at all. This includes establishment of property rights, protection of property rights from criminals and a fair and reasonable judiciary. Corruption is a problem of the law and it is one that eventually reduces the ability of entrepreneurs to prosper. Markets can only work if there is enforcement of contracts through the legal system. Some certainty is needed in economic policy to encourage investment, the absence of which makes it hard for any country to engage in growth. Infrastructure is needed as well and may have to be government provided. As Grindle argues (2000, pp. 180–1):

> In most countries, introducing a market economy also required major institutional innovations, such as the development of independent central banks and tax agencies, stock markets, and regulatory bodies for privatized industries and financial institutions. In addition, many countries undertook institutional changes to improve legal guarantees for contracts and property rights, essential underpinnings of capitalist economies. In comparison with policy changes, most of which could be introduced and take effect in the short term, institutional changes required time and ongoing effort to train staff and later the behavior of economic agents to reflect new rules for economic transactions.

The role of government was to change from that of the post-independence period, but was also quite different from the small government approach tried in the 1970s and 1980s. Stiglitz argues there is a new agenda for development (2001, p. 346):

> It sees governments and markets as complements rather than substitutes. It takes as dogma neither that markets by themselves will ensure desirable outcomes nor that the absence of a market, or some related market failure, requires government to assume

> responsibility for the activity. It often does not even ask whether a particular activity should be in the public or the private sector. Rather, in some circumstances the new agenda sees government as helping to create markets … In other areas … it sees the government and the private sector working together as partners, each with its own responsibilities. And in still others … it sees government as providing the essential regulation without which markets cannot function.

This relatively pragmatic approach was a long way from the earlier view that government simply needed to be minimized. There would also need to be attention paid to the management competence of government.

Changes in management

In the earlier structural adjustment period, there was a real problem of administrative competence in implementing international assistance programmes and this inadequacy was itself a reason for the failure of many of them. There were some signs that the international institutions recognized the problem and this led them to put forward programmes to improve governmental performance, with the World Bank, the United Nations and the OECD offering various programmes aimed at improving the management of the public sector. How the institutions of government were organized and, importantly, how the managerial competence of public managers should be developed were to be looked at instead of just the usual programmes of privatization and spending cuts. No longer, it seemed, was government merely to be minimized as part of a programme of structural adjustment; it was to be improved as well. The theoretical framework used is largely that of the new public management.

In its landmark 1997 development report the World Bank argued (1997, pp. 79–80):

> Many lower income countries have been unable to provide even the most rudimentary underpinnings of a rule-based civil service. Their formal systems often resemble those of industrial countries on paper. But in practice informality remains the norm. Merit-based personnel rules are circumvented, and staff are recruited or promoted on the basis of patronage and clientelism; budgets are unrealistic and often set aside in any case by ad hoc decisions during implementation. At bottom, all these problems can be traced back to weaknesses in the underlying institutions; poor enforceability of the rule of law both within and beyond the public sector; a lack of built-in mechanisms for listening to, and forming partnerships with, firms and civil society; and a complete absence of competitive pressure in policymaking, the delivery of services and personnel practices.

The World Bank report called for three essential building blocks. First, 'strong central capacity for formulating and coordinating policy', including visions, goals and strategic priorities on the place of politicians and the public service alike; secondly, an 'efficient and effective delivery system', setting the balance between flexibility and accountability, including contracts for contestable services, better performance and client feedback; and thirdly, 'motivated and capable staff, with incentive structures to motivate them to perform well, including 'merit-based recruitment and promotion, adequate pay, and a strong esprit de corps' (1997, p. 81). All these elements are to be found in the public management model, not in the traditional model of administration.

Developing countries absorbed the lessons well, indeed as well as their counterparts in the West. For example, the government of Malaysia adopted Total Quality Management (TQM), a Client's Charter and sophisticated forms of information technology. One report would argue (Malaysia, 1995, p. 15):

> A shift must occur from the old paradigm of paying too much attention to inputs to a stronger emphasis on resource utilization to meet organizational objectives. A results-oriented approach requires agencies to be more focused in terms of the level of efficiency and effectiveness to be achieved by the programmes and activities implemented. Objective setting and the formulation of organizational strategies must become part of the organizational culture whereby the establishment of a performance measurement system backed by performance indicators forms an essential feature of the results-oriented approach.

These comments could well come from Britain's *Next Steps* as could the claim in the Client's Charter that 'the citizen need not play the role of supplicant but is instead viewed as a client who can demand a recognised level of service' (Root, 1996, p. 161).

The government of Hong Kong adopted managerialism following a report on public sector reform in 1989. As part of this, emphasis has been placed on objectives, performance and results while civil servants are now no longer referred to as policy makers or administrators but are described as 'managers'; policy secretaries are referred to as 'policy managers', heads of departments are known as 'managers' and the departments are described as 'executive agencies' (Lee, 1996, p. 40).

The difficulty with such examples is whether, as in the West, their adoption is anything more than that of appearance. Implementation is not easy, bureaucratic tendencies are hard to eliminate. A more substantial problem is that of countries with lower incomes than Asia. Poorer developing countries are also adopting managerial principles but here success may vary. How managerial would Bangladesh become? Is it sensible to develop performance indicators in Kenya? But, however difficult it might be to implement, there is some sense that the new managerial approach has some potential to replace traditional administration even in developing countries.

Problems of the managerial model

There are a number of problems in applying the principles of public management reforms to the public sectors of developing countries.

First, new public management is based on applying market principles to public policy and management. It is also associated with reducing government and developing markets instead. However, it is one thing to adopt a market and managerial approach, but another to have markets work. Developing countries often have little experience in the operation of markets and there is a range of factors required before markets can be effective. Markets are ineffective without the rule of law, for example, to ensure compliance with contracts. Yet it could be argued that many people in the developing world are natural traders with a history of commerce lasting for many centuries and that these instincts were stifled during the period of command economies. But, until capital markets develop or domestic entrepreneurs arise, a market economy may mean greater domination by foreigners and foreign corporations.

Secondly, there are particular problems concerning the privatization of public enterprise, even if public enterprises have generally failed in the developing world. As Price argues (1994, p. 253):

> Policy changes reflect a complete change in development philosophy, from a state-centred to a market-centred approach, and have consequently redefined the relation and boundary between the public and private sectors. As in the UK, where privatisation began, this is largely a reaction to perceived government failure in organising the public sector to the benefit of the economy at large (rather than any particular interest group). There is a danger that the public sector baby will everywhere be thrown out with the bath water, and that in discovering government failure states and agencies forget that market failure is also rampant.

As has been shown on occasion in the West, some public enterprises are well managed and serve governmental and societal purposes as well as commercial ones. An unvarying requirement for privatization, as was usually set out by the World Bank, does not allow case-by-case circumstances for privatization to be specified. If a case-by-case approach is suitable for Western countries why should it not be allowed for developing countries? There are circumstances in which privatization will inevitably mean foreign ownership or ownership by one particular ethnic group thereby risking societal cohesion. Even if privatization is generally beneficial, there may be circumstances in which it is not. If markets are undeveloped, privatization will mean foreign ownership and public utilities will need to be carefully regulated.

In addition, privatization is difficult to manage and developing countries may not have the administrative capacity to do this successfully. While there are many examples of successful privatization there are many others which were not. Even the pro-privatization World Bank could point to poor examples. Guinea privatized 158 public enterprises between 1985 and 1992, but this change proceeded without a clear programme or legal framework; procedures for competitive bidding and accounting were not made clear; assets were often sold for much less than their value; and successful bidders were offered terms which sometimes included monopoly licences and the like (World Bank, 1995, p. 244). It is all very well to argue for privatization of public enterprise but in developing countries successfully implementing such a policy is no trivial task.

Thirdly, changing from bureaucracy to markets might seem to risk making corruption endemic, although the World Bank argues that corruption might be reduced (1997, p. 9):

> A major thrust of any effective strategy to reinvigorate the public sector will be to reduce the opportunities for corruption by cutting back on discretionary authority. Policies that lower controls on foreign trade, remove entry barriers for private industry, and privatize state firms in a way that ensures competition – all of these will fight corruption. Such reforms should not be half-hearted: reforms that open opportunities for private entry into closed sectors of the economy, but leave that entry to the discretion of public officials rather than establish open and competitive processes, also create enormous scope for corruption. Formal checks and balances can also help reduce official corruption, but they are seldom enough. Reforming the civil service, restraining political patronage, and improving civil service pay have also been shown to reduce corruption by giving public officials more incentive to play by the rules.

The reality is, however, that the bureaucracy remains more important than in Western countries and that in order for the market-oriented changes to work, a powerful institution will have to give up a substantial amount of its power and, in the absence of other power centres in the polity or markets, will have to do so voluntarily.

Fourthly, there are obvious problems in moving to contractual arrangements for the delivery of services if the rule of law and the enforcement of contracts are not well established. Contracting works best where its outcomes are easy to specify. Where goals are vague and not able to be clearly set down in writing, or where corruption is endemic, using contracts is not likely to succeed. Without establishing the appropriate preconditions, the World Bank argues that the new public management 'must be introduced cautiously' (1997, p. 97):

> If informal norms have long deviated significantly from formal ones (with regard to personnel practices, for example), simply introducing new formal rules will not change much. Where countries have been unable to establish credible controls over inputs, giving managers greater flexibility will only encourage arbitrary actions and corruption. And where specialized skills are in short supply, performance contracts and other output-based contracts for complex services may absorb a large share of scarce bureaucratic capacity to specify and enforce them. Nevertheless, countries can begin by providing greater clarity of purpose and task and by introducing performance measurement on a selective, sequential basis. When output measurement is strengthened and credible controls over inputs are instituted, managers can be granted more operational flexibility in exchange for greater accountability for results.

Contracting has major problems in the West, so without these other changes it would seem difficult for developing countries to move away from formal bureaucracies. A phased approach would seem likely to be more successful than to assume that sudden shifts can be made. However, given that the old model allowed favouritism, it is likely that the contract process will not allow genuine competition.

Fifthly, there is a sense that there is yet another single model of development that all must follow. That this was a mistake in the old model of development administration is hard to deny, but it does seem that to make developing countries once again follow another single Western model is likely to be problematic. As Peters argues (1996, pp. 17–18):

> Some Third World regimes that have been dominated by a bureaucracy (perhaps in the pejorative sense of the word) may find the alternative models just as applicable and desirable as do the industrialized countries. One difficulty in the reform process has been that the advocates of reforms have assumed that 'one size fits all' and that any government could be improved by the institutionalization of their preferred new pattern.

Turner and Hulme agree, arguing (1997, p. 240):

> Whatever the reasons – naivety, historical and environmental blindness, or ideology – a powerful international lobby is promoting a 'one size fits all' approach to public sector reform in spite of the evidence accumulated from organizational and management theory and from empirical study that the outcomes of planned changes in organizations are conditioned by many contingent factors, especially those in the organization's environment. In some contexts, the NPM may yield its promised benefits, but in others the possibility of it contributing to reduced performance, and even political instability must be recognized.

Too much can be claimed for any model. In the same way as the bureaucratic model failed in its attempts to impose a single view of modernization on disparate developing countries the managerial model may similarly fail. There are differing national perspectives and these need to be respected. However, the managerial model should allow differing approaches in a way the bureaucratic model does not. A series of rigid prescriptions is necessary in the formal model of bureaucracy; in new public management, the basic prescription is to manage for results with the precise method able to be varied.

Sixthly, there is a problem of politicization, one which is probably greater in developing countries than in the developed world. With the managerial model, there would seem to be some chances for politicization of the public services, the awarding of contracts to cronies and the like. However, the old model was also rife with this, so to expect a reduction might be asking too much. Where there might be some chance of reducing politicization would be in the smaller scale of government and the recognition that the public service is a political instrument, so that perhaps as in the United States, particular civil service positions could be expressly political appointments.

Finally, there is a potential problem of excessive expectation. Public management does offer much to developing countries, at least by comparison to the bureaucratic model which failed. However, by itself it is unlikely to be able to overcome the manifest problems of developing countries. Any kind of management can be expected to do too much and this expectation can lead to failure by itself. Certainly if developing countries are forced to adopt a single unvarying model of public management the result is unlikely to be successful.

There are problems of institutions, the rule of law, inadequate capital and retail markets, insufficient educated staff and so on. Moreover, developing countries have different histories, capabilities and are not homogeneous. Public management reforms may offer an opportunity to develop some kind of management that suits particular societies; management that may be owned by the citizens, especially if combined with greater participation in choosing governments than has been all too often the case before.

If as part of the change to a market economy, institutional arrangements to enforce contracts, provide for competition and the like can be adopted prior to new kinds of public management, there is little reason to argue that the only kind of management suitable for developing countries is that of the old bureaucratic kind. It would be patronizing in its own way to argue that traditional bureaucracy is the only way that developing countries are capable of managing, particularly when the administrative model failed so signally in the past.

Conclusion

Many developing countries seem intent on following public management as an organizing principle for their societies. This is occurring as a result of encouragement from the World Bank and other international agencies in an effort to overcome both endemic problems of development and the failure of earlier models of development economics and development administration. It is possible that new public management might be no worse than their earlier experiences.

It is also possible that, as part of the replacement of bureaucracy with markets that any economic liberalization 'may be accompanied by very limited political liberalization' (Smith, 1996, p. 362). Yet economic advancement through a market system may enhance the prospects for democratic participation; it depends on the particular society and how well reforms are implemented. There will be a fine line between achieving the advantages of public management by replacing bureaucracy with markets while minimizing the disadvantages and dislocations caused by the bureaucracy vacating parts of the social structure.

Even if it is argued that developing countries need a stronger private sector and stronger markets these neither develop overnight nor do so without certain fundamentals only obliquely related to the administrative system, such as adherence to the rule of law, laws to maintain competition and prevent the emergence of monopolies and competent staff. All three are frequently lacking in the developing world and to assume that simply turning activities over to the private sector will work without any other change is wishful thinking on a similar scale to that of the old development administration. Markets require a competent and appropriate public sector if they are to work at all. In general, though, the traditional bureaucratic model did not serve developing countries very well and a change to managerialism accompanied by increased use of the private sector may help the transition of developing countries into more developed ones.

13

Accountability

Introduction

The administration or management of the public sector does not exist in a vacuum; the public, the political leadership of government and its public services are closely tied to each other by institutional arrangements and political interaction. Whatever it is called – public administration or public management – the business of government is embedded in politics. There is a fundamental requirement in a democratic system for accountability from the administration to the political leadership. Senior managers need to be aware of politics, and knowledgeable about it. Indeed, 'effectiveness as a public administrator is predicated on both an understanding of politics and of the political process and an ability to manage public programs in a political context' (Frederickson, 1989, p. 12).

The political basis of the public service is sometimes forgotten. Books on public administration often treat the subject technically and separated from politics; indeed, the traditional model of administration was an attempt to depoliticize the public service. Politicians in power often assume that what they want will be carried out unquestioningly and administratively in a kind of master–servant relationship. Both perpetuate the myth associated with the name of Woodrow Wilson, that policy and politics can be strictly separated from administration; that administration can be purely instrumental. It is not. The way choices are made; the way policies are devised and administered; the way programmes are managed, are all fundamentally political. The political parts of government are established by varying legal and constitutional arrangements and in these some form of accountability will be required.

Individuals have a number of ways in which they interact with the administration. They may be 'clients' of various agencies, that is, where the citizen seeks to obtain a benefit or service from an administrative agency; they may be 'regulatees', subject to legal restrictions which affect everyone; they may be 'participants' and many agencies allow individuals to make submissions to be on panels and the like, and to act as participants in the administrative process; they may be 'litigants' one of the few people who may be involved in legal action against a government agency, and perhaps more common than all of these are 'street-level encounters' with the police or other agencies at that level (Rosenbloom, 1986, pp. 386–8). There is a certain tension in all these encounters as both parties have powers in the exchange. The individual is subject to the law; the agency is aware that individuals have some powers of complaint and appeal if dissatisfied with their treatment. The system of accountability is what ties the administrative part of government with the political part and ultimately to the public itself. Any acts of the government are supposed to be, in the final analysis, acts of the citizens themselves through their representatives. The pursuit of the common interest 'requires a carefully designed structure of accountability that ensures for citizens the best efforts of those who act on their behalf' (Donahue, 1989, p. 222).

In the traditional model of administration, accountability at the bureaucratic and political level was supposed to be assured through the party political process alone, usually only at elections. There are two reasons why this no longer applies. First, the narrow formulaic relationship of the politics/administration dichotomy set out by Woodrow Wilson is no longer realistic, if it ever was. The bureaucracy does much more than simply follow the instructions of the political leadership and it needs to be recognized as a participant in the political process.

Secondly, while still remaining accountable to the public through the electoral process, the bureaucracy is becoming directly accountable to the public for its own performance. This is a major change, a key aspect of the public management reforms. Demands for a client focus, more responsiveness from the bureaucracy and the personal responsibility of managers are changing the system of accountability of the public service and, indeed, the relationship between government and citizen.

Delivering services better, being responsive, offering choice and empowerment offer improved accountability. Being a public manager now means taking personal responsibility for results, so it is unsurprising that the change to managerialism means a new, more direct form of accountability.

Accountability in the private sector

Accountability is not purely a public sector concept. 'Accountable' means, to the *New Shorter Oxford* (1993) 'liable to be called to account; responsible (*to* persons, *for* things)'. The basic notion of accountability is that those acting on behalf of another person or group, report back to the person or group, or are responsible to them in some way. In other words, this is a principal/agent relationship where the agent carries out tasks on behalf of the principals and reports to them on how they have been performed. Some kind of accountability is needed whenever there are hierarchical relationships or a relationship between principals and agents, in order to ensure that those with authority act in ways that their ultimate owners wish. The extent of the reporting is a matter of some debate. Is the agent accountable, liable or merely answerable? Behn argues that 'when people seek to hold someone accountable, they are usually planning some kind of punishment' (2001, p. 4). In common usage this is probably correct, although accountability should also include overall responsibility for both success and failure.

The private sector is presumed to have clear avenues of accountability available to it, in what is an attempt to ensure a business operates to the benefit of its ultimate owners. The management of a company is expected to act for the benefit of its shareholders. By law and custom it is the responsibility of the board of directors to act in the interests of the company and, through it, the interests of the shareholders. As Donahue points out (1989, p. 43), this kind of accountability addresses problems of the relationships between principal and agent:

> One particularly significant device for overcoming agency problems is a *layered* structure of accountability – the profit-seeking, wage-paying private firm. Ownership is wholly or partially distinct from operations. Production workers are accountable to managers, and are paid a wage in exchange for time on the job. Managers, in turn, are accountable to owners, and are paid a salary for directing and supervising production. Finally, the owners are accountable to customers, and collect a profit – the excess of revenues over costs – in exchange for organizing and monitoring the whole process. From the customer's point of view a classic profit-seeking agency relationship prevails, but with layers of more complex contracts within it.

The chief executive and other managers are accountable to the board, the board is accountable to the shareholders. There is presumed to be a clear line of accountability from management to the board and, finally, to the shareholders.

There are several other accountability devices in the private sector which are not present in the public sector. First, private shareholders are able to trade in the equity capital of the enterprise and fluctuations in the share price are a continuing measure of performance. Secondly, the company competes for capital on commercial terms. It faces the continual monitoring of its investment and borrowing programmes and is subject to the judgement of rating agencies, such as Moody's or Standard and Poor's, for this purpose. Thirdly, there are threats of takeover or merger and the ever-present chance of insolvency. Fourthly, the presence of competitors means customers will go elsewhere if dissatisfied. All these points mean that the private organization, particularly its management, has strong incentives to perform. Given the uncertainties of the business environment, it is normal for there to be little security of tenure for any employee. From the highest level down, no one is guaranteed their position in the company, with continued employment often conditional on personal and company performance. Advocates of the private enterprise system of accountability would argue that there is a clear and well-understood set of incentives that should lead to enhanced personal and organizational performance.

Accountability relationships in the private sector are increasingly seen as a *model* – the best available practice – for the public sector. There are two aspects to this. First, the general movement to privatization in government was, at least in part, related to improving accountability. Contracting delivery functions to the private sector is arguably more efficient because private managers are more accountable than public sector managers. In this way the private sector serves as the model of accountability for the private sector. Secondly, and in part as a result of the first point, private sector accountability methods are being introduced into the public sector. This does not mean that public agencies should sell shares or be subject to takeover. If this were true, they would no longer be in the public sector, but it does mean greater effort in developing performance indicators and formal contracting mechanisms as surrogate measures analogous to those used in the private sector. The introduction of private sector measures of accountability may also mean less security of tenure for employees on the grounds that, as in the private sector, there will be greater incentives for individuals to perform if they are not guaranteed a job for life. Again, the private sector serves as the model of accountability. It is easy to see why some might consider this desirable. Compared to the confusion of the public sector, and its apparent failures of accountability, private sector accountability relationships are relatively well known and straightforward.

Of course, the presumed superiority of private sector accountability is an ideal that may not work perfectly in practice. Management may ignore shareholders and treat the board as an irrelevance. The share price and credit rating are imperfect measures of performance. There may be other goals being pursued than profit. While the private sector has established procedures of accountability there is usually some gap between the theory of accountability and it being achieved optimally.

This gap has wider implications. Whenever there is some separation between principals and agents, there are potential problems of accountability. However, even given the accountability problems of the private sector, there are likely to be greater problems in the public sector. As Vickers and Yarrow argue (1988, p. 27):

> Compared with private ownership, the most obvious differences in the relationships between managers and the immediate principals arise from the facts that (a) the principals do not typically seek to maximise profits, (b) there are no marketable ordinary shares in the firm, and hence no *market* for corporate control, and (c) there is no direct equivalent to the bankruptcy constraint on financial performance.

It is often argued that governmental institutions are neither responsible nor accountable when compared to the private sector, and that this is one reason for reducing their size and influence.

Some parts of the public sector have greater accountability problems than others. For example, public enterprises – those parts of the public sector most comparable with the private sector – do seem to show accountability problems when compared to private companies doing similar things (Chapter 5). It follows that giving provision of that good or service to the private sector will improve service delivery and efficiency by adopting the accountability mechanisms which exist in the private sector. This argument depends on the existence of better accountability in the private sector and if the good or service in question is one that potentially could be supplied by the private sector.

There must be some differences between public and private forms of accountability. The private sector has no real equivalent to political accountability, for which precise measures are never likely to be found. Political accountability makes much of the public sector different in kind, rather than different in detail. As a result, public sector accountability is unlikely to emulate that of the private sector; to demand this would be unrealistic. But as long as the private sector remains the model of accountability, the public sector will be both vulnerable to arguments that it is not accountable, and to reductions in its size and scope, made on accountability grounds.

Accountability in the public sector

Any government requires a system of accountability, so that it acts in ways that are broadly approved by the community. Accountability is fundamental to any society with pretensions to being democratic. Perhaps this could be stated more strongly in reverse. Being democratic *requires* a suitable system of accountability. Government organizations are created by the public, for the public, and need to be accountable to the public. The relationship between the citizenry and government can be regarded as a principal/agent relationship because the citizens have given their consent to someone else to govern on their behalf. Having agreed to this they then need to be satisfied their interests are being served.

The relationship between government and citizen depends on the system of accountability, whereby the governmental organization carries out its function and the citizenry allows it to do so, but on condition that powers are not exceeded and that the agency is accountable. Government is distinguishable from other social institutions by its ability to be coercive; its power is backed ultimately by the police and the armed forces. Historically, citizens did not give up their power lightly and insisted that the political or administrative actions of governments be backed by the force of the citizens themselves. This is done in two ways. First, all governmental actions must be soundly based in law. These laws apply to everyone, not only to the citizens, but also to those in the apparatus of government itself. Secondly, some particular person is accountable for each of the actions of government. A member of the society is presumed to be able to find someone in government to assume responsibility for every action, from the counter staff to the highest level. Without both of these points working reasonably well, government and the bureaucracy may still operate, but the absence of accountability could mean that government and the bureaucracy were omnipotent, omnipresent and potentially corrupt. A system of accountability is an *exchange* arrangement where both governors and the governed exchange part of their power, and where both parties need the other.

Accountability is not the same as responsibility. Accountability means that someone in the organization can accept the blame or praise for a decision or action. From the lowest levels of the public service to the highest, each member of staff is supposed to be accountable to a superior. Responsibility is somewhat more vague and usually regarded as operating in the other direction through the hierarchy; that is, everyone with subordinate staff is responsible for their subordinates' actions. A cabinet minister is 'responsible' for the actions of the staff in his or her department. This is more vague than accountability in that it is never quite clear exactly what they are responsible for, or how far their responsibility extends. If a subordinate staff member makes a mistake this does not necessarily mean that the supervisor is responsible for that mistake.

Romzek argues there are four different types of accountability relationships: hierarchical, legal, political, and professional, with less autonomy and closer supervision required for the first two (1998, p. 197):

> Hierarchical relationships rely on supervisory and organizational directives, including rules and standard operating procedures, for the standards to which employees are answerable for their performance. Obedience is the behavioural expectation. This type emphasizes directives that tell employees what to do, through rules, standard operating procedures, supervision, and organizational directives. Legal accountability relationships emphasize compliance with some externally derived expectations or standards of performance and close scrutiny and oversight as the means by which employees are held to answer for their performance.

Traditional accountability emphasized hierarchical and legal accountability. She argues the other two types of accountability relationships allow greater autonomy (1998, pp. 197–8):

> Political and professional accountability relationships rely on much higher levels of autonomy. Here, behaviour is scrutinized at less detailed levels and greater discretion is granted to employees to pursue their assigned tasks. Political accountability relationships emphasize responsiveness to the expectations of key external stakeholders, such as elected officials, clientele, and other agencies. These types emphasize accountability based upon whether the administrators have been sufficiently responsive to the expectations of the agency clientele, or 'customers.' Professional accountability relationships emphasize responsibility and deference to expertise. Performance standards are established by professional norms and the prevailing practices of one's peer or work group.

Romzek's four-fold division is very useful, especially in the light of the argument that the public management reforms have involved reducing compliance accountability, either hierarchical or legal, but increased political and professional accountability. As she argues, the reforms attempt to reduce 'an overemphasis on inputs and processes'; they 'emphasize deregulation, increased discretion and flexibility, and greater emphasis on outputs and outcomes' and the kinds of accountability that are best suited to these reforms 'are professional and political types that rely on deference to expertise, increased discretion, and responsiveness' (Romzek, 1998, p. 205). Romzek does warn that failure to align accountability relationships with government reforms will undermine the likelihood that the changes will be successfully implemented and this remains a potential problem with the public management reforms.

Behn argues there are three kinds of accountability: accountability for finances; accountability for fairness and accountability for performance (2001, p. 6). This is another useful typology. The first, financial accountability, is the original kind, in the historical sense, as evident from the other usage of the word 'account'. This kind of accountability remains important in government and is quite straightforward, as Behn argues (2001, p. 8):

> The managers and employees of any public organization have been entrusted with something quite valuable: the taxpayers' money. They have the responsibility – the obligation – to use these funds wisely. They ought to be held accountable for doing so. When they don't, they ought to be punished.

The second kind, accountability for fairness, is to Behn, again straightforward (2001, p. 9):

> The managers and employees of any public organization have been entrusted with something quite valuable – with ensuring our mutual commitment to fairness. Thus, they have the responsibility to treat all citizens absolutely fairly. They ought to be held accountable for doing so. When they don't, they ought to be punished.

Fairness also includes protection from abuses of power, so there are rules and procedures to prevent this. The third form of accountability is that of accountability for performance; the accomplishment of public purposes. As Behn argues of this kind (2001, p. 10):

> To hold a public agency accountable for performance, we have to establish expectations for the outcomes that the agency will achieve, the consequences that it will create, or the impact that it will have. We cannot do this with rules, procedures, and standards. To specify the level of performance we expect from a public agency, we need some kind of objective, goal, or target – a clear benchmark of performance. We need an explicit measure of how well the agency has done against the expectations we have set for it.

In practice it is unlikely that all three forms of accountability will be able to be achieved at the same time. They may even be contradictory 'as compliance with the rules for financial and fairness accountability make it difficult for managers to achieve performance accountability' (Behn, 1998, p. 30).

Accountability for performance is quite controversial with regard to the public management reforms. One of the key changes has been to set performance standards for agencies, and even individuals, but trying to do this in government has been the subject of debate. But Behn is correct: accountability must include what an agency produces and how well it does so. Accountability in the traditional model of administration was little interested in this aspect, being obsessed by procedure and process and accountability in the financial and legal senses, rather than the achievement of results.

Accountability in the traditional model

It is argued here there are two main forms of accountability: political accountability and bureaucratic or managerial accountability; bureaucratic accountability includes most of the types referred to by Behn and Romzek. This delineation can be used to point to the substantial differences in the accountability requirements of the traditional model of administration and those resulting from the public management reforms with regard to both political and bureaucratic accountability.

Political accountability in the traditional model

It was argued earlier that accountability requires all governmental actions to be, first, firmly based in law and, secondly, that someone is finally accountable for all actions of government. In the final analysis, the voter is supposed to be able to assess the competence of the administration, political and bureaucratic, and to cast a vote accordingly. Also, as any action must be based in law, there is an avenue of accountability through the legal system. In theory at least, all the actions of the bureaucracy can be traced through the system of accountability back to the voter. It is this system that prevents individual bureaucrats exceeding their authority and behaving at all times according to established rules.

Within these precepts, political accountability means that politicians are finally able to be called to account by the ordinary citizenry, mainly through the act of voting. Although the two basic points of accountability are generally followed by developed countries, there are significant differences in how they are approached by different political systems, most particularly between parliamentary and presidential systems.

In a parliamentary, or Westminster system, such as the United Kingdom, the public service is accountable through its hierarchy to the minister who is accountable to the Cabinet, then to Parliament and ultimately to the people. Every act of every public servant is therefore an act of the minister and the people who originally chose the minister through choosing the party that wins government. A minister is in charge of a department and the hierarchical structure ensures normal bureaucratic accountability through the various levels. By this rather tenuous and tortuous process, any act of the administration is supposed to be an act of the collective will of the voters.

In a presidential system, notably the United States, there are several key differences from a parliamentary system affecting political accountability. First, the fact of a written constitution means that interpretation of the constitution, and laws made according to it, increases the importance of the judicial branch of government. Secondly, the effective fusion of the executive and the legislative branch, as in the Westminster system, is specifically ruled out in the United States, so that the Congress and the President are not formally linked. In the formal sense, the two branches of government are separate, although, in practice, there are quite strong informal links. Thirdly, the federal system affects the system of political accountability. Under the Constitution, powers are divided between the federal government and state governments, and voters are assumed to be able to exercise their powers of political accountability correctly, that is, be able to tell which level of government is responsible for particular functions.

The political accountability of the public service is, in theory, ensured in the United States, but in rather different ways from the Westminster system. A civil servant is part of the executive branch, so is accountable to the chief executive – the President or Governor – and, as this person is chosen directly by election, political accountability is ensured by a line extending from the public servant to the voter. Bureaucratic accountability should also be through the hierarchical structure to the people, technically via the President, but this is not the end of the story. The blurring of the branches means the bureaucracy is also dependent on the legislature and courts. The agency is responsible to the chief executive as that office is part of the executive branch. However, the governing legislation and funding of the agency is under the control of the legislature, so there is also accountability to the legislature and to elected members of it. The courts have an important role in the accountability system as well. Administrative acts of any kind may be scrutinized to ensure that they conform with the constitution, particularly those parts to do with human rights. Every citizen has the right to take court action against the government. Taking these points together means that the United States bureaucracy is supposedly accountable – separately – to the chief executive, the legislature and the courts. These separate accountabilities are likely to make the task of management more complex than in parliamentary systems.

Bureaucratic accountability in the traditional model

Traditional public administration had its own form of bureaucratic accountability. In this, the bureaucracy merely advised the political leadership on policy, and managed its resources as well as possible on behalf of the political leadership. Every public servant was technically accountable, through the hierarchical structure of the department, to the political leadership and eventually to the people. In addition, there was supposed to be a strict separation between matters of policy, formally the province of politicians, and matters of administration, which were left to the public service.

The model of separation between politics and administration is easy to understand and superficially attractive. Any act of the administration is attributable to the political leadership and the public servant is merely an instrument carrying out the policy instructions emanating from the political leadership. Behn argues (2001, p. 42):

> The public administration paradigm is internally consistent; the distinction between politics and administration permits the construction of a simple, appealing, hierarchical model of political accountability. Thus, despite its flaws, the old paradigm has one, big, advantage: political legitimacy. The accountability relationships are clear. The traditional public administration paradigm meshes well with our traditional paradigm of democratic accountability.

But there are some obvious problems. First, it is really only the politician who is accountable in this system as the administrator is neutral and anonymous and not associated with particular policies. In a real sense the administration is not accountable at all as its leaders can say they carried out the policy diligently; if something went wrong it was the political leaders' fault. A bureaucrat can hide behind anonymity and thereby avoid accountability.

Secondly, there must be some point in the line of accountability where the political part of government meets the administrative part. The interface between the two is likely to be a source of problems, as each has a different culture, type of rationality and form of accountability. In a parliamentary system the key relationship is that between the minister and the departmental head. It is here that there are quite different conceptions of the nature of the game each is playing, a discontinuity in the process of administering policy. Any dealing within the bureaucracy occurs according to Weberian principles in which every public servant at a particular part of the hierarchy has a specific position and role and is accountable to a superior. Procedures, formal rules and systems are developed rationally and proceed up the hierarchy. At the top of this structure there is one person – the departmental head – who deals with the political leader of the department. At this point the bureaucratic, rational part of government suddenly confronts the political part. Formal rationality faces political rationality in the form of the minister. This link was always problematic, as the precise role of each was never clear. It could be argued that genuine accountability was not possible in the traditional model, because it broke down at the interface of the political and the bureaucratic. No matter how plausible this seemed in theory, in practice it was a failure.

Thirdly, despite problems, there is some accountability in the traditional model, but it is accountability of a particularly narrow kind. While it is clear who is finally accountable in this system, it is an accountability for errors rather than achievements. It aims at avoiding mistakes, so encourages risk-averse behaviour. The convention of ministerial responsibility in Westminster systems – even if rarely followed in fact – was that ministers were ultimately responsible to parliament for the actions of their departments and had to resign for major departmental errors whether or not they had prior knowledge of those actions. Although the precise status of ministerial responsibility is now unclear, with sanctions being uncertain or even arbitrary, the minister does take political responsibility for the actions of the department. But this provides no real *managerial* accountability for the achievement of results. Political leaders often have inadequate knowledge of lower level functions to allow managerial oversight, and accountability was never easy to ensure when inadequate knowledge was reinforced by poor measures of performance. This is a negative system of accountability. Avoiding errors is not the same as achieving something.

Finally, even if the traditional model of accountability was well understood and politically legitimate, there are very real questions about basing a theory concerning something as important as accountability, on a myth. In reality, as the public administration literature has attested for many years, there can be no separation between politics and administration, between the political leadership and the administrators. It seems odd to find in this myth the supposed foundation for accountability. Traditional public administration requires a clear separation between those who give instructions and those who carry them out, and the latter have no responsibility for results. This is, and was, a nonsense. Basing accountability on the politics/administration dichotomy is a weak position from which to start. It is a most convenient fiction 'for once we confess to the unpleasant reality that, for civil servants to do their job, they *must* make policy decisions, we have to discard the public administration paradigm' (Behn, 2001, p. 64).

A managerial model of accountability

One of the reasons for the adoption of managerialism is the perceived failure of the system of accountability under the traditional model of administration. Avoiding embarrassing mistakes is not the same as providing any positive incentive to improve efficiency. A managerial model of political control is more realistic. There are a number of changes involved in what could be called a managerial model of accountability.

The old form of accountability relied upon the formal links provided through the hierarchical structure. Accountability in a managerial model is more fluid, more political. This is perhaps more easily seen in the United States system, where agencies have always had informal and indirect links beyond the formal ones within the executive branch and have operated in quite different ways from the model set out earlier. In the formal model, agencies are firmly under the control of the President. In the real world, their funding and even future are dependent on Congress and their range of action is circumscribed by the courts. Accountability in this model cannot be of the rigid kind set out by an organization chart. Although less easy to see, the same thing is becoming true in parliamentary systems. The relative openness of the bureaucracy, and the easier access to information, mean that there is a different kind of accountability at work. Accountability exists in the bureaucracy's relationship to clients, to its own managers, to its political leadership, and finally, although perhaps more contentiously, to the voters.

A series of managerial changes in the United Kingdom had the express aim of improving accountability. In the late 1960s the Fulton Report argued that accountable management means 'holding individuals and units responsible for performance measured as objectively as possible'. Its achievement depends upon 'identifying or establishing accountable units within government departments – units where output can be measured as objectively as possible and where individuals can be held personally responsible for their performance' (Fulton, 1968, p. 51). Fulton led to no clear improvements in accountability but raised an important issue that was to be revisited.

Accountability was a major factor at work in the Thatcher government's financial changes; specifically, there was 'the desire of some ministers to get a grip over their own departments: to ensure that the civil servants, for whose activities they were accountable to Parliament were actually accountable to them' (Carter, Klein and Day, 1992, p. 17).

Enhancing accountability was a specific aim of the early move towards managerialism, both in response to the inadequate form of accountability in existence before and to try to emulate the 'superior' accountability practices believed to exist in the private sector. Gray *et al.* argue that promoting accountable management was the 'guiding ideology' of the FMI in the United Kingdom where 'authority and responsibility are delegated as far as possible to middle and junior managers who are made aware of and accountable for meeting their costs and other performance targets' (1991, p. 47).

A managerial view of accountability adds direct accountability to the public. Political accountability still exists, but there is now greater accountability for results to politicians and the public, especially clients. There is less emphasis on the negative sense, which concentrated on the avoidance of mistakes. Management systems are aimed at fulfilling government programme objectives, in which costs are visible and related to outputs. When public servants become involved in setting policy and monitoring progress towards objectives, they are heading towards management rather than administration and need to be responsible for what they do. There is managerial accountability as well as political accountability. While the political leadership certainly has a major role in determining goals and objectives – strategic leadership – the bureaucracy itself is required to meet targets. As Behn argues (2001, pp. 210–11):

> We need to accept that accountability is not just about finances and fairness, but about finances, fairness, *and* performance. Traditional hierarchical accountability might make sense for finances and fairness. It might even make some sense when results are something that one person or one unit produces. It does not make sense, however, in a non-hierarchical world of collaboratives. Thus we need a new mental model of accountability; we need to shift from the implicit conception of linear, hierarchical, uni-directional, holder–holdee accountability to an explicit recognition that we need mutual and collective accountability. And we need to do both of these things simultaneously – to shift our accountability emphasis from finances and fairness to finances, fairness, and performance while rethinking what accountability (for all three) might mean.

Under a managerial system the political leadership still wishes to achieve results but does so with the assistance of advisers and the bureuacracy. There is also a blurred distinction between politicians and the public service itself, a practice that has been followed in the United States for many years. There it is common for politicians to be appointed to administrative positions, or for heads of agencies to become political figures. Providing there is a clear distinction between political and career appointments, such a system may actually improve accountability and is being more widely adopted elsewhere.

A client focus

Another change to the system of accountability in a managerial model is to improve the relationship with clients. In the old model, the only avenue of accountability was through the political leadership. There are now direct links to the people. These may be consultative, or through interest groups, or simply by the agency realizing it needs the approval of its clients and so institutes changes to improve the relationships with them. Public managers attempt to manage the relationship with clients as part of their normal duties, to see avenues of direct accountability in which the agency is itself responsible for dealing with its clients and improving service to them. The role of clients is increasingly seen as analogous to the role customers play in the private sector.

The client focus is aimed at greater responsiveness to improve the quality of interaction between public administrations and their clients. This includes 'how far the needs of clients can be satisfied within the framework of policy; the comprehensibility and accessibility of administration; the openness of administration to client participation in decision-making; the availability of redress', and argues that overall economic efficiency depends on how responsively the public sector provides goods and services (OECD, 1991a, p. 7). This is a far more direct form of accountability than that existing under the traditional model.

The traditional model was not particularly responsive to clients. It had no real need to be. Concerns about accountability alter this and, in turn, lead to changes in the system of administration. The notion of accountability to clients does challenge some of the fundamental tenets of traditional public administration. Some trade-offs must be made between administrative values such as efficiency, economy, effectiveness and political accountability. New public management aims at measurable results and responsiveness to clients; indeed, it requires individual public managers to focus on client relations as a major part of their activities.

The OECD argued that coping with responsiveness 'will require a new administrative style – public management' (OECD, 1987, p. 29). As argued earlier (Chapter 11), the traditional model of administration was not equipped to deal with the outside, while a formal model of bureaucracy allows no role for public servants in dealing with outside groups or improving responsiveness. Public management allows and even *requires* interaction with the outside and, hopefully, more direct accountability as a result.

Accountable management

Public servants themselves are more often personally accountable for their actions and the achievement of results. The balance of accountability is passing from old forms of responsibility to other forms, especially more efficient and accountable management systems. The basic aims of a managerial approach are to achieve goals rather than comply with rules or procedures, to improve responsiveness to clients, and to inject a concern with costs and the most effective use of limited resources. Letting the managers manage means that accountability can be more direct. If the manager is given the resources to carry out a specific job and is personally responsible for achieving it, it should then be obvious later whether or not the task has been achieved.

In order for this to work there needs to be some recognition of a new form of accountability. This would be a system of accountable management. Of course, more is involved than merely delegating a task to a manager. There does need to be: ‘an agreed definition of tasks, measures of performance, appropriate organization and control of resources, systems for monitoring and reporting, and incentives and sanctions’ (OECD, 1991a, p. 10). Once the broad parameters are established by the political leadership, it is the manager who is responsible for the organization achieving its objectives.

There are three parts to the adoption of accountable management. First, accountability will be improved by clearer specification of what is actually done by all organizations within government. This means that achievement or lack of achievement of results should be quite transparent. Those in favour would argue that doing these things should help improve management by providing incentives for organizations to achieve targets. In the traditional model there was never any real way of deciding whether results had been achieved, so public servants could and did hide unsatisfactory performance from political or public gaze.

The second part is the personal side of accountability, as distinct from the organizational. A manager is, by definition, someone who takes *personal* responsibility for the achievement of results. This may require some form of contractual arrangement so that targets are specified for the manager to work towards. As an OECD paper argues (1998, p. 54):

> There have been some instances where it has been difficult to establish who is responsible for what and to whom, especially where separate agencies are set up at arm’s-length from the Minister. In order to avoid confusion, which can damage good management as well as accountability, the underlying principle should be that the most senior person is to be held accountable if he or she were involved or should have been involved.

> Specifically, this means senior management is not necessarily held accountable for an isolated instance of wrongdoing or poor service by a subordinate, but senior management would be held accountable if this were systemic, and especially if senior management did not take adequate preventative action. Once accountability is clarified along these lines, it should be possible to reconcile the need for proper accountability with devolution of responsibility.

In this way senior managers would be accountable, but not unfairly or unreasonably. This is a more realistic form of accountability in that the most senior person in the organization with the actual carriage of a task is the accountable person. It is unlike the traditional model where accountability only occurs at the top.

A third form of accountability is that of retrospective accountability. The traditional model always had some retrospective mechanisms, particularly for financial probity, and Behn argues it should be possible to establish retrospective accountability for performance (Behn, 2001, p. 105):

> It seems straightforward to adapt the existing, retrospective mechanisms for establishing democratic accountability for finances and equity to the new needs of creating a retrospective mechanism for establishing democratic accountability for performance. Trust but verify.

Behn's notion of trust deserves wider consideration. Trust is required of a manager, in that he or she is given a task to do and is then left to do it, without detailed oversight. If later there is verification that the work has been done, that in no way takes away the sense of trust given to the manager in the first place. The alternative, as was seen in an administrative system, is to build up rules, manuals and procedures so that administrators merely follow these through in a machine-like fashion.

Fukuyama draws a distinction between those who operate according to rules and professionals, where 'the concept of a professional serves as a prototype of a high-trust, relatively unregulated occupation' (Fukuyama, 1995, p. 223):

> Past a certain point, the proliferation of rules to regulate wider and wider sets of social relationships becomes not the hallmark of rational efficiency but a sign of social dysfunction. There is usually an inverse relationship between rules and trust: the more people depend on rules to regulate their interactions, the less they trust each other, and vice versa.

For public management to be regarded as a profession there needs to be more trust and fewer detailed rules. Managers should be allowed to achieve their goals, but, for accountability reasons, there still needs to be verification – trust but verify. The increased use of evaluation of programmes, of formal inquiries, assists this requirement for accountability. Public managers will be trusted to achieve results and to take formal responsibility for doing so, but the achievement of results will face verification.

It is even possible for accountability to be enhanced by the public management reforms. Both organizationally and personally, accountability may be improved because the principals – the politicians and the public – have far better information on the activities of their agents – the public service, while those agents are required to take responsibility for what they do and what they achieve. The managerial changes promise greater transparency, so that achievements of particular programmes can be seen better than was ever the case before. This may actually improve accountability in that failure to achieve objectives should be more visible than under the old system. Yet there are problems of accountability, or potential problems.

Accountability problems of the managerial model

A managerial model will mean a major change to the system of accountability, particularly of the political kind. Whether it will mean some diminution of accountability is arguable. There may be some concern as to whether the new managerial concepts and procedures are capable of being made consistent with the more traditional notions of accountability. If public servants are responsible for the performance of their own objectives, this may diminish the accountability of the whole political system. To the extent that the public servant is to be managerially accountable, does this not mean that the political leadership is less accountable? Perhaps politicians will no longer be responsible or accountable. Perhaps, too, the derogation of traditional accountability is so serious that the entire public management reform programme is doomed to fail.

The first point to look at briefly is that of the relationship between new forms of accountability and democracy. As Minogue argues (1998, p. 17):

> Modern public administration is not just about efficiency; it also involves ideas of democratic participation, accountability and empowerment. There is therefore a constant tension between two main themes: making government efficient and keeping government accountable. There is a corresponding tension between the conception of people as consumers, in the context of relations between the state and the market; and the conception of people as citizens, in the context of relations between the state and society.

There may be a tension, as Minogue argues, but what he does not establish is that accountability in the political sense is any worse with public management than it was previously. Perhaps the citizenry can distinguish between the different roles of government; sometimes services are delivered, sometimes regulation or governance. The former can be judged as consumers, the latter cannot. However, the broader question of accountability, especially the possible effects of public management reforms on democracy, is sufficiently important to be dealt with at length later (Chapter 14).

The second problem to look at is concern over market accountability. As Peters argues, ‘rather than being defined as progressing upward through ministers and parliament and then to the people, accountability is defined increasingly in market terms’ (1996, p. 43). And, market accountability is more important than 'instruments such as parliamentary oversight and judicial reviews'. Peters adds that 'along with rules and hierarchy, these formalized mechanisms are often indicted as the means through which government organizations have avoided meaningful accountability' (1996, p. 43). It is the case that agencies are now required to specify their progress towards agreed objectives and this is different from the traditional model. But this seems hardly revolutionary. One of the most important parts of traditional accountability is that of spending public money; any agency that cannot say why it is doing something and how well it is performing is not accountable. If defining accountability in market terms just means reporting performance that would improve accountability rather than reduce it. The different accountability mechanisms of the public sector have been used to evade accountability in the past, such as where the need to comply with outside accountability mechanisms makes market-type accountability impossible. But again, any organization, public or private, has an obligation to justify its existence through its performance of objectives.

However, the creation of independent agencies operating at arm's-length through a contractual or quasi-contractual basis may lead to a problem of political accountability, just as the delivery of services through explicit contracts by the private sector could. Yet specifying what is to be done through a contract may be more transparent. Simply exchanging public accountability for private will not necessarily solve problems of accountability, especially if the government and the contractor try to blame each other for all the problems. Governments will still be held to account even when there are clear contractual arrangements or complete privatization. Governments will be accountable for conflict over the awarding of contracts if contractors fail to deliver.

A third and related problem might arise from the derivation of the managerial model of accountability from that of the private sector. There are real problems with accountability in the private sector and obvious problems if this is to be emulated by the public sector. In the real world of business, management often operates to its own benefit rather than its shareholders; boards may be ineffective. However, the external presence of competitors to whom customers may turn if dissatisfied provides a powerful incentive to operate well and there are continual and external performance monitoring devices available. Introducing contestability for government services may have a similar effect. Nonetheless, there are problems of accountability in both sectors. What is needed is a case-by-case comparison between the two. In some circumstances, the public sector might be more accountable, in others the private sector.

A fourth problem might be that bureaucracies will gain effective power from the managerial changes. In dealing with bureaucracy the citizen is one small and minor participant in a complicated process competing against a huge apparatus with all the skills and all the force of the law behind it. Citizen victories are rare. Yet despite occasional lapses, the bureaucracy does not dominate in the way it would if it were accountable to no one. It is more the case that the bureaucracy has actually lost power in recent years and the move towards transparency and greater accountability is potentially able to improve the lot of the individual's dealings with it. In theory, the citizenry of democratic countries have an enviable system of accountability or responsibility, one which people in other countries aspire to emulate. In practice, the theory may not work as well as usually assumed. However, in this sense there seems to be no diminution of accountability in the public management model compared to the traditional model. If the citizen was relatively powerless under the old model, it remains to be seen if he or she is worse off now.

A final problem is that while the traditional accountability mechanisms have been displaced there is no adequate replacement. Pollitt and Bouckaert argue that, 'in the UK, but also in other Westminster-influenced systems, the additional pressures which NPM reforms have put on traditional concepts of public accountability have not been met with any clear and coherent new doctrine to cope with the new circumstances' (2000, pp. 138–9). There is something in this claim. A new model may not have been articulated by politicians, but the idea of accountable management is promising. There does need to be a clearer exposition of the true state of accountability, which is that managers are themselves accountable, as are politicians. Accountable management is likely to be less fair, in the same way as the private sector, in that managers will be sacked for things they did not do, or take the blame for a specific problem that is only a small part of a systemic problem that was out of their control. Perhaps fairness, however, is a concept that is itself unrealistic when the bureaucracy is seen as part of the political system.

The problems of accountability that have been discussed thus far are more potential than actual. Concerns are expressed that the reforms will make accountability worse, but with little evidence. As an OECD report argues (1998, p. 54):

> Some people are concerned that changes in our systems of governance risk the downgrading of key elements which are fundamental to preserving democratic society. Their argument is that the drive for results and efficiency might diminish the traditional concern in the public sector for due process, and specifically lead to a downgrading of the system of checks and balances and accountability obligations which has been imposed ostensibly to reinforce that concern for due process. Although it is arguable that the public management reforms have strengthened democratic accountability by providing much more information on the effectiveness of programmes and the performance of governments, these concerns do need to be taken seriously.

There is some cause for concern with accountability, but there is also a need to balance that with enhanced performance. Accountability needs to be *compared*. It is not the case that a perfectly accountable system is being replaced by one that is not. As Romzek argues, 'de-emphasizing inputs and processes and emphasizing outcomes and outputs does not necessarily mean more or less accountability from government administrators'. It means, rather that 'different kinds of accountability relationships should be emphasized, ones that encourage entrepreneurial management, increased discretion and worker empowerment in daily operations, and greater responsiveness to key stakeholders and customers' (Romzek, 1998, pp. 215–16). The traditional model offered political accountability, even if of an indirect, unsatisfactory kind, with very poor managerial accountability in the sense of results. Public management allows for direct accountability to clients, greater responsiveness and transparency of results. It may mean some diminution of political accountability, but the effect should not be too great. Any diminution of political accountability might be more than made up by an improvement in managerial accountability.

Accountability raises problems concerning the adoption of public management. However, it seems unlikely that bureaucracies will go from being accountable under the old system to being unaccountable under the new. There are many avenues of accountability, including some on the outside such as the media and the courts. Perhaps what is happening is the replacement of an inferior and unrealistic form of accountability by another kind. There are possible problems of accountability with the reform process, although whether these are greater than in the traditional model remains to be seen. To begin with, traditional accountability could hardly be said to work particularly well, or even at all, so that any change in accountability may be an improvement. If managers are to be recognized as being in charge, at least someone will be.

Conclusion

The system of accountability forms the key link between the administration of government and the political system. Traditional methods of accountability and responsibility were well celebrated but left much to be desired in reality. The separation between government and its administration – the politics/administration dichotomy – was always naive and unrealistic, as was the system of accountability that followed from it; separating 'politics from administration inherently (if not consciously) obscures accountability' (Behn, 2001, p. 115).

Political accountability in the traditional model was a complicated and vague system that created more questions than answers. It was a well-known system in which, in theory, ordinary citizens could bring the whole apparatus of government to account when they come to vote. Although the precise details of political accountability may leave much to be desired, there is no essential difference now from the vague system of accountability, or answerability, that existed before. When elections are held a choice may be made, at least by some voters, based on what they thought of the government over their term. However, for the public service, and by comparison with the private sector sense, this kind of accountability is too sparse, too rare and too ineffective in ensuring performance.

For bureaucratic accountability, a more realistic approach is to adopt 'accountable management', the idea that, in a way analogous to the private sector, public managers are themselves accountable for their own actions and those of their agencies. They are less able to deny their own responsibility by saying that all actions are politically accountable. A new form of accountability is developing in which relationships between the bureaucracy, clients, the legislature, the media and individuals are carried out directly, rather than always through politicians. Direct accountability of this kind offers advantages over what was in place before. Together with an increased focus on output and its measure, accountability in the new model might turn out to be far better than that of the traditional model of administration. As Holmes and Shand argue, 'If the people really responsible for making these decisions are held accountable, accountability is actually enhanced' (1995, p. 564).

It is possible for accountable management or another generally accepted model to replace the politics/administration dichotomy. If it does, it needs to be realistic, not based on a falsehood as accountability was in the traditional model. Accountable management should mean that those who do something are accountable for it, whether they are a manager or a politician. Indeed, the meaning of management as discussed earlier is that a manager organizes to achieve results and is personally responsible for doing so. There may be some advantage in managers and politicians each being able to blame the other for any shortcomings, as is often the case at present. However, the managerial model of accountability does need to be well established and well accepted by the citizenry. If accountability arrangements are unclear or easily evaded, there are enough potential problems for these to be a challenge to the overall managerial model. It is the case, as Behn argues, that 'advocates of the new public management paradigm have a responsibility to help evolve a new paradigm of democratic accountability' (2001, p. 212). While achieving this may not be easy, there is an obvious need to discard once and for all the notion that politicians make policy and the public service simply carries it out and that, through this division of labour, accountability is ensured.

14

Conclusion: A New Paradigm for Public Management

Introduction

The argument in this book is that the traditional model of administration is obsolete and has been effectively replaced by a new model of public management. This change represents a paradigm shift characterized by a shift from administration to management, from bureaucracy to markets and a more realistic view of the relationship between the political and administrative leadership. Managerial reforms mean a transformation, not only of public management, but of the relationships between market and government, government and the bureaucracy, government and the citizenry, and bureaucracy and the citizenry. Management in the public sector has now changed, and will not go back to what it was during most of the twentieth century.

The reforms themselves, and the way they have been perceived, have changed over time. The beginnings of this movement were in the thorough ideological attack on the public sector in the 1970s and 1980s mainly in the United Kingdom and the United States. Initially the attack was theoretical, based on public choice and other economic theories, later it was an attack on the traditional practices and conditions of the public services. By the late 1990s, the change to managerialism seemed less ideological; it was adopted by other countries, and after governments to an extent rediscovered the public sector. If the idea in the early 1980s was that government could be reduced to almost nothing, it is no longer. Instead, we may be seeing a relatively pragmatic division between those things governments and public services do well, and those things the private sector does well.

As is not surprising, a change of this magnitude is highly controversial. Of course, the changes have not worked perfectly; of course, mistakes have been made; of course, there would be problems in the change to new forms of public management. It is possible that the public sector will go back to the days before Woodrow Wilson, to political or personal administration, and the kind of corruption he fought against may also return. This could cause political demands to again institute a non-partisan, neutral, administrative system.

But this scenario seems most unlikely. More likely is some refinement of those parts of the reform that have not worked particularly well, and natural evolution into another model. But the traditional model of administration and all it stood for are finished.

It is interesting that as the reform movement has developed there have been more and more critics and these have become more strident. There are criticisms of every conceivable aspect of the public sector reforms and new public management in particular. Some argue there is no change of paradigm; some argue there is not an international movement of change; some even argue that nothing has happened. The public management reforms are regarded by critics variously as an assault on democracy, an ideological movement, merely a fad, and have only achieved a derogation of morale within the public services where change has been tried. The main purpose of this chapter is to look at some of the key criticisms in more detail. Some of them have their valid points, but others miss the mark completely. Indeed, it is often the case that proponents and critics argue past each other not even agreeing on the parameters of debate. This is a characteristic of a time of paradigmatic change. As Kuhn argues, 'To the extent … that two scientific schools disagree about what is a problem and what a solution, they will inevitably talk through each other when debating the relative merits of their respective paradigms (1970, p. 109). Whether or not traditional public administration and public management can be considered paradigms is one of the more controversial points about the public management reforms.

A paradigm shift or not?

One of the more interesting parts of the debate over the new public management has been whether the changes – and even the most fervent of critics agrees that there has been change – are sufficient to constitute a paradigm shift. It would be possible to draw up a list of those arguing that there is paradigmatic change. This would include Barzelay (1992), Behn (1998, 2001), Borins (1999), Holmes and Shand (1995), Mathiasen (1999), Osborne and Gaebler (1992), and the OECD (1998), and compare the list that argue there is no change of paradigm or universal movement such as Gruening (2001), Hood (1995, 1996), Lynn (1997, 1998, 2001, 2001a), Pollitt (1990, 1993), and Pollitt and Bouckaert (2000). Such a list would not advance the argument very far and would only be a comparison of authorities. More useful, although some may not be convinced, is to look again at what a paradigm is and whether the idea of competing paradigms in public administration has some validity. It is argued here that, either using the ordinary meaning of the word or the more recent usage associated with the work of Kuhn (1970), the term paradigm is appropriate both for the traditional model of administration and the public management reforms most commonly linked together as the new public management.

Some writers are uncomfortable with the word 'paradigm'. As Behn argues, 'The world is divided into two camps: people who use the word *paradigm* daily and those who detest it' and notes further 'the word does appear to be appropriate to this context under the third definition from *Merriam Webster's Collegiate Dictionary* (tenth edition): "a philosophical and theoretical framework of a scientific school or discipline within which theories, laws, and generalizations and the experiments performed in support of them are formulated".' (2001, pp. 230–1). To Behn, the traditional model of administration qualifies as a paradigm; as he continues, 'certainly, those who support traditional public administration would argue that they have a "discipline," complete with "theories, laws, and generalizations," that focus their research' (Behn, 2001, p. 231).

Supporting this notion of paradigm is the *New Shorter Oxford Dictionary* definition of 'paradigm' as, in philosophy, 'a mode of viewing the world which underlies the theories and methodology of science in a particular period of history' and, rather than being something new, this usage dates to the late fifteenth century. Again this does not seem to place any barrier against using the term within public administration and supports the view that a paradigm is a school of thought, a set of ideas: no more and no less. As a way of looking at the world that exists for a time, there is no problem involved in using it to describe the traditional model of administration or new public management or any other reasonably coherent set of ideas. Writing in the mid-1970s, Frederickson was able to find five paradigms for public administration (1980, pp. 35–43). There is no need for agreement on any one paradigm even within a field.

Lynn, however, argues, 'The variation in the models of reform being tried around the world strongly suggest that *there is no new paradigm*, if by paradigm we use Thomas Kuhn's original definition: achievements that for a time provide model problems and solutions to a community of practitioners' (1997, p. 114). Lynn quotes Kuhn (1970, p. 43) to the effect that paradigms are 'a set of recurrent and quasi-standard illustrations of various theories in their conceptual, observational, and instrumental applications'. According to Behn 'Lynn then argues that there is no "community", no "accepted theoretical canon", and no "accepted methods of application" and concludes that "one cannot find evidence to support a claim of widespread transformation, much less a claim that a new paradigm has emerged" ' (Behn, 2001, p. 234). In Lynn's view it appears that a paradigm is to be regarded as a large hurdle to jump, requiring agreement among all its practitioners – a more or less permanent way of looking at the world (see also Gruening, 2001).

It is necessary, it seems, to delve further into paradigms. Much of the modern usage of the word derives, as Lynn notes, from Kuhn (1970). However, Kuhn does not define paradigm clearly and uses the word in several ways. This was a criticism of the early edition, as Kuhn happily admits in a later one (1970, pp. 181–2). The full quote used by Lynn is as follows (1970, p. 43):

> Close historical investigation of a given specialty at a given time discloses a set of recurrent and quasi-standard illustrations of various theories in their conceptual, observational,

> and instrumental applications. These are the community's paradigms, revealed in its textbooks, lectures, and laboratory exercises. By studying them and by practising with them, the members of the corresponding community learn their trade.

This does not mean one set of views that everyone must agree on, rather views that exist for a time and are revealed in the discipline's practices. The traditional model of administration does fit this in the sense of there being, at a given time, a corpus of knowledge, textbooks and ways of approaching the trade. Within economics, for example, there would be few quibbles involved in referring to the 'classical paradigm' or the 'Keynesian paradigm' or the 'neo-classical paradigm' or even the 'Marxian paradigm'. These are all sets of ideas that identify a school within the broader discipline of economics. In this sense the traditional model of administration is clearly a paradigm; it constituted a series of ideas that had currency for a period, as revealed in its textbooks. Public management is equally clearly different and we shall find out later in the chapter as to whether or not it too can be described as a paradigm.

Lynn's argument is based on a misreading of Kuhn. Instead of a paradigm being a generally agreed framework of all the practitioners of a science, it is actually a contested idea. It does not require agreement among all practitioners; there are often competing paradigms in the same field. It is, of course, difficult to decide when one paradigm ends and another one starts. But it is more arguable that there has been a change of paradigm than Lynn allows.

There does not appear to be any substantive reason to avoid the use of the term 'paradigm'. The questions that then remain are whether or not the traditional model of administration or its competitor can be regarded as paradigms.

The traditional paradigm

The traditional model of public administration, derived from Weber, Wilson and Taylor was argued earlier to be a paradigm (Chapters 1–2). It was a paradigm with a distinguished history, but it is also one that has effectively been replaced. Behn also argues that the intellectual heritage of the 'current public administration paradigm comes from the thinking, writing, and proselytizing of Woodrow Wilson, Frederick Winslow Taylor, and Max Weber' (1998, p. 134). Another theorist to see the traditional model as a paradigm – perhaps the first to do so – was Ostrom, initially in 1973.

In his book, *The Intellectual Crisis in American Public Administration* (1974, 1989), Ostrom argued that the traditional model had problems, was in crisis, and called for a new approach. He argued 'the sense of crisis that has pervaded the field of public administration over the last generation has been evoked by the insufficiency of the paradigm inherent in the traditional theory of public administration' (1989, p. 15). To Ostrom, Weber's theory of bureaucracy 'was fully congruent with the traditional theory of public administration in both form and method' (1989, p. 8) and pointed out the problems of bureaucracy and lack of intellectual coherence in public administration. The idea of crisis was explicitly drawn from Kuhn who had argued paradigm testing occurs 'only after the sense of crisis has evoked an alternate candidate for paradigm' and that testing occurs 'as part of the competition between two rival paradigms for the allegiance of the scientific community' (1970, p. 145). Ostrom argued the traditional model was a paradigm and nominated an alternative derived from economics (1989, pp. 11–19). Since the mid-1970s, there has been a recognizable stream within public administration that would refer to the traditional model as a paradigm and argue for using public choice theory as the basis for an alternative, as well as claim Ostrom as one of its intellectual forebears. Much of the public management model draws from theories and practices derived from those he termed 'political economists'.

On the other side of the debate, however, Pollitt and Bouckaert argue that each country is different and 'the idea of a single, and now totally obsolete, *ancien regime* is as implausible as the suggestion that there is now a global recipe which will reliably deliver "reinvented" governments' (2000, p. 60). At one level this is inarguable, but administrative theory in the traditional era was a very successful export industry, especially from Britain and the United States and varied less than might be imagined. Job titles, the nature of hierarchy, even the ways of working, were remarkably similar, even though it is undeniable that some people can see similarity where others see difference. Lynn also disagrees that there ever was a traditional model, arguing (2001a, pp. 146–7):

> That there was an old orthodoxy has … become the new orthodoxy. The essence of traditional public administration is repeatedly asserted to be the design and defence of a largely self-serving, Weberian bureaucracy that was to be strictly insulated from politics and that justified its actions based on a technocratic, one-best-way 'science of administration'. Facts were to be separated from values, politics from administration, and policy from implementation. Traditional administration is held to be sluggish, rigid, rule bound, centralised, insular, self-protective, and profoundly antidemocratic.

Based on an examination of the literature Lynn argues that there were many theories and not just one, many ways of approaching public administration and not one model. A problem with Lynn's analysis is that it relies on 'a selective reconsideration of the literature, not the practice of public administration' (Lynn, 2001a, p. 145). He adds, correctly, that relying on the literature is not altogether satisfactory. The key point should be that of *practice*. Any examination of public administration practice in the classical period, perhaps particularly in settings other than the United States, would show that it was hierarchical and bureaucratic, that it was based on scientific management and did aspire to the principles set out by Wilson.

In another paper, Lynn argues against the idea of a post-bureaucratic paradigm, arguing that this would mean 'a fundamental transformation in the historic role of the nation state'. He argues 'if the post-bureaucratic paradigm is rational/legal in the Weberian sense, then a post-bureaucratic paradigm must be founded on a different basis of legitimacy: perhaps different forms of rationality, different jurisprudential principles, a different allocation of property rights' (Lynn, 1997, pp. 109–10). In other words, a Weberian bureaucracy is regarded as being necessary for the modern nation state. However, Lynn overstates the case in three ways. First, market rationality is a valid alternative in many settings and a familiar one in that it is the central organizing feature of the private sector. It could even be regarded as more rational in the economic sense; indeed one of the criticisms is that it is too rational, rather than not rational enough. Secondly, no advocate of public management reforms proposes totally overthrowing the system of government, the rational/legal authority of jurisprudence and property rights. It could be argued that contracting to the private sector enhances the system of property rights rather than derogating it. Thirdly, it is possible to have a bureaucratic system of government where there is a very small public service to carry out its functions through contract.

In one sense, however, Lynn is correct. To move completely away from a rational/legal paradigm is to require a different form of government, but which theorist has ever suggested that? The public management reforms may have wide effects but what we have as a result is a form of management within government elected by the normal means, not from a totally different form of politics altogether. Some parts of government can and should be provided bureaucratically, but this does not mean that all government functions and services must be provided bureaucratically, nor does it mean that all public servants need be employed for life under the career service model. One of the key aspects of the public management reforms has been to push the envelope as to those functions that should be provided by a bureaucracy and those that should not, those to be contracted out and those which would be provided ineffectively if they were. No one advocates a totally different system of government, nor is that necessary if some services are provided in other than bureaucratic ways. What has been argued is that there should be a different kind of management of government.

Lynn argues that the profession of public administration 'mounts an unduly weak challenge to various revisionists and to the superficial thinking and easy answers of the policy schools and the ubiquitous management consultants' (2001, p. 155). He continues 'basic political and legal issues of responsible management in a postmodern era are inadequately defined and addressed. Such a result ill becomes a profession that once owned impressively deep insight into public administration in a representative democracy' (2001, p. 155).

Such is the fate of old paradigms. The decline of one school of thought occurs as a result of the rise of an alternative. Or as Kuhn argues, 'the decision to reject one paradigm is always simultaneously the decision to accept another, and the judgment leading to that decision involves the comparison of both paradigms with nature *and* with one another' (1970, p. 77). The problem with the traditional model of administration is that its underlying theories lost support and lost relevance, so much so that the defence of the old model has been weak. It is not the case that in one moment everyone decides that public administration is superseded, it is more the case that gradually paradigms change. A paradigm based on formal bureaucracy, separation of politics from administration and one-best-way thinking, combined with unusual employment practices cannot easily compete with that of the public management reforms, in terms of the strength of underlying theory.

The public management paradigm

Where the critics may have a point about paradigms is that a new one must be based on very different premises than its competitor. It is argued here that the public management reforms are sufficiently different from the traditional model to be regarded as another paradigm.

The basic paradigms describing the public sector are those outlined by Ostrom as derived from two opposing forms of organization: bureaucracy and markets. Perhaps some consideration needs to be given to whether or not bureaucracy and markets are alternate forms of organization. Dunleavy notes that most economic analyses of bureaucracy posit 'a fundamental dichotomy between two ways of coordinating social activities in a industrialized societies – markets and command structures' (1991, p. 151). Ostrom certainly does this. He argued bureaucratic organization is an alternative decision-making arrangement to individualistic choice. The key difference between the two forms of organization is that between choice and compulsion; allowing the market to find an agreed result or having it imposed by a bureaucratic hierarchy. A market does not have the force of compulsion behind it. At this most fundamental level, bureaucracy and markets are very different and are based on very different ways of looking at the world.

A further look at what is involved in the public management reforms may assist in assessing its candidature as a paradigm. An OECD report describes the reforms as a new paradigm and sets out the key points involved (1998, p. 13):

> In most Member countries public management reform has involved a major cultural shift in response to a new paradigm of public management, which attempts to combine modern management practices with the logic of economics, while still retaining the core public service values. This new management paradigm emphasizes results in terms of 'value for money', to be achieved through management by objectives, the use of markets and market-type mechanisms, competition and choice, and devolution to staff through a better matching of authority, responsibility and accountability. In place of the old paradigm, which was largely process and rules driven with an emphasis on hierarchical decision-making and control, the new public management environment is characterized by:
>
> - a focus on results in terms of efficiency, effectiveness, quality of service and whether the intended beneficiaries actually gain;
> - a decentralized management environment which better matches authority and responsibility so that decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;

- a greater client focus and provision for client choice through the creation of competitive environments within and between public sector organizations and non-government competitors;
- the flexibility to explore more cost effective alternatives to direct public provision or regulation, including the use of market type instruments, such as user charging, vouchers and the sale of property rights; and
- accountability for results and for establishing due process rather than compliance with a particular set of rules, and a related change from risk avoidance to risk management.

Each of these points is markedly different from a public administration paradigm. A focus on results is different from a focus on process. Decentralized management is very different from a rigid bureaucratic hierarchy. A greater client focus contrasts with the traditional model where clients were only incidental, while allowing choice and competition is anathema to the traditional model. The use of market instruments is counter to bureaucracy, while a focus for results is very different from hoping that results will follow from structure and process. In addition, accountability for results as a manager is very different from an administrator merely following instructions and the rules set down earlier.

The focus on results is also emphasized by Behn who defines the new public management paradigm as 'the entire collection of tactics and strategies that seek to enhance the performance of the public sector – to improve the ability of government agencies *and* their non-profit and for-profit collaborators to produce results (2001, p. 26). Along with the focus on results and using a variety of mechanisms to achieve them, the key difference is the underlying theoretical bases of economics and private management. There are enough differences, it is argued, for public management to be a separate paradigm: bureaucracy and markets are the two contrasting ways of organizing; the public interest motivation is very different from an assumption of market-rational behaviour on the part of public servants; believing that politics can be separated from administration is widely regarded as unrealistic; and a focus on process in the traditional model is very different from that of results.

Paradigm competition

It might be easy to dismiss some critics as being those who – as it is said of paradigms in general – have grown up and been socialized under an obsolete paradigm and tend to stay with that paradigm longer, even to the end of their careers. That there are real problems with the new model is undeniable. However, it is necessary to compare the theories and principles within which each paradigm operates. Instead of simply criticizing public management for various inadequacies, it is necessary to compare it on those points with the traditional model of public administration. No theory can explain everything that falls within its domain. The criticisms of the managerial model are, on occasion, cogent ones. Paradigmatic change involves the comparison of theories, neither of which works perfectly. The main point about theories is that they are in competition with each other in how they fit the real world. In such a comparison the public management reforms could hardly be worse than the traditional model of public administration being replaced. The comfortable, old public service has gone because its theories are weaker than those of its replacement. If there are problems with the public management reforms, the response will be further changes in the managerial direction. Public management is a new paradigm.

An international movement

Whether or not the public sector reforms constitute a worldwide phenomenon is a point of some controversy. Several writers have noted that similar movements have occurred in several countries. For example Pollitt and Bouckaert argue (2000, p. 24):

> The changes since 1980 have – in many countries – been distinguished by an international character and a degree of political salience which marks them out from the more parochial or technical changes of the preceding quarter-century. In some countries there have been deliberate attempts to remodel the state. In many countries reform has been accompanied by large claims from politicians to the effect that wholesale change, with sharp improvements in performance, was both desirable and achievable. To put it more colloquially, there has been more 'hype' about administrative change, in more countries, more-or-less simultaneously, than ever before. (2000, p. 24)

Thompson argues that the new public management 'is a worldwide transformation because it is a manifestation of a fundamental transformation affecting nearly every corner of the globe' (1997, p. 13). A survey of the world's largest 123 countries 'shows that significant government reform is going on around the world and that, to a remarkable degree, similar kinds of reform efforts exist in very different countries' (Kamarck, 2000, pp. 249–50); and Kettl, too, argues (2000, p. 1):

> Since the 1980s a global reform movement in public management has been vigorously under way. The movement has been global in two senses. First, it has spread around the world to nations including Mongolia, Sweden, New Zealand and the United States. Second, it has been of sweeping scope. Governments have used management reform to reshape the role of the state and its relationship with citizens.

On the other hand Hood (1995) argues against a notion of a global paradigm for three reasons. First, 'establishing the partial retreat of traditional approaches to public administration does not necessarily demonstrate that any single new style of public administration will inevitably be adopted worldwide … or even that the old style will everywhere disappear'. Second, the idea of 'a new global paradigm ignores the very different and typically "path dependent" local political agendas to which contemporary public management changes are responding'

(1995, pp. 105–106) and thirdly, whether the agenda for public management reform 'has been stable enough over the last decade or two to be counted as a single set of ideas and practices' (1995, p. 110).

There are, then, two quite divergent views of whether or not the public management reforms constitute a global or worldwide movement of change. It now remains to establish which makes more sense.

Convergence of practice

Pollitt and Bouckaert argue that, instead of there being a global movement, different countries implement the changes in different ways. They argue 'state structures, the nature of central executive government, relationships between ministers and mandarins, the prevailing administrative culture and the diversity of channels of advice all have effects on which ideas get taken up and how vigorously and widely these are subsequently implemented' (Pollitt and Bouckaert, 2000, p. 60). In their view, some countries are more open to the 'performance-driven, market-favouring ideas than others' particularly the Anglo-Saxon countries, where the more statist continental European countries have been more cautious (2000, pp. 60–1).

The point that there is a different pace to change is inarguable. National political institutions may be more or less helpful to reform. British, Australian and Canadian prime ministers work with political institutions that are much more amenable to making government reform measures stick than is the case for American presidents; New Zealand went further than other countries because it has fewer institutional constraints. Management reform must fit within a nation's model of governance and 'they must be supported by the political system for the administrative reforms to succeed' (Kettl, 2000, p. 32). Some variance would be expected. Holmes and Shand also argue that there has been a range of reform, with 'many common themes but differences of substance, comprehensiveness, speed and emphasis' (1995, p. 553). Ingraham argues that there are three models (1998, pp. 251–2):

> The New Zealand model, which essentially blows up the old structures and replaces them with competitive, market-based agencies, represents one end of the continuum that emerges. The United States and its reinventing government initiatives represent the other; reinventing government has been constructed on an old bureaucratic foundation. No systematic reforms have been implemented that would change the rules of the game … The middle spot on the continuum is occupied by staged-reform strategies. Examples are provided by the national governments of Australia and the United Kingdom, which pursued change strategies that first attacked the complexity and rigidity of the old base systems, then built additional reforms on this simplified base.

That there are three models is a common view (see also Halligan, 2001). But does this really mean that there are no similarities in the reforms being followed around the world?

To follow the logic of critics, such as Hood or Pollitt, the differences in reforms, their timing and strategies in various countries around the world, mean that there is no global movement. There seems to be an argument that reforms need to be identical and to occur at the same time for there to be any claim that there is underlying similarity. Some particular criticisms were overtaken by events. Hood's description of China as illustrating a return to bureaucratic principles has been overtaken by events as China deregulates and starts adopting its own reform movement, albeit later than when his article was written. Hood also argues 'the Australian Commonwealth government resisted 'agentification' of its structure, on the grounds that it was dangerous to separate policy from execution, while New Zealand and the UK took exactly the opposite course' (1995, p. 109). The problem with this argument is that it too was overtaken by events, as in 1996 the Australian government did adopt some UK-style agencies, most notably that of Centrelink. In both these cases the reforms were just happening later.

What tended to happen in a number of countries is well-illustrated by the Canadian reforms described by Glor (2001, p. 128):

> NPM … has been widely adopted in Canada. There was variation in application and timing: Alberta, Ontario, Manitoba and the federal government took up NPM most fully. The results in government restructuring, management and downsizing are comparable to those of the primary exponents of NPM – Britain and New Zealand. Negative consequences have been lower value from the public sector, programmes under-resourced and some emerging problems addressed inadequately. Positive improvements in service have been achieved. A more disillusioned public and public service have been the costs of an acrimonious debate and government that initially assumed untenable debt, dealt with the problem slowly, then introduced solutions rapidly. Canada has managed to retain some but not all of its welfare-state programmes – they are under pressure.

This is a familiar story in a number of countries. Changes were often introduced in difficult economic times, against opposition, but were carried through. The particular points may have been different, the timing was certainly different, but the direction of change and its underlying theory are closer than conceded by critics.

Convergence of theory

Where convergence is most evident across a number of countries is in underlying theory. It is argued here that the reforms in different countries may have varied in their details but have been in the same direction and this has been driven by the exchange of ideas and theories.

In an attempt to systematize the arguments over an international movement, Pollitt argues there are four stages of convergence in public management (2001, pp. 477–8):

1 *Discursive convergence* – more and more people are talking and writing about the same concepts … The conceptual *agenda* is converging.
2 *Decisional convergence* – the authorities … publicly decide to adopt a particular organizational form or technique …
3 *Practice convergence* – public sector organization begin to work in more similar ways …
4 *Results convergence* – when reforms produce their intended (and unintended) effects so that the outputs and outcomes of public sector activity begin to converge.

Pollitt finds the greatest level of convergence is in the first category, some in the second, with limited information on practice convergence and only sparse information on the convergence of results. Pollitt then argues that not everyone is 'travelling in the same direction anyway' (2001, p. 485):

> Deep differences of approach continue to manifest themselves between different countries and groups of countries. The Finns do not aspire to the 'New Zealand model' and the French do not want to copy the American 'National Performance Review'. The Canadians claim to have a Canadian model and a number of leading German authorities believe that they have little to learn from the Anglo-Australo-American paradigm of NPM/reinvention. Even strong believers in convergence see important differences between, on the one hand, the UK and New Zealand and, on the other, the later American attempt at 'reinvention'. Such multiple and durable differences are hard to explain within a model that assumes irresistible and uniform global pressures.

The extent of irresistibility and uniformity that are needed in order for there to be an international movement may be arguable, but convergence is not disproved by Pollitt's argument.

It is interesting and significant that Pollitt misses the most important form of convergence of all. This is *theoretical* convergence; where the underlying theoretical changes most characteristic of the public management reform have spread around the world. This is not covered by any of Pollitt's points. Theoretical convergence is much more than discursive convergence as, in the latter, it would be enough to just talk about making change. Indeed, Pollitt's elaboration of that point is all about the *words* used in reform, rather than anything about theory. Theoretical convergence helps to explain why there is some similarity in different countries and also why the details are likely to be modified by tradition and the extent of opposition. It is argued here that there has been substantial theoretical convergence and substantial convergence in the instruments and strategies used by public sector reformers.

It is unnecessary to establish that change is irresistible, uniform and global for there to be a worldwide movement of public sector reform. More correct is the view of public sector reform as involving similar policy instruments, as Boston *et al*. argue (1996, p. 2):

> Although the rhetoric might have varied around the world, most of the recent efforts at governmental reinvention, restructuring, and renewal have shared similar goals – to improve the effectiveness and efficiency of the public sector, enhance the responsiveness

> of public agencies to their clients and customers, reduce public expenditure, and improve managerial accountability. The choice of policy instruments has also been remarkably similar: commercialization, corporatization, and privatization; the devolution of management responsibilities; a shift from input controls to output and outcome measures; tighter performance specification; and more extensive contracting out.

Kettl also argues 'the movement has been striking because of the number of nations that have taken up the reform agenda in such a short time and because of how similar their basic strategies have been' (2000, p. 1). He lists the strategies as: productivity – producing more services with less tax money; marketization – using market-style incentives; a service orientation; decentralization; policy – separating purchaser from provider; and accountability for results (2000, p. 1). He argues 'painted with the broadest brush, these reforms sought to replace traditional rule-based, authority-driven processes with market-based, competition-driven tactics (2000, p. 3).

In looking at instruments and strategies there is far more commonality between the reforms of various countries than critics allow. What has changed is the underlying theory rather than the specifics. It would be absurd to demand, for example, that all countries simultaneously adopt the same model of performance appraisal and at the same time for a claim of similarity to be justified. Pollitt, for example, argues that 'performance indicator systems have sprouted up in most countries and, for the optimistic, these may appear to hold out the prospect of pinning down performance improvements so that, eventually, international comparisons will be routine' (2001, p. 488). He argues that there are major problems and differences between countries in the use of performance indicators. But what is more important, surely, is that a large number of countries around the world have decided that systematic performance appraisal is necessary to address their performance and incentive structures and that this is novel in itself. They may – most likely will – then adopt their own scheme in their own time, but the underlying theoretical change of now regarding performance appraisal as important rather than the reform specifics is where countries have converged.

The similarity of theoretical and policy instruments is the crucial point. Certainly the reforms and their timing varied in different countries, but it is argued here that the instruments and strategies were the same. If the new paradigm is to be the change from bureaucracy to markets, illustrated by the adoption of market instruments, the similarities are more than they appear. As Holmes and Shand argue (1995, p. 554):

> Changes in the internal management paradigm reflect greater convergence, across the political spectrum, in terms of many of the core common 'micro' themes. They represent a concern to improve the performance of public sector organizations or 'to do more with less', using the major tools of the market and private sector practice. The convergence is apparent within the OECD countries, but it is also apparent in many developing countries, and in economies in transition.

The same reforms were adopted, the same items taken out of the public management reform toolbox – in Kuno Schedler's phrase – just later or to a different extent. Pollitt argues that reform ideas themselves 'have also varied considerably from country to country, and certainly the priority given to different components (e.g. privatization, contracting out) has fluctuated enormously' (2000, p. 184). Obviously a nation with little public enterprise, such as the United States, is not going to have much to privatize but the underlying theory that privatization is a good thing, or rather that government ownership of enterprises is not, is very widely spread in developed and developing countries alike.

If there was really no global movement of public sector reform, it would be expected that countries would behave more randomly than they have. Some would be moving towards more bureaucracy, the nationalization of industry not its privatization, increasing budgets and adopting more Weberian-style bureaucracy. The evidence for this is just not there. There is an international public sector reform movement. It does not require exactly the same reforms to be undertaken at exactly the same time. As Behn argues 'the new public management is a worldwide phenomenon but with different strategies employed in different governments in different situations' (2001, p. 26). The most important similarity is that of underlying theory.

The ideological basis of managerialism

It has been argued by some (Pollitt 1993; Dunleavy, 1994; Kearney and Hays, 1998; Minogue, 1998) that the public management reform changes are ideological. Pollitt (1993, p. 49) argues that managerialism is 'the acceptable face of new-Right thinking concerning the state' and that ideological considerations may be part of the argument for reducing government through marketization. Although improving productivity has a logic of its own, 'simultaneously, for new right believers, better management provides a label under which private sector disciplines can be introduced to the public services, political control can be strengthened, budgets trimmed, professional autonomy reduced, public service unions weakened and a quasi-competitive framework erected to flush out the "natural" inefficiencies of bureaucracy' (1993, p. 49).

There are two main problems with this claim. First, the ideological nature of public management reform has diminished since the demise of the Thatcher government in the United Kingdom. Secondly, defending the public administration paradigm or a particular level of government involvement in society may be as ideological as its obverse.

Differences in ideology

In the United Kingdom in the 1980s it was easy to regard the public management reforms as part of Thatcherism. There certainly was an assault on the public sector and the universities by that government and anyone who was there at that time could be forgiven for seeing the entire movement as ideological. In a later article Pollitt argued (1996, p. 86):

> The trajectory of pro-market, anti-state doctrines probably reached its apogee at the end of the 1980s, during Mrs Thatcher's third term of office. At that time, resort to market or market-like solutions to the problems of public administration had begun to seem automatic, almost ritualistic. The distinctiveness of the public sector was repeatedly minimized, its particular values ignored or downgraded.

Some of those involved in both the Thatcher and Reagan governments had a profound distaste for the public service and this *was* 'new Right' ideology. However, while this may have been an appropriate way of looking at the early reforms in the United Kingdom, the fervent ideology was not as evident later and neither was it so evident in other countries.

Public sector reform did not stop after Thatcher; in fact it had barely started. What happened was that the intensely ideological attack on the role of government in society was replaced by intensified efforts to improve its management. In New Zealand and Australia, the most radical of the public service changes were introduced by Left governments, and the movement was more about management and responding to economic crisis than new Right ideology. Canadian and French governments of Left and Right have introduced similar reforms. As the reform movement has spread any party-political aspect seems harder to show. It is easy to point to governments that were not 'New Right', but still introduced managerialist reforms of their own. But as the movement towards public management has proceeded, the ideological element has become far less visible and new public management 'seems now to have no evident coupling to a specific point on the traditional 'right–left' political spectrum' (Jones, Guthrie and Steane, 2001, p. 3).

Ideology and the old model

It could be argued that opposition to public management reform is itself driven by ideology. It could be equally ideological even to argue to maintain particular activities in the public sector. Pollitt and Bouckaert, for example, describe their stance as 'sceptically open-minded' and doubt whether many of the ideas behind the NPM are 'quite as new as some of their more enthusiastic proponents claim' (2000, p. 15). A few pages on they state (2000, p. 22):

> We share several values and beliefs: for example, that the public sector *is* distinctive, that public sector (collective) approaches to many social problems are desirable/necessary/ultimately unavoidable; that the dull stuff of administrative implementation is actually crucial to the final effects of reforms; that the eventual impacts on citizens is usually the most powerful (though often fiendishly difficult to execute) test of the 'success' or 'failure' of a management 'improvement'. Further, we recognize that language is both rich

> and treacherous, and that the rhetorical dimension of public management is substantial, in most countries.

At the beginning of their book the movement for public sector reform is described as ‘a pandemic’ which is hardly neutral, scientific language (2000, p. 1):

> The period since 1980 has witnessed a pandemic of public management reforms, which has swept across much of the OECD world. The working lives of millions of public officials have been substantially altered (and, in some tens of thousands of cases, prematurely terminated). The ways and means of managing vast public budgets have been reshaped. Large claims have been made for ‘savings’ and ‘efficiency gains’ (the inverted commas are deployed here to indicate that such concepts are seldom straightforward and uncontestable). In some countries huge quantities of previously publicly owned assets have been sold to the private sector. The standards attained or aspired to by many service-providing agencies have come under unprecedented scrutiny.

They claim the work of Osborne and Gaebler is not scientific or neutral and then argue that ‘we do not think that we are the slaves of any single theory or approach. On the other hand, it would be absurd to claim that we are somehow “totally objective” or “theory-free” ’ (2000, p. 23). In reality, as these statements show, they are as profoundly ideological as those they attack.

Other parts of the managerial programme are not notably ideological, unless the word applies to the preference for private sector management theories and techniques. Performance management might be considered new Right ‘neo-Taylorist’ ideology, but it could also reflect an older tradition of ensuring value for scarce public money. Flexibility in personnel practices might be argued to be ideological, but it could also be a realization that traditional administrative employment practices are now irrelevant for other reasons.

The ideological argument against the public management is not substantiated. The link between anti-state rhetoric and reform was taken away with Thatcher, but reforms continued. In any case it could be regarded as equally ideological to support the bureaucratic model of administration or a larger role for government in society.

The impact on democracy

One serious criticism of the public management reforms, particularly those of the new public management, is that they are against the precepts of democracy. There are four main points. First, it is argued by some that democracy requires bureaucracy. Secondly, it may be claimed that there is an endemic reduction in political accountability, hence in democratic accountability, as public managers are themselves accountable for results, thereby allowing politicians to avoid accountability. Thirdly, it could be argued that outcomes are not evenly distributed, that equity considerations are of little concern in the reform process. Fourthly, there is a reduction in scale and scope by government. While it could be claimed that cuts in government follow from democratic demands for lower taxation, it is possible that the larger scale and scope of government results from political demands as expressed by democratic means. It could be regarded as undemocratic if the scope of politics – by one standard definition, the art of the possible – is reduced to narrower allowable areas of discourse.

Does democracy require bureaucracy?

The argument has been made that democracy requires bureaucracy, that for a modern society to be democratic it must also be bureaucratic. As Lynn argues 'Democracy requires the rule of law, the legally sanctioned regulation of markets, the preservation of equity, and competent bureaucracies subject to control by statute and by judicial institutions … Weber viewed a system of bureaucratic rule in the modern state as inescapable' (2001, pp. 199–200). To Lynn, bureaucracy and democracy go together and to move away from bureaucracy is to wish to set up a new system of government altogether. This is a big claim.

Lynn's citing of Max Weber needs to be investigated further. Weber did see it as inevitable that bureaucracy would become universal as it 'inevitably accompanies modern mass democracy' (Gerth and Mills, 1970, p. 224), so this part of Lynn has some backing. But equally, to Weber, democracy 'inevitably comes into conflict with bureaucratic tendencies' (p. 226). Weber was actually ambivalent about bureaucracy. Although he saw it as inevitable with the modernization of society, there were clearly aspects that worried him. Bureaucracy is sometimes regarded as abrogating the power of the citizen, or the politician, with its political accountability problematic. However, bureaucracy in the sense of rational–legal authority is unchanged with the public management reforms. Also, there are serious historical problems with the idea that democracy requires bureaucracy, in that an excess of bureaucracy has led to circumstances where democracy was taken away from the citizenry, a circumstance that Weber to some extent predicted. The apparatus of the state is an instrument of power, and can be used for democratic or undemocratic purposes.

A related argument to that of Lynn is that bureaucracy is a defence of liberty. Massey argues, 'in constitutional democracies possessing many generations of political wisdom and experience, a properly ordered bureaucracy is an essential defence of liberty' (1993, p. 1998). If this means that a bureaucracy considers itself separate from the government of the day it could, in fact, be derogation of democracy. Having a loyalty to the nation above and beyond that of the government of the day was a view held by some senior public administrators in the time of the traditional model of administration. Governments could come and go, but the levers of society – the real power – would be held by the mandarins. By any definition that is profoundly undemocratic. Bureaucracy is only an instrument; the only defence of liberty is in democracy itself. If politicians have reasserted their role as the result of public management reform, this would actually be an enhancement of democracy as they are elected where mandarins are not.

These arguments of Lynn and Massey are overstated. All that is being put forward by the public management reforms is a new way of organizing within government, that, whatever the extent of reform, what remains is the legal structure of a bureaucratic state. As Borins argues (1999, p. 309):

> The new public management can be understood as an agreement between politicians and civil society, on the one hand, and the public service on the other. Politicians and civil society are demanding a public sector that is more service-oriented and more performance-oriented. In response they are willing to give public managers more autonomy and better tools to do the job.

This is an instrumental view of management, no more and no less. Public management is merely a tool for governments to use to improve the management of their public sector. There is no claim for any difference in the way that governments are chosen, in other words, no alteration in democratic regime.

Accountability and democracy

Arguments are made that the public management reforms reduce accountability, and hence democracy, in two ways. First, and most important, the reforms may reduce political accountability; if the manager is to be more accountable, then the politician is axiomatically to be less accountable. Secondly, public accountability may be reduced through contracting or other ways in which a function is delivered by the private sector so there is no longer government involvement.

The first point is most obvious in Westminster-style parliamentary systems. There the minister is presumed to be accountable for the acts of the administration and is politically accountable through the legislature. Managers do become more responsible for the operations they are in charge of, rather than the minister who, while politically accountable, can avoid blame (Hondeghem, 1998). In the US, it has long been the practice that agency heads are themselves accountable, with political accountability through the President alone, so any diminution of accountability might be of less worry there.

Secondly, the creation of independent agencies operating at arms-length through a contractual or quasi-contractual basis could lead to a problem of political accountability. Transferring accountability to the private sector through contracting or other mechanisms comes up against the fundamental problem of differences between the sectors. Simply exchanging public accountability for private is not necessarily going to solve the problems of accountability. Governments may still be held to account even when there are clear contractual arrangements or complete privatization. They may try to hide by saying that the contractor or agency is responsible but this is unlikely to be accepted by the public. Governments will be accountable for conflict over the awarding of contracts and if contractors fail to deliver.

There are potential accountability problems that might arise from the adoption of new public management. However, accountability needs to be compared. The traditional model offered political accountability of an indirect, unsatisfactory kind and with very poor managerial accountability in the sense of results. Public management allows for direct accountability to clients, greater responsiveness and transparency of results. It may mean some diminution of political accountability, but the effect should not be too great. Any diminution of political accountability might be more than made up by an improvement in managerial accountability. In any case, it is not that a perfectly accountable system is to be replaced by one less accountable; it is more that one system of less than great accountability is to be replaced by another less than great form of accountability.

Public management reform and equity

The third aspect to consider is a moving away from the values of equity that public administration is founded upon. For example, Terry argues (1999, p. 276):

> We must constantly remind champions of the New Public Management that while economy and efficiency are important values, one must not lose sight of the fact that responsiveness, equity, representation and the rule of law are highly prized in the US constitutional democracy … Proponents must be reminded to carefully consider their attempts to minimize the differences between the public and private sectors. The blind application of business management principles and practices can undermine the integrity of public bureaucracies and so threaten our democratic way of life.

It would need to be proved that 'responsiveness, equity, representation and the rule of law' are any less valued than under traditional bureaucracy. It could be argued that all that is being set forward is being more focused on how money is being spent and making sure that desired results are achieved. Further there would be no reason that programmes aimed at being more equitable would not be able to be managed by the NPM principles. In other words, perhaps it is the programme rather than its administration that advances equitable outcomes.

However, one way in which equity concerns may be detracted from with public management reform is that of March and Olsen who argue that there are two perspectives about democratic governance, the exchange perspective and the institutional perspective, with the former currently dominating (1995, pp. 5–6). It is possible that concentration on an exchange approach takes away from the institutional perspective, thereby reducing democracy. There may be ways in which public management militates against equity considerations, so this charge has some basis, but it is not the case that public administration itself has now or ever had a goal of equity.

Reducing government and democracy

The public management reforms have generally aimed at reducing the size of government, but there is no real evidence that this was in response to democratic pressure. There was some minor political impact resulting from the so-called tax revolts in the 1970s and 1980s, but it was not substantial and quite short-lived. It is the case that governments grew in response to what the citizenry wanted. To the extent that public management reformers reduce government regardless of public opinion, they could be seen to be behaving in an undemocratic way. For example, there was no popular movement against public enterprise. There was, rather, theoretical argument derived from neo-classical economics and from this the widespread privatization of public enterprise followed, in many places against public opinion.

In addition, governmental scope can be reduced by limiting the allowable range of activity for politics and political action to only those things about which current theory allows arguments to be made. It would be unlikely now that a government would declare that it wished to greatly increase public spending, increase public employment and nationalize some important industries. This means the range of allowable discussion does not permit all possibilities to be canvassed; politics is reduced, therefore democracy has been reduced.

In sum, do the public management reforms mean that democracy is under threat? It could be argued that several of the major changes would, if carried out fully, improve the functioning of the democracy. An OECD paper argues 'The public management reforms are not responsible for any problem of democratic deficit, rather they are part of the solution' (1998, p. 56). There is to be more transparency, enhancement of the role of elected politicians, while the focus on service quality and consultation increase the opportunities for public involvement. It is also possible that public management reforms were driven, in some countries, by a desire for greater democracy. Kamarck argues that 'the second driver of governmental reform is democratization', citing South Africa in the transition from apartheid, and Poland in its decentralization (2000, pp. 233–4). She has a point. The traditional bureaucratic system had major problems with accountability – it is by no means clear that the new model is any less accountable, any less democratic, than its predecessor.

The greatest concern for democracy is with the potential threats to equity and to the reduction in governmental scope. Politics needs to remain the art of the possible and public administration the art of carrying out the possible. Any reduction in the allowable agenda for political action is a reduction in democracy.

A lasting movement or not?

Critics of the new public management argue that it will disappear or even that it never happened. Lynn argues that NPM will fade away (1998, p. 232):

> Despite being nominated to paradigm-hood by admirers, the New Public Management is an ephemeral theme likely to fade for several reasons: (1) the initial shape of the Westminster reforms that inspired the term will eventually be disfigured in the course of political succession, and partisans and scholars alike will see new opportunity in proclaiming the metamorphosis or death of the New Public Management; (2) as comparative work across countries and sectors accumulates, fundamental differences among reforms

> will begin to eclipse superficial similarities; (3) the term 'new' will be viewed as an inconvenient adjective for emerging themes or objects of inquiry; and (4) political debate will require a fresh theme to attract attention to and support for the next wave of ideas for administrative reform. Most of us could write the New Public Management's post mortem now.

These claims are contestable. On the first point, political change can overtake any kind of reform. But what has actually happened in the Westminster systems Lynn refers to is that changes of government – from Left to Right and back to the Left again in New Zealand; Right to Left in the UK – have either left the NPM changes unaltered or even accelerated them. On the second point made by Lynn, there are differences between countries, but the reform agenda has been driven by the same underlying theory as discussed earlier. The third and fourth point need some further examination.

The third point has been discussed earlier where it was argued that 'new' is becoming an inconvenient adjective. Given that more than ten years have passed since the term 'new public management' was first used, at what point should the 'new' be dropped? There is a salutory lesson with the so-called 'new public administration' that started in the United States in the late 1960s (Frederickson, 1980; Bellone, 1980). It was a reaction to old-style bureaucracy and put more emphasis on values, equality and the normative side of public administration, but faded as traditional concerns with efficiency and effectiveness reappeared. At some point the 'new' in new public management will have to be dropped, but this is relatively unimportant compared to the change from public administration to public management.

The fourth point of Lynn's is too obvious to say much about. Of course, there will need to be a new theme to discuss. Anyone who views the theoretical world as a succession of paradigms, as discussed here, must acknowledge that their own paradigm will eventually disappear.

Another argument is over the extent to which the ideas are new; whether managerialism is something new, or is simply old ideas in a new package. Stark (2002) argues they are new, even if some of the aspects are not. Hood argues that the new managerialism is 'hype' rather than 'substance' and that nothing has really changed. In his view, new public management has 'damaged the public services while being ineffective in its ability to deliver on its central claim to lower costs'; and also it was 'a vehicle for particularistic advantage' to serve the interests of an elite group of top managers, and could not claim to be as universal as its advocates suggested (1991, pp. 8–10). Hood (1994, p. 135) later repeated the criticism arguing it was 'more that the packaging was new, not the ideas inside' and that NPM could be considered a 'cargo cult'.

In one sense, the ideas are not new. Economics and private management are hardly new, nor are the principles of managerialism deriving from them. The history of public administration is replete with failed experiments and failed techniques, mostly with their own acronyms such as: planning, programming, budgeting (PPB), zero-based budgeting (ZBB), and management by objectives (MBO). The feeling that it has all been seen before is quite understandable or as Newland argues 'American skepticism toward NPM stems from long experience with conflicting reform fancies and fads' (2001, p. 24). Spann's warning (1981) of a fashion or a fad is relevant here. Perhaps the changes are merely a fad to which, like all fads, public servants pay lip service. Public servants may have absorbed the new managerial jargon – performance indicators, key result areas, strategy, organizational culture and so on – but in many cases the understanding does not rise above this level.

It does not matter if the ideas are new or not. What is more important is the packaging of the ideas into a coherent set of reforms, and this has occurred. Despite the criticisms about novelty, there is some basis for believing the public sector reforms will constitute a longer lasting programme than earlier reforms. There are three main reasons. First, managerial reforms were not instituted by, or for the benefit of, senior managers, they were imposed by politicians and governments highly unimpressed with the quality of their public services. Some inside the system might have been carried along by the tide, but it is governments trying to shore up their own support in the community that have been the instigators and beneficiaries. This is very different from earlier internal management reforms. Secondly, managerialism may last longer as a result of its implied assault on bureaucratic principles. The idea of government itself may be under some pressure, but bureaucracy now has few supporters anywhere. Any solution offering a reduction in bureaucracy is likely to be popular. Previous reform attempts were changes within a bureaucratic framework; this one is not. Thirdly, the express aim in the managerial programme to reduce the scope of government makes it unlikely that the areas reduced will again become part of government. Previous reform attempts made no serious attempt at reduction, or in trying to find out which things governments were best at doing. However, as more countries adopted the reforms, it was the traditional model of public administration that looked more and more dated.

Public management as an academic discipline

Contrasting the two paradigms over previous chapters shows considerable differences in theory and how theory is applied to practice. If new public management has replaced traditional public administration, as has been argued, this raises subsequent questions about the academic study of the operations of the public sector.

Public administration in its academic sense has always been somewhat different and removed from its practice. Practitioners often complain that much of what is written in journals or books is irrelevant to their work. There must always be some separation between academic discussion and the work of public servants; however, there now seems to be a bigger gap than usual between management practice and the academic community.

In Australia in 1988, the then Secretary of Finance, Michael Keating, a strong advocate of managerial change, argued that 'at the extreme there is even some outright opposition to the reforms although, interestingly, much of this comes from people in universities who are not directly involved' (Keating, 1988, p. 123). Although the claim was disputed by Nethercote (1989) there is at least a *perception* of a gap between public administration academics and practitioners, which is worrying by itself. A similar concern was noted in the United Kingdom with public administration academics uncritical of the old system but highly critical, in the eyes of the government, of the new (Jordan, 1997). Most criticism of the managerial model, in other countries as well, has, in fact, come from academics, mainly those involved in liberal arts training within the universities. More recently Jones, Guthrie and Steane argued (2001, pp. 23–4):

> Critics of NPM appear to outnumber advocates in academe, if not in the practitioner environment. Some of this may be related to the fact that academics face professional and career incentives to find fault rather than to extol success … Some criticism may derive from the fact that it is perceived to draw conceptually too strongly from a 'business school/private sector management' perspective. This conceptual framework threatens the foundations of much of what is believed to be gospel and is taught about government and public–private sector relationships to students in public administration programmes, in political science and related disciplines.

This raises a question as to the extent to which public administration academics have been out of touch with practice, when, as Borins argues, new public management 'is very much a practitioners' movement, with initiatives being undertaken all over the world' (1997, p. 67).

Many within universities were also disadvantaged by the changes. With the advent of managerialism, there has been a shift away from liberal arts-based training towards economics and management, which has doubtless been followed by a shift in resources both from outside and within the university system. The demand side from government and public services has certainly shifted towards skills in economics or general management, often without attention being paid to the special requirements of government work. In the dispute over managerialism occurring in several countries, public administration academics are in some danger of becoming irrelevant.

Recent years have seen a number of new journals set up with 'public management' in their titles; more books refer to public management in their titles, fewer delegates go to public administration conferences, while the most venerable of the public administration journals have been the main venues for articles critical of the new public management.

Kuhn argues that the passing of paradigms is a generational matter, where those socialized in the earlier paradigm do not accept a new one but eventually fade away with the advancing years (1970, pp. 18–19):

> When, in the development of a natural science, an individual or group first produces a synthesis able to attract most of the next generation's practitioners, the older schools

> gradually disappear. In part their disappearance is caused by their members' conversion to the new paradigm. But there are always some men who cling to one or another of the older views, and they are simply read out of the profession, which thereafter ignores their work.

This is aptly, if inadvertently, illustrated by Pollitt and Bouckaert who note that possible bureaucratic solutions to problems are now disregarded (2000, p. 90):

> Suggesting … that an existing or new activity would be better placed within an enlarged central ministry or as a direct, state-provided service, becomes an uphill struggle – it is 'beyond the pale', not the done thing … Likewise the proposition that working in partnership with a range of private and 'third sector' bodies to deliver a service may be simply time-consuming, wasteful and a threat to clear public accountability: uttering such a sacrilegious thought can be instantly to brand oneself as a 'reactionary'. Within this managerialist thought-world there is only limited consciousness of the flimsiness of many of the current 'principles' of good public management (2000, p. 90).

Once ideas have changed, once *paradigms* have changed, it is hard to make a convincing case based on the previous one. As to the flimsiness of public management, it is still necessary to *compare* the two theories. Each may have their problems, but Pollitt and Bouckaert make no convincing case that the traditional bureaucratic model is any more or less flimsy than its putative replacement.

It is always easy to find flaws in any theory or model. What takes more work is to compare two theories and compare the strengths and weaknesses on particular points. It is hard to know what the various critics of the public management reforms are now advocating in its stead. Should the reforms be abandoned and there be a return to the traditional model? Is there yet another model, yet to be invented, that will overcome the problems of both? But the traditional model is looked on with a good deal more nostalgia than it really deserved. It was inefficient, ineffective and needed to be replaced. The criticisms of traditional public administration are not new; they have always been there. What has been different since the late 1980s has been the appearance of a serious competitor.

Even Pollitt and Bouckaert argue that there were problems with the earlier model (2000, p. 60):

> Our conclusion is *not* that the negative features of the 'traditional model' are fantasies, with no basis in reality. Every reader can probably vouchsafe some personal experience testifying to the capacity of public (and private) bureaucracies to work in infuriatingly slow and inefficient ways. However, it is a long – and unjustified – leap from there to the idea that the governments of the industrialised world previously operated their public sectors as Weberian-style traditional bureaucracies, and are now able to move, without significant loss, to a new, modern type of organisation which avoids all the problems of the past.

It has never been argued that there can be a shift to a new model without significant loss. It is rather that, in most of the areas that interest government – cost, efficiency, service delivery, responsiveness – public management can deliver more than the old model. In some areas, the old model may have been better – democratic accountability, stability, fairness – although it remains to be seen if the new model is in practice any worse than the old on these points. No model can perform perfectly on all points. It is, however, time for critics to state what they now advocate in place of public management.

The traditional model of administration is argued here to be obsolete and to have been replaced by public management. However, the new public management, or any theory arguing that the public sector requires its own specialized form of management, is itself under threat from the idea that management is *generic* and technocratic. This argument is that management is the same anywhere, that the public and private sectors are sufficiently similar for expertise to be readily transferable. A particular manager, such as a human resource manager, may regard herself or himself as a professional in that area with their current employment in the public or private sector being relatively unimportant. This genericism points to a real threat for public management. Unless it can be established that the public sector is distinctive enough to require its own form of management, public management of any kind may become as marginalized as traditional public administration.

The way ahead

It is not easy to see where the discipline of public management will proceed in the future. In one respect the future is relatively bright: if during the early 1980s the ideologues argued that the best public sector was that which was most minimal, such arguments have faded. Government, as an idea, is back. However, the discipline of public administration as the best way of classifying, arguing about and managing in practice is terminally ill. Even if public management, particularly that part of it termed new public management, is currently dominant in the operations of governments, there will be other approaches to appear.

There are already possible candidates to be alternative models. E-government may be one, as discussed earlier (Chapter 10). Another may be the new contractualism, with Davis arguing there have been two ideas at work (1997a, pp. 61–2):

> The first, managerialism, sought to reform public administration while keeping many of its essential features. It drew on values and techniques developed in business to improve efficiency in government. Managerialism is an agenda now largely played out in most places … The second trend, the move to contracting, has proved the more significant. It draws explicitly from economic theory. Contracting suggests it is not enough to import business practices. Government services must be delivered by business, according to contracts won through competition. The result is a hollow state, a government which regulates markets but does not participate in them, a remnant public service which sets policy but relies on others to deliver the goods.

To follow Davis there have been three stages in the history of public sector change: (i) the traditional bureaucratic model of public administration; (ii) the new public management model; and (iii) the new contractual model. There are some problems with this view. Despite the attractions of regarding the new contractualism as a new kind of public sector management altogether, it is really a more extreme version of managerialism or new public management. The resort to contracts for much government activity is part of the public management model and the attempt to reduce the scope of the public sector is similarly part of the model. The real difference is between bureaucracy and markets, between command and choice, and this shift takes place with the advent of the new managerial model. Following Ostrom (1974) the major shift is from bureaucratic organization to individualistic choice, so the big change is from bureaucracy to markets. Contractualism is best seen as part of public management.

Public administration or public management in the academic senses will remain interesting areas of discourse for the foreseeable future. There is need for more research in all areas of public management, as Barzelay argues (2001). Government is still different enough from the private sector to require its own way of managing, its own journals and books, its own academic specializations.

Conclusion

At this point the aims of the book should be reiterated. The basic idea was to compare the traditional model of public administration with the form of management that has arisen from the public management reforms. It has been argued that the traditional model had so many weaknesses that it no longer deserves to be the model describing and prescribing the relationship between governments, the public services and the public.

The administrative paradigm is in its terminal stages and is unlikely to be revived. Administration, as a system of production, has outlived its usefulness. There is a new paradigm of public management that puts forward a different relationship between governments, the public service and the public. In recent years, there have been changes in the public sector; there have been reforms of an unprecedented kind. For a variety of reasons, the traditional model of public administration has been replaced by a new model of public management. The change to new public management involves much more than mere public service reform. It means changes to the ways that public services operate, changes to the scope of governmental activity, changes to time-honoured processes of accountability and changes to the academic study of the public sector. The main change is one of theory, sufficient, it is argued, to constitute a new paradigm. The process of managerial reform is not yet complete; the wider effects of it on, not only the public sector, but the entire political system, still has some distance to travel. The ideas are well grounded in theory and have attracted the support of the governments in most developed countries. The changes wrought by new public management are now probably irreversible.

What we have seen over the course of the twentieth century is a contest between bureaucracy and markets within the field of public administration. At certain points in time, one is dominant, at other times, the other. Since the early 1980s markets have dominated in the intellectual sense in the same way that bureaucracy did in the 1950s and 1960s. One could go further and say that in reality markets and bureaucracy actually need each other to survive. Markets can never totally replace bureaucracy as, indeed, as a corollary, it was impossible for bureaucracy to replace markets in such countries as East Germany before 1989. But what the public management movement has shown is that many of the functions of the early traditional bureaucracy can be, and now often are, performed by markets. And in an environment where bureaucracy as an organizing principle is in a weak position, market solutions will be tried. Of course not all will succeed, but that is not the point. Governments will try solutions from the public management toolbox and if they do not work they will look to the same source for something else to try. It is this above all else which exemplifies the paradigm shift this book is about.

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